

Economic Update, August 5, 2016

Submitted by Reuben Kyle

Summary: It's the first Friday of the month, so the big news is the BLS Employment Situation report of 255,000 jobs in July. That's the good news. Otherwise the economic news of the week was pretty tame. Construction spending was down in June as were new orders in manufacturing. The two purchasing managers' indexes were still in the expansion range but slowing. Even Dr. Ratajczak had some negative thoughts. Still, the economic measures are volatile and the jobs report is among the timeliest.

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

Monday: Dr. R spends the introduction this week reviewing past data, which I won't recount. His forecast for Friday's jobs report is 164,000. He offers mixed thoughts about 3rd quarter GDP growth but mentioned 3% at one point. The most provocative part of this week's commentary is his discussion of a negative accelerator effect that may be in process. It is an idea that is usually discussed in an introductory macroeconomics course, and I will give you only a brief idea about it. The accelerator works in both directions—positive and negative—and refers to the idea that as the economy expands or contracts it creates its own demand for or reduction in growth. In the past, recoveries from recessions have produced positive accelerators that resulted in periods of very rapid growth. We have not seen much of that in this latest business cycle. If the economy were to enter a negative accelerator, it could result in a recession. Ratajczak is concerned that we may have entered that phase.

The Wall Street Journal

Last Friday, [2015 Economic Growth Was Slightly Better Than We Thought](#): This short article is worth recapturing from last week. It concerns the BEA's efforts to revise past data. Recall that 1st quarter growth figures have been consistently very low for the past couple of years, and that has been blamed on the method for seasonal adjustment. This article discusses that as well as reporting that the 2015 GDP growth rate has been revised from 2.4% to 2.6%, the highest rate since 2006. There are some good graphics in the article.

Thursday, [Tech Jobs in Southern Cities? Thank the Auto Industry](#): From 2013 to 2015, the Nashville-Davidson–Murfreesboro–Franklin MSA led the nation in the growth of STEM jobs at 7.9% followed by the San Francisco metro area with Jackson, Mississippi, in third. The article attributes the Nashville area's success to the presence of Nissan and General Motors in the area. Speaking of autos,

Autodata.com

Tuesday, [Motor Vehicle Sales](#): In July 2016, the seasonally adjusted annual rate of sales of light motor vehicles in the US was 17.88 million units, up from the 16.74 million rate in June and higher than in any month in 2016. That said, the results for Tennessee car assemblers were disappointing. General Motors car sales were down 19.1% from July 2015 and down 10.5% year to date compared with 2015. Nissan car sales were 10.% lower in July of this year compared with a year earlier but up 2.5% year to date compared with 2015. Volkswagen sales were 8.1% lower for the month and 13.6% lower year to date; both of those figures are compared with comparable periods in 2015. For both GM and Nissan, truck sales were higher in July 2016 than in July 2015.

Bureau of Economic Analysis

Tuesday, [Personal Income and Outlays](#): In June 2016, Personal Income and Disposable Personal Income (DPI) both increased 0.2%, and when adjusted for inflation, DPI increased 0.1%. Personal

Consumption Expenditures (PCE) increased 0.4%, and real PCE increased 0.3%. The PCE Price Index increased 0.1%. The Personal Savings Rate was 5.3%.

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading is 43.0, up from 42.9 the previous week. "The overall CCI, produced by Langer Research Associates, is steady at 43.0, down from a nine-month high three weeks ago of 44.7. Albeit with movement among groups, it's been uncommonly steady overall, remaining within a 3.0-point band for 33 weeks, a record."

Gallup.com

Monday, [US Consumer Spending Measure](#): In July 2016, average daily spending was \$100, an increase of \$12 per day from June. The July measure was the highest since June 2008. "The latest spending average is a notable marker in the post-recession spending trend, as monthly averages have not reached or exceeded \$100 since 2008."

Tuesday, [US Economic Confidence Index](#): In the last week of July, this index jumped sharply ending the week of July 25-31 at -10, the highest weekly average since early March. However, the average for the month was -15. Even lower than the -14 of April, May, and June. The late jump was due to sharp increases in the "Current Conditions" and the "Economic Outlook" measures in the final week of the month.

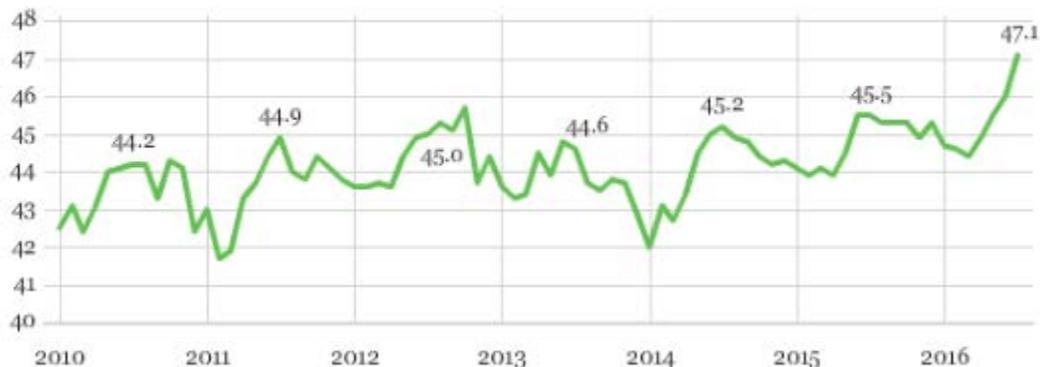
Wednesday, [Job Creation Index](#): In July 2016 the Gallup Jobs Creation Index was at +33, for the third consecutive month. "Hiring activity in the US remains at its best in eight years, according to US workers themselves. This syncs with the Bureau of Labor Statistics' unemployment figures, which have been below 5% for most of 2016 so far."

Thursday, [Good Jobs Rate](#): In July 2016 Gallup's measure of the difference between respondents' employers adding jobs and those laying people off was 47.1% up from 46.0% in June. The latest rate is 1.6 percentage points higher than in July 2015, thus eliminating any seasonal effect. The chart below shows this rate since 2010.

U.S. Gallup Good Jobs Employment Rates

Monthly trend, January 2010-July 2016

■ % of adult population employed full time for an employer



Note: Numbers shown are July readings for each year
Gallup Daily tracking

Bureau of Labor Statistics

Wednesday, [Metropolitan Area Employment and Unemployment](#): In June 2016 compared with June 2015, unemployment rates were lower in 285 of 387 Metropolitan Statistical Areas (MSAs), higher in 75, and unchanged in 27. Total nonfarm employment has higher in 329 MSAs over those 12 months, lower in 47, and unchanged in 11. Sioux Falls, South Dakota, had the lowest unemployment rate at 2.3% while El Centro, California, had the highest rate at 23.7%. All ten Tennessee MSAs had higher unemployment rates in June than in May 2016 but lower rates compared with June 2015. (Keep in mind that these data are NOT seasonally adjusted.) The Nashville–Davidson–Murfreesboro–Franklin MSA continues to have the lowest unemployment rate among the ten at 4%, while Clarksville and Memphis have the highest rates at 5.7%. From May 2016 to June 2016, total nonfarm employment fell in all ten Tennessee MSAs, though from June 2015 to June 2016, employment increased in all ten. Over the 12-month period, the ten Tennessee MSAs gained 70,300 jobs with the largest percentage increases in Cleveland and Morristown MSAs.

Friday, [Employment Situation](#): In July 2016, total nonfarm employment increased by 255,000, and the unemployment rate was unchanged at 4.9%. From the Household Survey—"a sample survey of about 60,000 eligible households conducted by the US Census Bureau for the US Bureau of Labor Statistics (BLS)"—the labor force increased by 407,000 while the number *not in the labor force* fell by 184,000. Even though the overall unemployment rate was unchanged, the rates in most demographic groups fell except for adult men and Asians. From the Establishment Survey—a sample of about 146,000 businesses and government agencies and 623,000 individual worksites—the number of private sector jobs increased by 217,000; the government sector added 38,000. Construction employment went up by 14,000, and motor vehicles and parts gained 6,700 new jobs. Average weekly hours worked edged up 0.1 hour to 34.5 hours. The Diffusion Index for 262 total private industries was 63.7% and 54.4% for 79 manufacturing industries.

ADP.com

Wednesday, [Employment Report](#): In July 2016, the private sector added 179,000 jobs. The goods producing sector lost 6,000 jobs, mainly attributable a loss of 6,000 construction jobs though manufacturing added 4,000. The service producing sector added 185,000 jobs with the largest share in professional/business services followed by trade/transportation/utilities.

US Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance in the week ending July 30, 2016 increased by 3,000 to 269,000 while the four-week moving average increased by 3,750. "This marks 74 consecutive weeks of initial claims below 300,000, the longest streak since 1973." In the previous week ending July 23, one state reported an increase of 1,000 or more initial claims and 13 states reported decreases of 1,000 or more. Tennessee reported a drop of 528 new claims in that week.

Census Bureau

Monday, [Construction Spending](#): In June 2016, construction spending was 0.6% below that in May but 0.3% above the figure in June 2015. Private construction spending, including nonresidential spending was down while residential construction spending was unchanged from the prior month. Public spending, both educational and highway spending, were lower than in May.

Thursday, [Manufacturers' Shipments, Inventories, and Orders](#): In June 2016, new orders for manufactured goods fell 1.5% though new orders for manufactured nondurable goods increased 1.0%.

The decline was prompted by a 58.8% drop in new orders for nondefense aircraft and parts. Shipments of manufactured goods—both durables and nondurables—increased by a total of 0.7%. Unfilled orders fell 0.8%, and inventories declined 0.3%.

Friday, [US International Trade in Goods and Services](#): US exports increased in June 2016 by \$0.6 billion from May while imports increased by \$4.2 billion resulting in an increase in the Balance of Trade in Goods and Services deficit of \$3.6 billion. The deficit in goods increased by \$3.8 billion, and the surplus in services increased by \$0.3 billion. Since the beginning of 2016, the deficit in goods and services has decreased by 2.3% compared with the same period in 2015.

Markit Economics

Monday, [Purchasing Managers' Index \(PMI\) Manufacturing Index](#): This index rose from 51.3 in June to 52.9 in July. Chris Williamson, chief Markit economist, observed: "The stronger manufacturing PMI survey data for July fuels hopes that the sector will act as less of a drag on the economy in the third quarter after a disappointing first half of the year. . . . Job creation has also picked up, hopefully in a sign that producers are seeing a brighter picture, coping with a strong dollar and having put the worst of the energy sector's restructuring behind them."

Wednesday, [PMI Services Index](#): This index was 51.4 in July, unchanged from June but still above the 50.0 neutral level and in the expansion range. Chief Economist Chris Williamson said, "Those looking for signs of the US economy moving up a gear in the third quarter will be disappointed by the PMI readings for July. The surveys are indicating that the pace of economic growth has held at around 1% at the start of the third quarter, largely unchanged on the signals sent by PMIs for the first and second quarters. Once again, there's better news on hiring, with the overall rate of job creation edging up to the highest since January. The surveys are broadly consistent with non-farm payrolls rising by 160,000 in July."

Institute for Supply Management

Monday, July 2016 [Manufacturing ISM Report on Business](#): The Purchasing Managers' Index (PMI) was 52.6% in July, down from 53.2% in June. Despite that decline, the US manufacturing economy expanded for the fifth consecutive month while the overall economy expanded for the 86th consecutive month. The survey covers 18 industry sectors, of which eleven reported expanding in July and seven reported contracting. Below are some respondents' comments.

- "With Brexit, keeping [a] close eye on how this will impact our business." (Chemical Products)
- "Stronger than expected end to Q2 (June) saw us beat our forecast, which is the first time in five quarters, though we were still below Annual Operation Plan (AOP)." (Computer & Electronic Products)
- "Strong demand in our market has business in an upswing." (Nonmetallic Mineral Products)
- "International capital orders are increasing." (Fabricated Metal Products)
- "Brexit has not impacted our business thus far." (Food, Beverage & Tobacco Products)

Wednesday, July 2016 [Non-Manufacturing NMI Report on Business](#): The Non-Manufacturing Index (NMI) in July 2016 was 55.5%, down one percentage point from June. July was the 78th consecutive month of growth of the non-manufacturing economy. Fifteen of the 18 industry sectors reported expanding and three reported contracting. The table that follows gives the details for both the manufacturing and non-manufacturing surveys.

ISM® NON-MANUFACTURING SURVEY RESULTS AT A GLANCE
COMPARISON OF ISM® NON-MANUFACTURING AND ISM® MANUFACTURING SURVEYS*
JULY 2016

| Index | Non-Manufacturing | | | | | | Manufacturing | | |
|-------------------------------------|-------------------|------------------|----------------------|------------|------------------|------------------|------------------|------------------|----------------------|
| | Series Index Jul | Series Index Jun | Percent Point Change | Direction | Rate of Change | Trend** (Months) | Series Index Jul | Series Index Jun | Percent Point Change |
| NMI®/PMI® | 55.5 | 56.5 | -1.0 | Growing | Slower | 78 | 52.6 | 53.2 | -0.6 |
| Business Activity/Production | 59.3 | 59.5 | -0.2 | Growing | Slower | 84 | 55.4 | 54.7 | +0.7 |
| New Orders | 60.3 | 59.9 | +0.4 | Growing | Faster | 84 | 56.9 | 57.0 | -0.1 |
| Employment | 51.4 | 52.7 | -1.3 | Growing | Slower | 2 | 49.4 | 50.4 | -1.0 |
| Supplier Deliveries | 51.0 | 54.0 | -3.0 | Slowing | Slower | 7 | 51.8 | 55.4 | -3.6 |
| Inventories | 54.0 | 55.5 | -1.5 | Growing | Slower | 16 | 49.5 | 48.5 | +1.0 |
| Prices | 51.9 | 55.5 | -3.6 | Increasing | Slower | 4 | 55.0 | 60.5 | -5.5 |
| Backlog of Orders | 51.0 | 47.5 | +3.5 | Growing | From Contracting | 1 | 48.0 | 52.5 | -4.5 |
| New Export Orders | 55.5 | 53.0 | +2.5 | Growing | Faster | 2 | 52.5 | 53.5 | -1.0 |
| Imports | 53.0 | 54.0 | -1.0 | Growing | Slower | 6 | 52.0 | 52.0 | 0.0 |
| Inventory Sentiment | 63.0 | 62.5 | +0.5 | Too High | Faster | 230 | N/A | N/A | N/A |
| Customers' Inventories | N/A | N/A | N/A | N/A | N/A | N/A | 51.0 | 51.0 | 0.0 |
| Overall Economy | | | | Growing | Slower | 84 | | | |
| Non-Manufacturing Sector | | | | Growing | Slower | 78 | | | |

* **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.