

Economic Update, July 7, 2017  
Submitted by Reuben Kyle

Summary: Today's jobs report was the big news and it was quite strong. And overall the economic news is positive this week. Most measures are pointing up along with the job numbers. Both purchasing managers' surveys are strong as are most of the monthly Gallup measures. The only significant downers are the car sales numbers, but even there some bright spots for Tennessee assemblers look positive.

Census Bureau

Monday, [Construction Spending](#): In May 2017, construction spending was essentially unchanged from April but 4.5% higher than in May 2016. Private construction spending was 0.6% lower than in April with residential construction down by 0.6% and nonresidential spending 0.7% lower than in the previous month. Public construction spending was 2.1% higher in May than in April, led by educational spending, which was up by 5.1% while highway spending fell by 0.9%.

Wednesday, [Manufacturers' Shipments, Inventories, and Orders](#): In May 2017, new orders for manufactured goods fell by 0.8%, led by a 3.0% drop in new orders for transportation equipment. Shipments rose by 0.1%, with shipments of transportation equipment increasing by 2.3%. Unfilled orders declined by 0.2%, prompted by a 0.4% decrease for transportation equipment. Overall, inventories fell by 0.1%, but inventories of durables increased by 0.2%.

Thursday, [U.S. International Trade in Goods and Services](#): The U.S. Balance of Trade in Goods and Services deficit fell by \$1.1 billion in May 2017. Exports increased by \$0.9 billion from April, and imports fell by \$0.2 billion. The export of goods increased by \$0.2 billion while the export of services rose by \$0.6 billion. Goods imports declined by \$0.6 billion, and service imports increased by \$0.4 billion.

Bureau of Labor Statistics

Friday, [Employment Report](#): In June 2017, total nonfarm employment increased by 222,000 jobs and the unemployment rate was 4.4%. The [Household Survey](#) indicates that the labor force increased by 361,000 while the number not in the labor force fell by 170,000. The Labor Force Participation Rate was 62.8, up by 0.1 percentage point. While the overall unemployment rate increased by 0.1 percentage point from May, rates for teenagers fell a full percentage point, and the unemployment rates for Hispanics and African Americans' both dropped by 0.4 percentage points. The [Establishment Survey](#) shows 187,000 new private sector jobs including 16,000 in construction but a loss of 1,300 jobs in motor vehicles and parts. The big gainers were health care and social assistance, 59,100 jobs, and government, 35,000 jobs. Average weekly hours bumped up by 0.1 to 34.5. Both the total and manufacturing dispersion indexes were up at 59.6% and 53.8%, respectively.

ADP.com

Thursday, [ADP Employment Report](#): In June 2017, the private sector added 158,000 jobs, with 6,000 manufacturing jobs but a loss of 2,000 construction jobs. In total, the goods producing sector added no jobs while the service producing sector gained 158,000.

U.S. Department of Labor

Thursday, [Initial Claims](#): For the week ending July 1, 2017, initial claims increased by 4,000, from the previous week, to 248,000, and the four-week moving average was up by 750 to 243,000. In the prior week, ending June 24, seven states reported an increase of 1,000 or more new claims, and three states reported a decrease of 1,000 or more. Tennessee reported a decline of 150 initial claims from the previous week.

Board of Governors of the Federal Reserve

Wednesday, [Minutes of the Federal Open Market Committee Meeting](#) of June 13-14, 2017: The minutes confirm the previous announcement that the FOMC voted to raise the federal funds rate another ¼ percentage point to a range of 1% to 1<sup>1/4</sup>%. The vote was nine in favor and one opposed, the dissenter preferring to maintain the previous target. Perhaps more interesting was the adoption of a plan to reduce the Fed's holdings of U.S. government securities by a gradual reduction of its reinvestment in more such securities. No date was set for the initiation of this process, but the minutes stated that it would begin this year.

Institute for Supply Management

Monday, [June 2017 Manufacturing ISM Report on Business](#): The June index was 57.8%, up by 2.9 percentage points from May's 54.9%. This month was the 10<sup>th</sup> consecutive expansion of the manufacturing sector and the 97<sup>th</sup> consecutive month of expansion by the total economy. The survey covers 18 manufacturing industry sectors. Fifteen of those reported expanding, and three reported contracting. Below are a few of respondents' comments:

- "Overall, demand is up 5-7 percent and expected to continue through the end of the year, at least." (Transportation Equipment)
- "Demand is picking up; meeting budget expectations." (Electrical Equipment, Appliances & Components)
- "Business is still very robust. Have continued to hire to match increased demand." (Computer & Electronic Products)
- "Business [is] steady; not great, but good and fairly solid." (Furniture & Related Products)

Thursday, [June 2017 Non-Manufacturing ISM Report on Business](#): This index rose by 0.5 percentage points, from 56.9% to 57.4%, marking the 90<sup>th</sup> consecutive month of expansion by the non-manufacturing sector. Sixteen of the 18 non-manufacturing industry sectors reported expanding in June, and one reported contracting. Here is one interesting comment by a respondent: "Labor continues to be constrained in the construction industry, driving cost increases. Regional unemployment rate of 2.7 percent is making hiring difficult on all phases of the construction supply chain." (Construction) Below is the detail on the surveys from both manufacturing and non-manufacturing samples.

ISM® NON-MANUFACTURING SURVEY RESULTS AT A GLANCE									
COMPARISON OF ISM® NON-MANUFACTURING AND ISM® MANUFACTURING SURVEYS*									
JUNE 2017									
	Non-Manufacturing						Manufacturing		
Index	Series Index Jun	Series Index May	Percent Point Change	Direction	Rate of Change	Trend** (Months)	Series Index Jun	Series Index May	Percent Point Change
<b>NMI®/PMI®</b>	57.4	56.9	+0.5	Growing	Faster	90	57.8	54.9	+2.9
<b>Business Activity/Production</b>	60.8	60.7	+0.1	Growing	Faster	95	62.4	57.1	+5.3
<b>New Orders</b>	60.5	57.7	+2.8	Growing	Faster	95	63.5	59.5	+4.0
<b>Employment</b>	55.8	57.8	-2.0	Growing	Slower	40	57.2	53.5	+3.7
<b>Supplier Deliveries</b>	52.5	51.5	+1.0	Slowing	Faster	18	57.0	53.1	+3.9
<b>Inventories</b>	57.5	54.0	+3.5	Growing	Faster	3	49.0	51.5	-2.5
<b>Prices</b>	52.1	49.2	+2.9	Increasing	From Decreasing	1	55.0	60.5	-5.5
<b>Backlog of Orders</b>	52.5	57.0	-4.5	Growing	Slower	5	57.0	55.0	+2.0
<b>New Export Orders</b>	55.0	54.5	+0.5	Growing	Faster	5	59.5	57.5	+2.0
<b>Imports</b>	51.0	48.5	+2.5	Growing	From Contracting	1	54.0	53.5	+0.5
<b>Inventory Sentiment</b>	62.0	63.0	-1.0	Too High	Slower	241	N/A	N/A	N/A
<b>Customers' Inventories</b>	N/A	N/A	N/A	N/A	N/A	N/A	50.5	49.5	+1.0
<b>Overall Economy</b>				Growing	Faster	95			
<b>Non-Manufacturing Sector</b>				Growing	Faster	90			

\* **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.

#### IHS Markit Economics

Monday, [Purchasing Managers Index \(PMI\) Manufacturing Index](#): This index was 52.0 in June 2017 compared with 52.7 in May. Chris Williamson, Chief Business Economist of IHS Markit Economics writes:

“Manufacturers reported a disappointing end to the second quarter, with few signs of growth picking up any time soon.

“The PMI has been sliding lower since the peak seen in January and the June reading points to a stagnation – at best – in the official manufacturing output data.

“The survey’s employment index meanwhile suggests that factories will make little or no contribution to non-farm payroll growth in June.

“Forward looking indicators – notably a further slowdown in inflows of new business to a nine-month low and a sharp drop in the new orders to inventory ratio – suggest that the risks are weighted to the downside for coming months.”

Thursday, [PMI Services Index](#): In June 2017, this index was at 54.2 up from 53.6 in May. Chief Economist Chris Williamson writes:

“The final PMI numbers came in higher than the initial flash reading and provide news of a welcome uptick in the pace of growth in the vast services economy at the end of the second quarter.

“The services data follow news from the sister manufacturing survey showing steady but unspectacular growth in US factories.

“Looking at the combined performance of manufacturing and services, output, order books and employment all gained momentum in June, and average prices charged for goods and services rose at the fastest rate for nearly three years.”

Autodata.com

Monday, [Motor Vehicle Sales](#): June 2017 light vehicle sales, on a seasonally-adjusted annual basis, in the U.S., were 16.51 million units, down for the third consecutive month and the lowest sales rate in more a year. Tennessee assemblers followed the same pattern they have for the past several months: General Motors and Nissan car sales fell compared with June 2016, GM down 38.2% and Nissan down 9.6%. Volkswagen, on the other hand, had a 15.0% increase in sales, and year-to-date sales are up by 8.2% in contrast to declines by the other two companies. The Nissan brand, apart from the other Nissan North America brands, actually had increased sales, according to [Automotive News](#), and sales of the Rogue line, assembled in Smyrna, were up by 17%.

Gallup.com

Monday, [U.S. Consumer Spending Measure](#): In June 2017, the average daily spending by U.S. consumers was \$103, close to the \$104 average in May and a record high for the month of June since Gallup began tracking this measure in 2008. This measure is based on a sample of more than 15,000 interviews conducted daily. “Americans' reported daily spending has averaged \$100 or more since February—the longest stretch of triple-digit spending averages Gallup has recorded in its trend dating to 2008.”

Wednesday, [Job Creation Index](#): The June 2017 index was +36, down slightly from the +37 in May, and this was the 16<sup>th</sup> consecutive month for the index to exceed +30. “Various indicators suggest the U.S. economy is generating new jobs at a steady pace, although only 138,000 jobs were created in the month of May, the last month for which government data are available. This report fell short of expectations and was a drop from more robust government numbers in April. Gallup's Job Creation Index, by contrast, showed no significant drop in May and has again shown no significant change for June.”

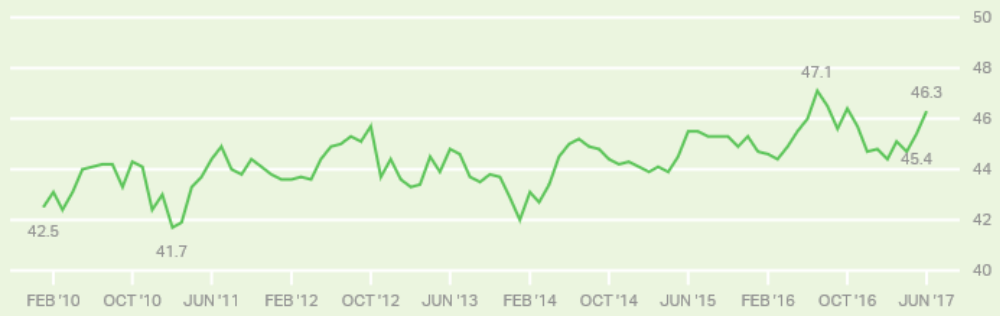
Wednesday, [Economic Confidence Index](#): This index, in June 2017, at +3 and unchanged from May, is at its lowest level of the year. That said, it remains positive and has been for the past eight months. It had been positive only once prior to that since Gallup began tracking it in 2008.

Thursday, [Good Jobs Rate](#): The June 2017 Gallup Good Jobs (GGJ) was 46.3% compared with 45.4% in May. “This is the highest level so far in 2017. The current level is roughly equal to the rate in June 2016, when the GGJ stood at 46.0%.” The graph below shows the GGJ since February 2010.

## U.S. Gallup Good Jobs Rate

January 2010-June 2017

■ Gallup Good Jobs rate %



GALLUP DAILY

These latest data come from a survey of more than 30,000 U.S. adults, conducted from June 1-30.

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading is 48.5 compared with 48.6 the previous week. “The consumer comfort index edged 1 tenth lower in the July 2 week to 48.5. This is the lowest reading since February but still points to solid consumer optimism.”