

Economic Update, June 24, 2016
Submitted by Reuben Kyle

Summary: Clearly the big news of the day and week is the vote by Britons to leave the European Union. Beyond the immediate turmoil in international financial markets, the longer term implications for US and world economies remains to be seen. Here are two news reports on those issues: [WSJ](#) and [NYT](#). See the latest issue of Global Commerce for statistics on Tennessee's exposure to the UK and EU countries. The UK is Tennessee's eighth largest export market. Otherwise, the US economic news this week was mixed with one housing report indicating that existing home sales were the highest since before the recession and another that sales of new houses were down for the month. Manufacturing also gets a lukewarm report with some reports of continued slowing and one that the sector was improving. The Leading Economic Indicators were down slightly while initial claims fell. As one astute reader pointed out to me if the numbers were not variable something would be wrong.

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

Monday: Dr. R begins with a very interesting discussion of the consequences of the negative interest rates that a number of central banks around the world are charging. First, I am not a monetary nor international economist but this phenomenon is very puzzling. Negative rates mean that these banks are charging investors to hold their money! Why? Presumably, the idea is to encourage those investors to spend rather than save, thus stimulating their economies. So, why would investors be willing to do that? Ratajczak gives some possible explanations. He also discusses the implications for the US, which is not charging negative rates. One of those implications is that foreign investors buy US bonds which drives the price up and the yields down. His current forecast for 2nd quarter GDP growth in 2.4%. He is holding his forecast for the June jobs number to see the latest initial claims data.

Census Bureau

Thursday, [New Residential Sales](#): In May 2016, sales of new single-family houses were 6.0% lower than in April but 8.7% higher than in May 2015. The median sales price was \$290,400 in May compared with \$320,200 in April indicating that between those months more units sold at prices below the April median. At the end of May there was an inventory of an estimated 244,000 houses, or a 5.3 month supply at the current sales rate, available. Compare this report with the NAR report on existing home sales.

Friday, [Advance Report on Durable Goods Manufacturers' Shipment, Inventories, and Orders](#): The preliminary report for May 2016 on new orders for manufactured durable goods fell by 2.2% from April. The decline was prompted by 5.6% drop in new orders for transportation equipment. Shipments declined by 0.2% also led by transportation equipment. Unfilled orders increased by 0.2% and inventories declined by 0.3%. In the case of nondefense capital goods, new orders decreased, shipments rose, unfilled orders increased, and inventories fell. For defense capital goods, new orders fell by 28.0%, shipments increased, unfilled orders fell, and inventories also declined.

Bureau of Labor Statistics

Tuesday, [Persons with a Disability: Labor Force Characteristics](#): "In 2015, 17.5 percent of persons with a disability were employed. . ." The disabled population numbered 29.8 million in 2015 compared with 221 million non-disabled. The unemployment rate among the disabled was 10.7%, about twice that of the able-bodied. (Remember that to be unemployed a person must be 16 or older and actively seeking work.)

"Highlights from the 2015 data:

- Persons with a disability were about three times as likely as those with no disability to be age 65 and over. (See table 1.)

- " For all age groups, the employment-population ratio was much lower for persons with a disability than for those with no disability. (See table 1.)
- " Unemployment rates were higher for persons with a disability than for those with no disability among all educational attainment groups. (See table 1.)
- " In 2015, 32 percent of workers with a disability were employed part time, compared with 18 percent for those with no disability. (See table 2.)
- " Workers with a disability were more likely to be self-employed than those with no disability. (See table 4.)"

Wednesday, [Multifactor Productivity Trends in Manufacturing](#): In 2014, multifactor productivity in the manufacturing sector declined by 1.0% compared with a 0.1% decline in 2013. "The 2014 decline reflected a 1.7-percent increase in output and a 2.6-percent increase in combined inputs. "

Friday, [American Time Use Survey](#): In 2015, employed persons worked an average of 7.6 hours per day with men working 42 minutes more on days worked than women. The report attributes the latter point to the tendency for women to work part-time, more so than men. On the days in which they worked, 38% of workers in management, business, and financial operations worked at least some of their time at home. "On an average day, 85 percent of women and 67 percent of men spent some time doing household activities such as housework, cooking, lawn care, or financial and other household management....From 2003 to 2015, the share of men doing food preparation and cleanup on an average day increased from 35 percent to 43 percent. The average time per day men spent doing food preparation and cleanup increased by 5 minutes, from 16 minutes in 2003 to 21 minutes in 2015...Watching TV was the leisure activity that occupied the most time (2.8 hours per day), accounting for more than half of leisure time, on average, for those age 15 and over." Lots more numbers here!!

Bureau of Economic Analysis

Wednesday, [State Quarterly Personal Income](#): In the 1st quarter of 2016, Tennessee's personal income increased by 0.9% from Q4 2015, compared with 1.0% for the nation. Tennessee was in the third quintile for this quarter with only Kentucky, among our neighbors ranking lower. The [Wall Street Journal](#) gives some details on the report.

US Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance for the week ending June 18, 2016 fell by 18,000 to 259,000 from the previous week and the four-week moving average dropped by 2,250 to 267,000. "This marks 68 consecutive weeks of initial claims below 300,000, the longest streak since 1973." In the week ending June 11, six states reported increases of 1,000 or more new claims and one state reported a decrease of 1,000 or more. Tennessee reported an increase of 431 initial claims.

Federal Housing Finance Agency (FHFA)

Wednesday, [FHFA House Price Index](#): In April 2016, this index rose by 0.2% from the previous month. Between April 2015 and April 2016, the index is up by 5.9%. "Since October 2015, the national house price index level has surpassed the prior peak level from March 2007."

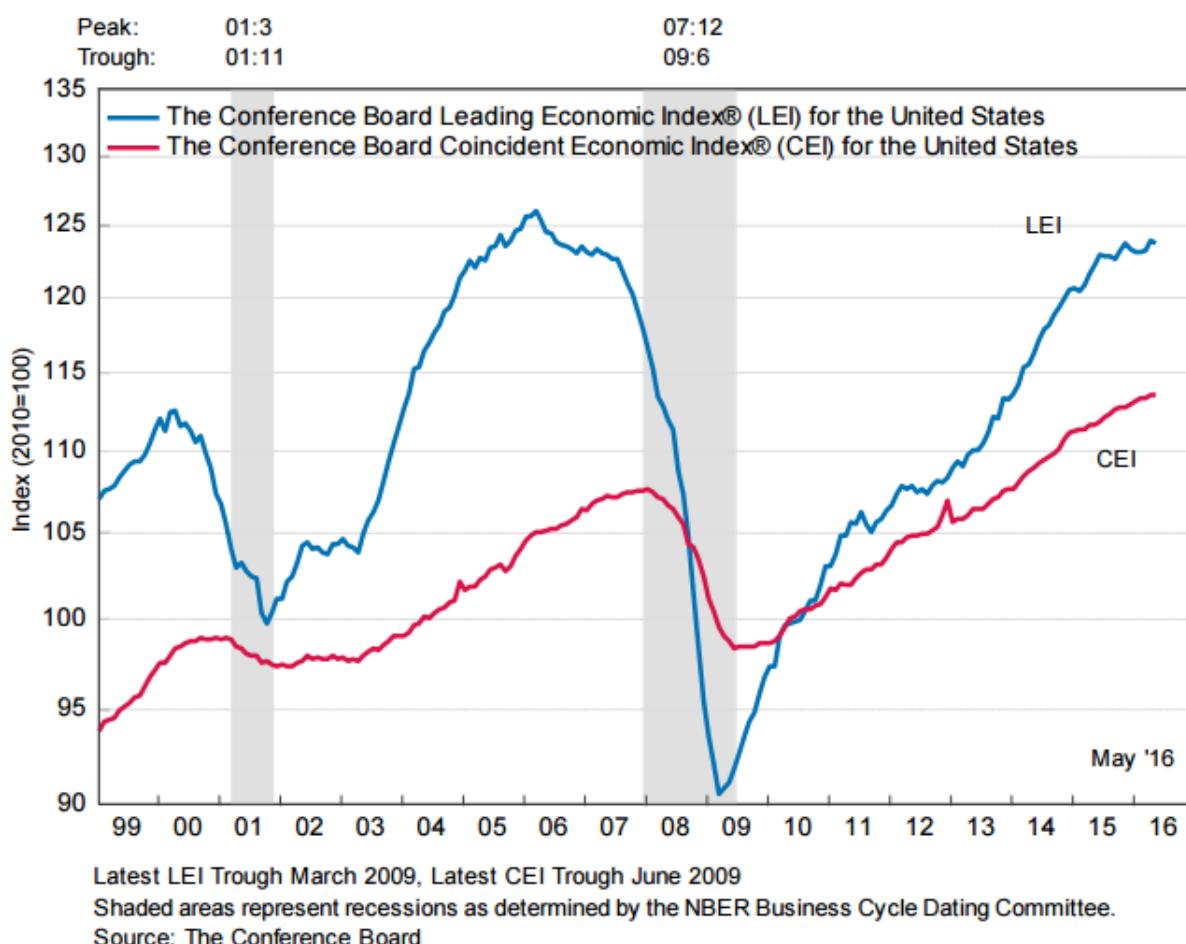
National Association of Realtors

Wednesday, [Existing Home Sales](#): In May 2016, the seasonally-adjusted, annual rate of sales of existing home was 5.53 million, up 1.8% from April and the highest rate since February 2007. According to Lawrence Yun, Chief NAR Economist: "This spring's sustained period of ultra-low mortgage rates has certainly been a worthy incentive to buy a home, but the primary driver in the increase in sales is more homeowners realizing the equity they've accumulated in recent years and finally deciding to trade-up or downsize, . . . With first-time buyers still struggling to enter the market, repeat buyers using the

proceeds from the sale of their previous home as their down payment are making up the bulk of home purchases right now."

The Conference Board

Thursday, [Leading Economic Indicators](#) (LEI): In May 2016, the LEI declined by 0.2% to 123.7 (2010 = 100). This decline followed two months of increases. "The US LEI declined in May, primarily due to a sharp increase in initial claims for unemployment insurance. The growth rate of the LEI has moderated over the past year," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. 'While the LEI suggests the economy will continue growing at a moderate pace in the near term, volatility in financial markets and a moderating outlook in labor markets could pose downside risks to growth.'" The Coincident Economic Index was unchanged in May at 113.5 (2010 = 100). The chart below shows both the leading and coincident indexes since 1999.



Markit Economics

Thursday, [Purchasing Managers' Index \(PMI\) Manufacturing Index Flash](#): The preliminary index for June 2016 rose by 0.7 points to 51.4 from 50.7. Chief Markit Economist Chris Williamson stated: "The flash PMI for June brought welcome news of improved performance of manufacturing, but the sector still looks to have acted as a drag on the economy in the second quarter, leaving the economy reliant on the service sector and consumers in particular to drive growth."

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading was 44.2 up by 2.1 point from the prior week. "The largest weekly increase in consumer sentiment in nearly a year and a half buoyed the Bloomberg Consumer Comfort Index to its highest in more than three months."

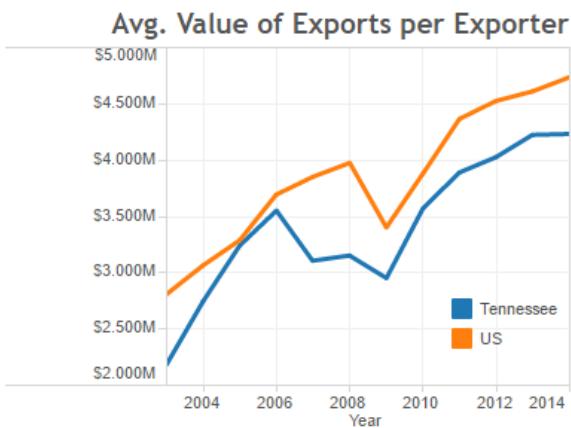
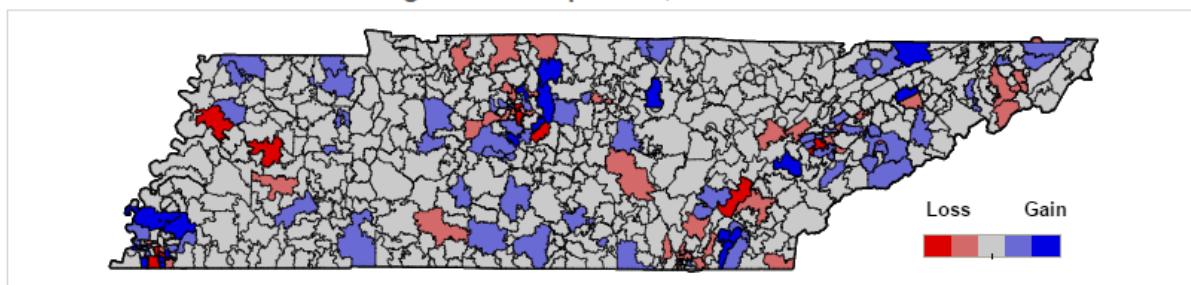
University of Michigan

Friday, [Consumer Sentiment Index](#): The June 2016 index was 93.5 down from 94.7 in May and 96.1 in June 2015. "Consumers were a bit less optimistic in late June due to rising concerns about prospects for the national economy. While no recession is anticipated, consumers increasingly expect a slower pace of economic growth in the year ahead."

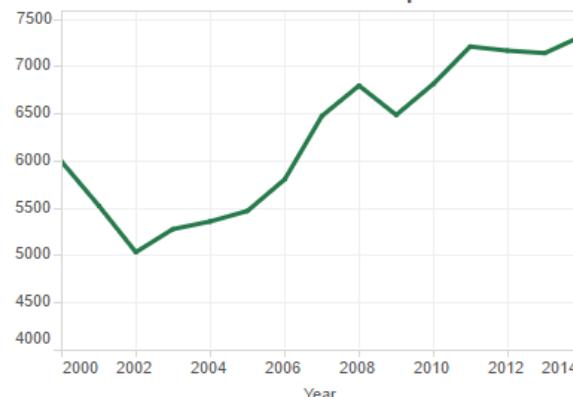
MTSU Business & Economic Research Center

Tuesday, Global Commerce, 1st Quarter 2016: The lead article in this issue is "Recent Trends in the Location of Tennessee's Exporters." Dr. Steve Livingston, editor of the newsletter writes: "In 2014 the foreign trade division of the Census Bureau identified 7,326 different exporters in Tennessee. That is a 2.5% increase from 2013 and a 7.4% increase from 2010. The number of state exporters has been growing significantly faster than the number of national exporters. In fact, unlike Tennessee, the total number of American exporters actually declined modestly from 2013 to 2014." Below is a map of Tennessee zip codes showing the gains and losses of exporters between 2011 and 2013. In addition there are graphs of the number of exporters and the average value of their exports. The graphs show the impact of the recession and the impact of the strong US dollar on exports.

The Geography of Exporting: Change in # of Exporters, 2013 vs. 2011



Number of Tennessee Exporters



The report gives lots more detail on the gainers and losers of Tennessee exporters plus more recent data on Tennessee's exports and imports.