

Economic Update, June 17, 2016

Submitted by Reuben Kyle

Summary: It was another week of moderately good economic news for the U.S. and Tennessee. Retail sales and manufacturers' shipment rose in the latest numbers. Tennessee's unemployment rate was down to 4.1% and the national and state's housing markets look strong. On the downside, initial claims were up, Tennessee lost more than 13,000 jobs in the preliminary jobs report for May. Industrial production fell in May.

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

Monday (Well actually Thursday): Dr. R gives his take on the consequences of the UK leaving the European Union, what is being termed Brexit. It is not pretty and could be worsened if Spain follows suit on June 26. His reading of last week's Job Openings (JOLTS) report is that it suggests the possibility rising wages. There was not much new data last week so that he didn't have much to analyze.

Census Bureau

Tuesday, [Advance Monthly Sales for Retail and Food Services](#): The preliminary report on retail and food service providers sales is an increase of 0.5% from April to May 2016 and a 2.5% increase over May 2015. Final figures will be released on Wednesday.

Tuesday, [Manufacturing and Trade, Inventories and Sales](#): In April 2016, distributive trade sales and manufacturers' shipments were up by 0.9% from the prior month but 1.0% lower than in April 2015. Inventories increased by 0.1% from March and by 1.0% from April 2015. The inventory/sales ratio was 1.40 compared with 1.41 in March and 1.37 in April 2015.

Friday, [New Residential Construction](#): IN May 2016, the number of building permits issued increased by 0.7% from April but were down 10.1% from a year earlier. Single-family permits fell by 2.0% for the month. Housing starts were down by 0.3% from April but 9.5% higher than in May 2015. Starts of single-family houses were up by 0.3%. Housing completions were 5.1% higher than the previous month but 3.5% below those in May 2015. Completions of single-family houses increased by 2.3% from April.

Bureau of Labor Statistics

Tuesday, [U.S. Import and Export Price Indexes](#): In May 2016, the U.S. Import Price Index rose by 1.4% from April led by higher fuel prices. That said, fuel import prices have fallen by 28.8% since May 2015. This increase was the third consecutive monthly increase. The Export Price Index increased by 1.1% with agricultural prices rising by 2.9% and nonagricultural prices gaining 1.0%.

Wednesday, [Producer Price Index](#) (PPI): The PPI for final demand increased by 0.4% in May 2016 following a 0.2% increase in April on a seasonally adjusted basis. On an unadjusted basis the index fell by 0.1% over the 12-month period May 2015 to May 2016. Excluding food, energy, and trade services the index fell by 0.1%. In the case of goods alone the index rose by 0.7% in May while the index for services increased by 0.2%. According the report over one-third of the increase in the PPI for goods was accounted for by an increase of 6.6% in the price of gasoline.

Thursday, [Consumer Price Index](#) (CPI): In May 2016, the CPI for All Urban Consumers increased by 0.2% and over the previous 12-month period the index is up 1.0%. Once again it was energy prices that led the increase with a 2.3% rise in the price of gasoline. Excluding food and energy the CPI increased by 0.2%.

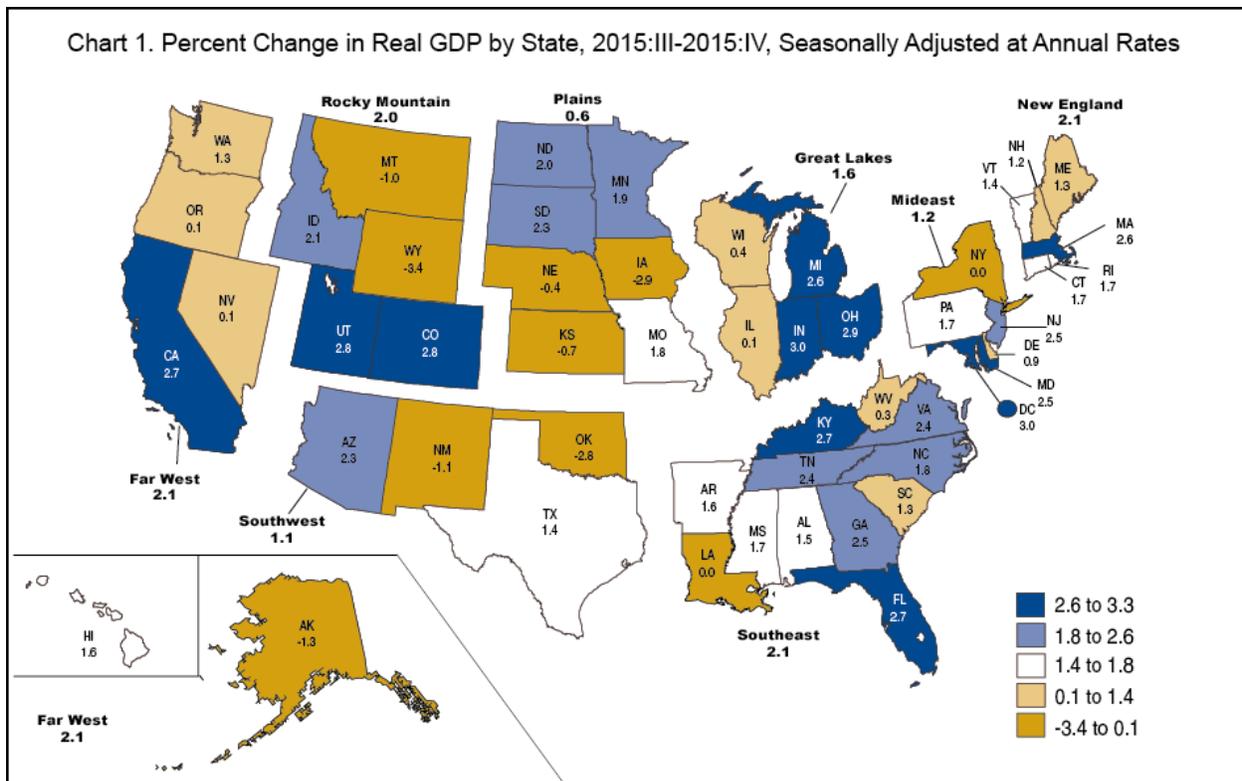
Thursday, [Real Earnings](#): With the 0.2% increase in the CPI and a 0.2% increase in average hourly earnings, real average hourly earnings were unchanged for the month of May 2016. In the case of production and non-supervisory workers that index fell by 0.1% as their average hourly earnings rose

by 0.1% while the CPI for Urban Wage Earners rose by 0.2%. Over the period from May 2015 through May 2016, real average hourly earnings have increased by 1.7%.

Friday, [Regional and State Employment and Unemployment](#): In May 2016, unemployment rates were statistically significantly ...Dr. Chervin's and my old econometrics prof would that that phrase is redundant, significant is sufficient...higher in five states, lower in four and the District of Columbia, and unchanged in 41. Similarly, total nonfarm employment declined in four state, increased in three states and the District of Columbia, and "was essentially unchanged" in 43 states. South Dakota had the lowest unemployment rate at 2.5% and Alaska had the highest rate at 6.7%. [Tennessee's](#) unemployment rate in May was 4.1% compared with 4.3% in April and with the national rate of 4.7%. Since May 2015, Tennessee has had the largest percentage decline, 1.7 percentage points, of any state in the nation. From April to May Tennessee's total nonfarm employment fell by 13,400 jobs with the largest drop in Government employment—teachers?—followed by Leisure/Hospitality but with a gain of 300 jobs in Manufacturing. Despite the estimated declined—these May figures are preliminary—Tennessee has added 60,900 jobs since May 2015.

Bureau of Economic Analysis

Tuesday, [Gross Domestic Product by State](#): In the 4th quarter of 2015, Gross Domestic Product increased in 41 states and the District of Columbia. From Q3 to Q4 2015, Tennessee's GDP increased by 2.4%, more than all its neighbors except Georgia and Kentucky. The chart below shows the results for the country.



U.S. Bureau of Economic Analysis

Thursday, [U.S. International Transactions](#): In the 1st quarter of 2016, the U.S. Current Accounts deficit increased by \$11.3 billion compared with Q4 2015. That increase means the deficit is 2.7% of current-dollar Gross Domestic Product up from 2.5% in the 4th quarter. "The current account records transactions in international trade in goods and services and receipts and payments of primary and

secondary income. Primary income includes investment income— income receipts from foreigners on U.S. holdings of financial assets abroad and income payments to foreigners on U.S. liabilities—and compensation of employees—receipts for compensation of U.S. residents paid by nonresidents and payments for compensation of foreign residents paid by U.S. residents. Secondary income receipts and payments include U.S. government and private transfers, such as U.S. government grants and pensions, fines and penalties, withholding taxes, personal transfers (remittances), insurance-related transfers, and other current transfers."

U.S. Department of Labor

Thursday, [Initial Claims](#) for unemployment insurance in the week ending June 11, 2016 rose by 13,000 to 277,00 while the four-week moving average declined by 250 to 269,250. In the previous week ending June 4, three states reported increases of 1,000 or more new claims and four states reported decreases of 1,000 or more. Tennessee reported a decrease of 828 initial claims.

Board of Governors of the Federal Reserve

Tuesday, Federal Open Market Committee Meeting

Wednesday, [Announcement from the FOMC Meeting](#): The committee voted unanimously to maintain the fed funds rate at the current level of $\frac{1}{4}\%$ to $\frac{1}{2}\%$. "Information received since the Federal Open Market Committee met in April indicates that the pace of improvement in the labor market has slowed while growth in economic activity appears to have picked up. Although the unemployment rate has declined, job gains have diminished. Growth in household spending has strengthened. Since the beginning of the year, the housing sector has continued to improve and the drag from net exports appears to have lessened, but business fixed investment has been soft. Inflation has continued to run below the Committee's 2 percent longer-run objective, partly reflecting earlier declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation declined; most survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months." You can see Fed Chair Janet Yellen's press conference at the Board's Web site.

<http://www.federalreserve.gov/>

Wednesday, [Economic Projections of Federal Reserve Board Members and Presidents of the 12 Federal Reserve Banks](#): The median forecasts for the change in GDP in 2016 were revised down from the March projections from 2.2% to 2.0% with that rate holding for the next two years. The median forecast of the unemployment rate for the year was unchanged at 4.7%. Forecasts for measures of inflation were revised up from 1.2% in March to the latest level of 1.4%. These forecasts of the inflation rate do not reach the targeted 2% level until 2018. The projection also include participants predictions of the federal funds rate with the median forecast for 2016 at 0.9%. Chair Yellen discusses these projections in her news conference.

Wednesday, [Industrial Production](#): In May 2016, industrial production fell by 0.4% compared with an increase of 0.6% in April. Over the previous 12-month period this index has declined by 1.4%. Construction fell by 0.3%, manufacturing declined by 0.4%, and production by utilities fell by 1.0% in May. Capacity utilization in May was 74.9%, a decline of 0.4 percentage points from April and 5.1 percentage points below the long-term average, 1972-2015.

National Association of Home Builders

Thursday, [Housing Market Index](#): In June 2016, this index was 60, an increase of 2 points following four months at 58. The index is now the highest it has been since January 2016. "Builders in many markets across the nation are reporting higher traffic and more committed buyers at their job sites," said NAHB Chairman Ed Brady, a home builder and developer from Bloomington, Ill. "However, our members are also relating ongoing concerns regarding the shortage of buildable lots and labor and

noting pockets of softness in scattered markets.” Chief NAHB Economist, Robert Dietz, added "that the housing market should continue to move forward in the second half of 2016i...”

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index is 42.1 down from 43.5 the week before. "Economic expectations soured this month in the ongoing Bloomberg Consumer Comfort survey, with the most Americans in more than two and half years saying the economy is getting worse. "

MTSU Business & Economic Research Center

Tuesday, [Tennessee Housing Market Report](#): This report covers the 1st quarter of 2016. Total employment in the quarter increased by 2% over Q4 2015 adding 7,200 jobs and the number of unemployed fell by 17% since Q1 2015. The chart below shows employment by sector over the past five quarters.

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

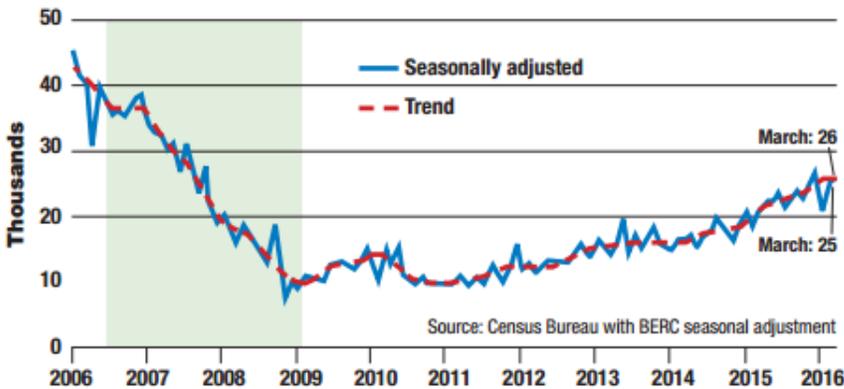
	2015.1	2015.2	2015.3	2015.4	2016.1
Employment by industry (nonfarm)					
Total nonfarm	2,860	2,878	2,903	2,929	2,952
Goods-producing sectors	445	448	452	457	466
Manufacturing	329	332	333	336	341
Services-providing sectors	2,415	2,430	2,451	2,472	2,485
Labor force	3,054	3,055	3,052	3,063	3,117
Total employment	2,869	2,878	2,881	2,892	2,964
Unemployed	185	177	171	172	154
Unemployment rate	6.03%	5.80%	5.60%	5.60%	4.93%

Source: Bureau of Labor Statistics

The chart below shows the number of building permits issued since the peak of the last housing cycle. As it shows Tennessee housing markets have not reached the levels of 2006.

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



Housing construction permits are significantly higher over the year with multi-family up 119%.

The report provides much more detail on the state's housing markets.

The Wall Street Journal

Friday, "[The U.S. Economy is in Great Shape \(Compared With Its Peers\)](#)": This story deals with a report by the Organization For Economic Cooperation and Development (OECD), which includes 34 developed countries from Europe to Japan. "The U.S. economic recovery, while modest by historical standards, [has been one of the strongest in the OECD](#)," said the organization, which has 34 member countries. That is 'thanks to robust monetary policy support and an early fiscal expansion.'" For the period Q1 2008 through Q4 2015, U.S. GDP has increased by 10.8% compared with 0.6% in the Eurozone, and 0.1% in Japan.