

## Economic Update, April 8, 2016

Submitted by Reuben Kyle

Summary: This week's economic news requires a two-handed economist, as there is some good and some not-so-good news this week. Let's start with the not-so-good news. Manufacturing continues to sputter though there may be signs of a turnaround. Likewise wholesale activity is not great. Productivity figures are puny and only positive because labor-hours worked has declined. We are getting conflicting information about labor markets. Despite last week's strong job gains, this week two measures show weakness in those markets. On the other hand—here comes the two-handed stuff—the number of hires in the JOLTS report was very strong. On the good side, initial claims fell and continue at very low levels. Some service-sector reports look positive. Finally, the WSJ economic forecasting survey shows forecasters being slightly less pessimistic about the economy than they were last month.

### Dr. Ratajczak's [Weekly Commentary](#)

Monday: Dr. R starts with some insights into economic statistics. He points out that because Easter falls in March or April, the usual seasonal adjustments are confused. As a result, he takes issue with last week's report of strong motor-vehicle sales and contends that actual sales were below an annual rate of 17 million. Normally, he says that he deals with these problems by averaging March and April numbers, but that confounds the quarterly GDP growth rate. Consequently, he has "lowered" his estimate of 1<sup>st</sup> quarter growth but didn't give us a number yet. This week, he details last week's jobs report giving his assessment of the prospects for every sector of the economy.

### Census Bureau

Monday, [Manufacturers' Shipments, Inventories, and Orders](#), February 2016: New orders, shipments, unfilled orders, and inventories for manufactured goods all fell in February. In the case of manufactured durable goods, all the same categories—new orders, shipments, unfilled orders, and inventories—declined, as well. Transportation equipment led the declines, and within transportation equipment, the decline was in automobiles, while light truck shipments increased.

Tuesday, [US International Trade in Goods and Services](#): In February 2016, US exports totaled \$178.1 billion, an increase of \$1.8 billion over January; US imports totaled \$225.1 billion, up by \$3.0 billion for the month. As a result, the US Balance of Trade in Goods and Services increased by \$1.2 billion to \$47.1 billion. In the case of goods, exports added \$1.8 billion, while exports of services fell by \$0.1 billion. Imports of goods increased by \$2.7 billion, and imports of services increased by \$0.3 billion.

Friday, [Monthly Wholesale Trade Sales and Inventories](#): In February 2016, sales by merchant wholesalers were down 0.2% from January, but sales of durable goods were up 1.2% from the prior month. Sales of nondurables fell 1.6% from January and 6.2% from February 2015. Inventories declined 0.5% from the month before but were 0.6% higher than February 2015. The inventory/sales ratio was 1.36 compared with 1.37 the previous month and 1.31 a year earlier.

### Markit Economics

Tuesday, [Purchasing Managers' Index \(PMI\) Services Index](#): This index rose in March 2016 from 49.7 to 51.3 putting it back in the expansion range. Markit's index of overall performance also returned to the growth range for the US private sector. Chris Williamson, chief Markit economist, said, "The welcome news of sustained robust hiring in March, as indicated by both the PMI surveys and non-farm payroll numbers, masks a more worrying picture of a further slowing in economic growth so far this

year. . . . The survey data, which have historically provided a reliable guide to official GDP numbers, suggest the annualized pace of economic growth weakened to 0.7% in the first quarter.”

### Institute for Supply Management

Tuesday, [March 2016 Non-Manufacturing ISM Report on Business](#): The March 2016 NMI was 54.5% or 1.1 percentage points higher than the 53.4% in February. Thus, the non-manufacturing sector of the US economy expanded for the 74<sup>th</sup> consecutive month. Of the 18 industry sectors surveyed, 12 reported expanding and 2 reported contracting. The table below shows the details for both the manufacturing (PMI) and non-manufacturing (NMI) surveys.

ISM® NON-MANUFACTURING SURVEY RESULTS AT A GLANCE									
COMPARISON OF ISM® NON-MANUFACTURING AND ISM® MANUFACTURING SURVEYS*									
MARCH 2016									
Index	Non-Manufacturing						Manufacturing		
	Series Index Mar	Series Index Feb	Percent Point Change	Direction	Rate of Change	Trend** (Months)	Series Index Mar	Series Index Feb	Percent Point Change
NMI®/PMI®	54.5	53.4	+1.1	Growing	Faster	74	51.8	49.5	+2.3
Business Activity/Production	59.8	57.8	+2.0	Growing	Faster	80	55.3	52.8	+2.5
New Orders	56.7	55.5	+1.2	Growing	Faster	80	58.3	51.5	+6.8
Employment	50.3	49.7	+0.6	Growing	From Contracting	1	48.1	48.5	-0.4
Supplier Deliveries	51.0	50.5	+0.5	Slowing	Faster	3	50.2	49.7	+0.5
Inventories	52.5	52.5	0.0	Growing	Same	12	47.0	45.0	+2.0
Prices	49.1	45.5	+3.6	Decreasing	Slower	3	51.5	38.5	+13.0
Backlog of Orders	52.0	52.0	0.0	Growing	Same	3	51.0	48.5	+2.5
New Export Orders	58.5	53.5	+5.0	Growing	Faster	2	52.0	46.5	+5.5
Imports	53.0	55.5	-2.5	Growing	Slower	2	49.5	49.0	+0.5
Inventory Sentiment	62.5	62.0	+0.5	Too High	Faster	226	N/A	N/A	N/A
Customers' Inventories	N/A	N/A	N/A	N/A	N/A	N/A	49.0	47.0	+2.0
<b>Overall Economy</b>				Growing	Faster	80			
<b>Non-Manufacturing Sector</b>				Growing	Faster	74			

\* Non-Manufacturing ISM® Report On Business® data is seasonally adjusted for Business Activity, New Orders, Prices and Employment Indexes. Manufacturing ISM® Report On Business® data is seasonally adjusted for New Orders, Production, Employment and Supplier Deliveries.

\*\* Number of months moving in current direction.

### The Wall Street Journal

Tuesday, [Cheap Oil Means Record US Trade Surplus with OPEC](#): Here is an interesting article about one consequence of the low oil prices of the past year. (As I write, oil prices have fallen back below \$40 per barrel.) In February 2016, this surplus was \$1.8 billion and marks the 10<sup>th</sup> month in the past 12 that we have had a trade surplus with OPEC members. There are some excellent graphics in the article.

Thursday, [Economic Forecasting Survey](#): The April 2016 survey of 78 forecasters received responses from 68. The average forecast for 1<sup>st</sup> quarter 2016 GDP growth is 1.3%—you may compare this number with others mentioned this week; forecasting particularly about the future is hard to do. The current forecast for Q2 2016 is 2.4%, and for all of 2016, it is 2.1%. The average forecast for the

price of oil in June 2016 is \$37.73, and as I write, the price is \$36.95. As of June 2016, the unemployment rate is forecast to be 4.8%, and by December 2016, the average forecast is 4.7%. The yield on 10-year US Treasury bonds is forecast to be 2.0% in June 2016; it is 1.71% as I write. Home price increases are forecast to edge down from 5.0% at the beginning of 2016 to 4.2% by year's end. The predicted probability of a recession is slowing, falling from 21.25% in February to 19.84% in March and 19.03% in April. Seventy-five percent of the respondents see the next increase in the fed funds rate to occur in June 2016, and 82% seeing an increase by July of this year.

Thursday, [New Magic Number for Monthly Job Growth](#): Here is an interesting survey on the number of new jobs each month required to keep the unemployment rate steady. It used to be argued that the number was 200,000—reader of past economic briefs will certainly recall that number—but this survey puts the number at 145,000. And some, including Fed Chair Janet Yellen, put it even lower than 100,000!

### **The Conference Board**

Monday, [Employment Trends Index](#): In March 2016, this index was 127.48 compared with 128.54 in February but 1.1% higher than in March 2015. “The Employment Trends Index has been showing signs of weakening in recent months, suggesting that employment growth is likely to slow through the summer,” said Gad Levanon, chief economist, North America, at The Conference Board. “With GDP barely growing at a 2% rate, it’s difficult to see how employment can continue to expand by 200,000 or more jobs per month.”

### **US Department of Labor**

Thursday, [Initial Claims](#): New claims for unemployment insurance in the week ending April 2, 2016, fell by 9,000 to 267,000, and the four-week moving average increased by 3,500 to 266,750. In the previous week ending March 28, seven states reported increases of 1,000 or more initial claims, and only Puerto Rico reported a decrease of 1,000 or more. Tennessee reported an increase of 230 new claims.

### **Bureau of Labor Statistics**

Tuesday, [Job Openings and Labor Turnover Survey \(JOLTS\)](#): The number of job openings in February 2016 was 5.4 million, very close to the number in January, hires increased to 5.4 million, and total separations numbered 5.1 million, about the same as the previous month. The 5.4 million hires was the highest number since November 2006. The quit rate for February was 2.1%, edging up in the private sector but virtually unchanged in government. Since February 2015, there were 62 .1 million hires, 59.4 million separations—that would include both voluntary quits and layoffs—with total employment increasing by 2.7 million.

Wednesday, [Metropolitan Area Employment and Unemployment](#): In February 2016, unemployment rates fell in 296 of 387 Metropolitan Statistical Areas (MSAs) compared with February 2015, rose in 76, and were unchanged in 15. The lowest rate, 2.6%, was in Burlington-South Burlington, Vermont, and the highest rate was in El Centro, California, at 18.6%. All ten Tennessee MSAs had lower unemployment rates in February compared with January and compared with February 2015. As usual, the Nashville-Davidson–Murfreesboro–Franklin MSA had the lowest rate at 3.5%, and this month Clarksville had the highest rate at 5.2%. Six of the ten had rates below 5%. Nonfarm employment increased in 323 MSAs year over year, fell in 62, and were unchanged in two. From January to February, employment increased in nine of ten Tennessee MSAs with only Kingsport–Bristol–Bristol experiencing a small decrease. Since February 2015, employment increased in all ten Tennessee MSAs with the

Cleveland MSA having the largest percentage increase at 9.25%. The ten state MSAs added 91,600 jobs over the previous 12 months.

Thursday, [Productivity and Costs by Industry, Manufacturing and Mining](#): In 2015, productivity increased in 31 of 63 (3-digit NAICS—North American Industrial Classification System; we discussed that in a recent update) manufacturing and mining industries, up from 26 of 62 in 2014. Unit labor costs increased in 43 of 59 manufacturing industries and in 3 of 4 mining industries. “During the 1987-2014 period, productivity rose in 86 manufacturing and mining industries, with median productivity growth of approximately 1.7% per year. Productivity growth in the 1987-2014 period was associated with output rising in 60 manufacturing and mining industries, while hours worked increased in only 14. Productivity increased in 54 industries in the more recent 2007-2014 period, despite the period encompassing a severe recession.” Recent productivity increases have been due largely to declines in hours worked.

Friday, [America's Young Adults at 29: Labor Market Activity, Education, and Household Composition](#): For those born in the early 1980s, the average number of jobs held between the ages of 18 and 28 was 7.2. From 18 to 22, the average number of jobs held was 3.9, and between 25 and 28, the average was 2.5. This report contains a lot of information about labor market participation by age, gender, and education. Just one example: “Women with less than a high school diploma were employed an average of 41% of weeks from ages 18 to 28, while men with less than a high school diploma were employed 63% of weeks. Among young adults with a bachelor's degree and higher, women were employed an average of 79% of weeks, while men were employed 75% of weeks.”

### **Board of Governors of the Federal Reserve**

Monday, Labor Markets Conditions Index: In March 2016 this index—just a reminder, this index does not include the latest BLS Employment Situation numbers—was -2.1 compared with -2.5 in February. That makes three consecutive months of negative readings.

Wednesday, [Minutes of Federal Open Market Committee](#): The minutes of the meeting held March 15-16, 2016, indicate that both the staff and the participants felt that the economy was “expanding moderately despite the global and economic financial developments of recent months.” However, there was disagreement about the risk in the near term. “[S]everal participants expressed the view that the underlying factors abroad that led to a sharp, though temporary, deterioration in global financial conditions earlier this year had not been fully resolved and thus posed ongoing downside risks. Several participants also noted the possibility that economic activity or labor market conditions could turn out to be stronger than anticipated. For example, strong expansion of household demand could result in rapid employment growth and overly tight resource utilization, particularly if productivity gains remained sluggish.” Clearly, there was a lively discussion about the appropriate policy decision with some arguing for raising the fed funds rate and staying with their plan announced last fall, while others want to postpone any further rate hikes. “Participants agreed that their ongoing assessments of the data and the implications for the outlook, rather than calendar dates, would determine the timing and pace of future adjustments to the stance of monetary policy.” The result was that nine of the ten members voted to maintain the current policy. “The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.”

### **Gallup.com**

Monday, [US Consumer Spending Measure](#): US consumers report their average daily spending in March 2016 was \$89, up from \$84 in February and matching the highest average for the month of March since Gallup began collecting this data in 2008. The chart below shows the measure since 2008.

### Monthly Averages of Reported Amount Americans Spent "Yesterday"

2008 to 2016



Figures shown are for March of each year  
Gallup Daily tracking

Tuesday, [Economic Confidence Index](#): Gallup's measure of economic confidence in March 2016 was -10 up from -13 the previous month. Though below the peak of +3 in January 2015, the index is higher than for most of the post-recession period. "Gallup's index is the average of two components: how Americans rate current economic conditions and whether they feel the economy is getting better or getting worse. Both of these components increased slightly in March from February." The current conditions score was -3 compared with -5 in February, and the economic outlook score was -17 up from -20 the prior month.

Wednesday, [Job Creation Index](#): In March 2016 Gallup's Job Creation Index was +32, matching its highest level since they began calculating the index in 2008. "Gallup's initial measurement of hiring activity in January 2008 recorded a +26 score, but the index dropped steadily for the next 13 months in the midst of the nation's economic crash. After bottoming out in February 2009 at -5—a month when 28% of workers reported workforce reductions, while only 23% reported increases. . . ." Among government workers, the index was +27, up from +25 in February.

### **Bloomberg.com**

Thursday, [Consumer Comfort Index](#): The latest index was 42.6, down from 42.8 the week before and the 2016 peak of 44.6 on January 24.