

Economic Update, August 26, 2016
Submitted by Reuben Kyle

Summary: The week's economic news was mixed. The housing market looks good, maybe too good. Manufacturing is perking up. Initial claims remain at very low levels. Preliminary results from the purchasing managers shows the manufacturing and service sectors of the U.S. economy continue to expand though at a slower rate. GDP growth in the 2nd quarter was not strong but there are forecasts for a much stronger 3rd quarter. Consumer confidence measures were also mixed, one up another down.

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

Monday: This week Dr. R gives us his take on the recent rise in oil and gasoline prices, but he still mentions high oil and gasoline inventories. For you inflation hawks, he has an interesting discussion about the Fed's 2% target and some predictions about inflation prospects for the rest of the year. (As I write this, the rate for a 30-year fixed rate mortgage is 3.4%. What is the inflation premium there?) His forecast for Q3 GDP growth is 3.0%.

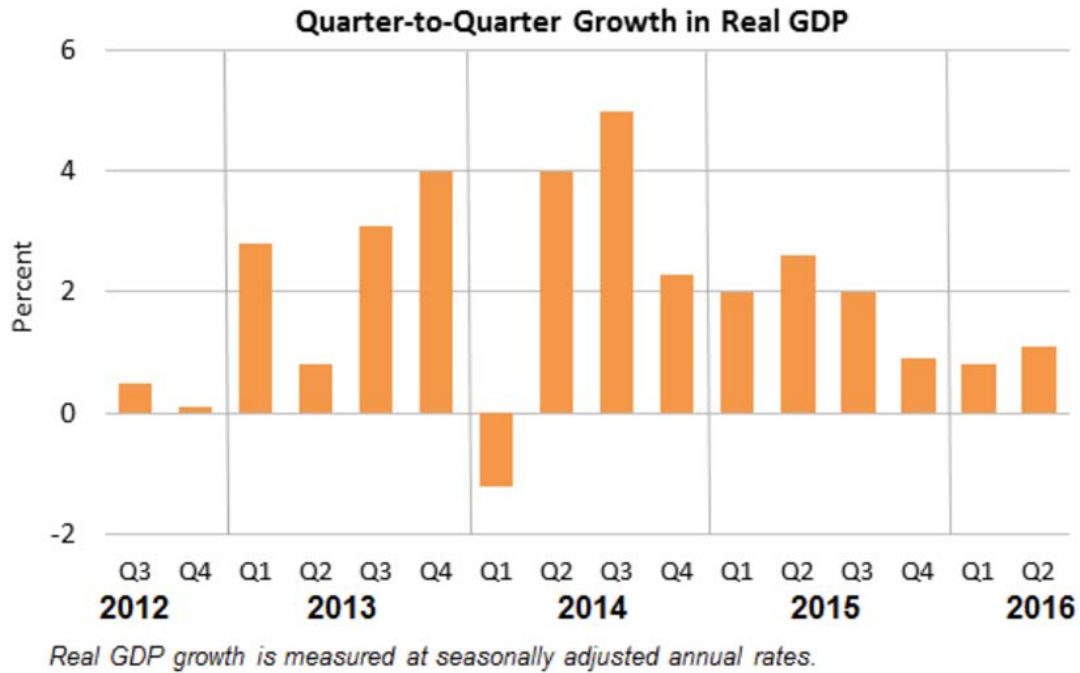
Census Bureau

Tuesday, [New Residential Sales](#): In July 2016, sales of new single-family houses rose by 12.4% from June and by 31.3% above the sales of July 2015. The median sales price was \$294,600 and the mean sales price was \$355,800. At the current sales rate there was a 4 to 3 month supply of new houses available for sale at the end of July.

Thursday, [Advance Report on Durable Goods' Manufacturers' Shipments, Inventories, and Orders](#): In July 2016, new orders for manufactured durables increased as did shipments, and inventories. New orders increased by 4.4%, shipments by 0.2%, and inventories were up by 0.3%. Only unfilled orders decreased and those by 0.1%. Transportation equipment was the prime mover in each case. In the case of nondefense capital goods, the pattern was almost the same as above with new orders and shipments increasing and unfilled orders but also inventories falling. Defense capital goods, too, saw new orders and shipments as well as inventories increasing while unfilled orders declined.

Bureau of Economic Analysis

Friday, [Gross Domestic Product 2nd Quarter 2016 \(2nd Estimate\)](#): This revision of the Q2 2016 has the GDP growth rate at 1.1% down from the initial estimate of 1.2%. The chart below shows the quarterly estimates of the seasonally adjusted, annual rates since Q3 2012. There will be another revision published September 29, 2016. Corporate profits decreased by \$24.1 billion in the 2nd quarter contrasted with a \$66.0 billion increase in Q1. Year-over-year corporate profits are [2.2% lower](#) than in Q2 2015



U.S. Bureau of Economic Analysis

U.S. Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance fell by 1,000 to 261,000 for the week ending August 20, 2016 and the four-week moving average declined by 1,250 to 264,000. In the prior week, ending August 13, one state reported an increase of 1,000 or more initial claims and three states reported decreases of 1,000 or more. Tennessee reported a decrease of 197 new claims.

Federal Housing Finance Agency

Wednesday, [FHFA Housing Price Index](#): In May 2016, the index rose 0.2% from May, the index was up by 1.2% for 2nd quarter of the year, and by 5.6% from Q2 2015. FHFA Supervisory Economist Andrew Leventis said, "Our monthly price index indicates that in each of the three months of the quarter, the increase was only 0.2 percent. This is a much more modest pace of appreciation than we've seen in some time and most likely reflects accumulated pressures from significantly reduced home affordability."

National Association of Realtors

Wednesday, [Existing Home Sales](#): In July 2016, existing home sales fell by 3.2% from June and were 1.6% below those of July 2015. Lawrence Yun, NAR chief economist, says, "existing sales fell off track in July after steadily climbing the last four months." "Severely restrained inventory and the tightening grip it's putting on affordability is the primary culprit for the considerable sales slump throughout much of the country last month," he said. "Realtors are reporting diminished buyer traffic because of the scarce number of affordable homes on the market, and the lack of supply is stifling the efforts of many prospective buyers attempting to purchase while mortgage rates hover at historical lows." Closer to home, this story appeared in *The Tennessean* earlier in the week. "[Nashville Struggling to Meet Demand for New Homes.](#)"

Markit Economics

Tuesday, [Purchasing Managers' Index \(PMI\) Manufacturing Index Flash](#): The preliminary August 2016 index was 52.1 down from 52.9 in June. Chief Markit Economist Chris Williamson stated: "The August drop in the PMI is a disappointment but less worrying when looked at in the context of July's better than expected reading. Taking the July and August readings together suggests that manufacturing is enjoying its best growth so far this year in the third quarter, and should help drive stronger GDP growth."

Thursday, [PMI Services Index Flash](#): The preliminary August 2016 index was 50.9 compared with the final July reading of 51.4. Chris Williamson, Chief Business Economist at Markit said: "The ongoing lackluster economic growth signaled by the flash PMI suggests GDP growth is failing to accelerate in the third quarter from the weak 1.2% pace seen in the second quarter."

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading was 45.3 up by 1.7 points from the previous week. "It now exactly matches its pre-recession average and handily beats its subsequent average, 32.6, since December 2007."

University of Michigan

Friday, [Consumer Sentiment Index](#): The final reading for August 2016 is 89.8 down from 90.0 in July. "Confidence eased back in late August to register a trivial decline from the July reading. Less favorable personal financial prospects were largely offset by a slight improvement in the outlook for the overall economy. Most of the weakness in personal finances was among younger households who cited higher expenses than anticipated as well as slightly smaller expected income gains. Importantly, long term inflation expectations fell to the lowest level ever recorded, with near term inflation expectations anchored to that same low level." (Emphasis added.)