

Summary: It was a busy week for economic news, and while there are some weaker parts, the U.S. economy is perking right along. Manufacturing statistics continue to lag, but retail trade numbers and labor market numbers are strong. This week we got the WSJ Economic Forecasting Survey, and the forecasters are “cautiously optimistic” as are the purchasing managers. Consumer confidence remains high. There is also an interesting report on a study of opioid use and changes in the labor force participation rate. Tennessee appears to have a serious problem. Finally, there is a story from the *Houston Chronicle* on the impact of Hurricane Harvey on oil prices.

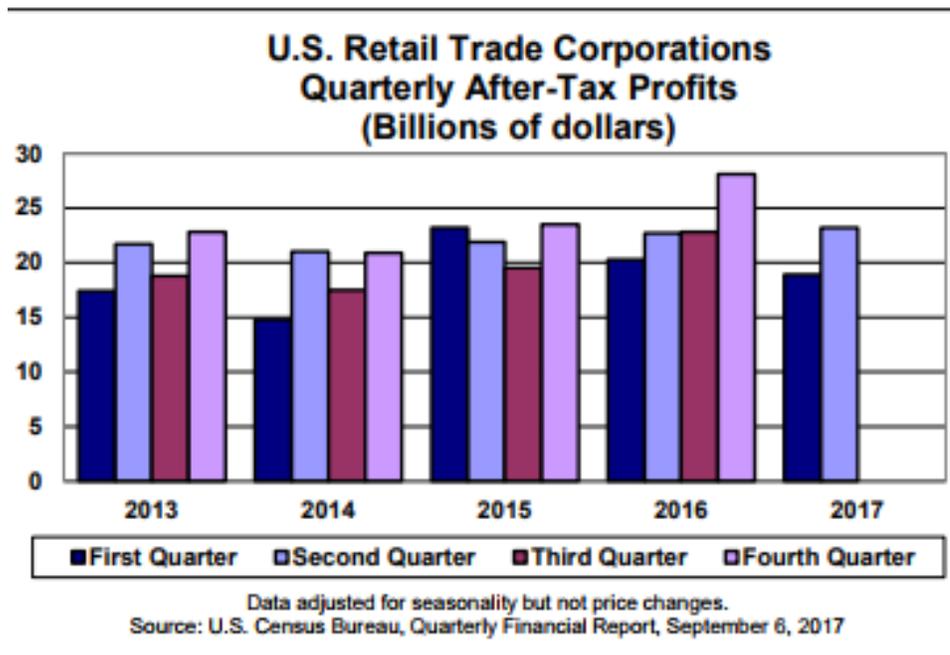
Census Bureau

Tuesday, [Manufacturers’ Shipments, Inventories, and Orders](#): In July 2017, new orders for manufactured goods fell by 3.3% from June, and for durables, the decline was 6.8%. Shipments rose by 0.3% with shipments of durables rising by 0.2%. Unfilled orders decreased by 0.3% while inventories increased by 0.2%. The principal mover of the changes in new orders, unfilled orders, and inventories was transportation equipment, most notably nondefense aircraft but also motor vehicles and parts.

Wednesday, [U.S. International Trade in Goods and Services](#): In July 2017, U.S. exports declined by \$0.6 billion from June. Imports also dropped, by \$0.4 billion, but the Balance of Trade in Goods and Services increased by \$0.1 billion. In goods alone, the deficit fell by less than \$0.1 billion while the surplus in services was \$0.2 billion less than in June.

Wednesday, [Quarterly Financial Report—Manufacturing, Mining, Wholesale Trade, and Selected Service Industries](#): In the 2<sup>nd</sup> quarter of 2017, after-tax profits of manufacturing corporations rose by \$0.5 billion from the 1<sup>st</sup> quarter and by \$19.0 billion from Q2 2016. Profits of wholesale trade corporations were down by \$2.0 billion from Q1 and nearly unchanged from those in Q2 2016.

Wednesday, [Quarterly Financial Report—Retail Trade](#): Compared with the 1<sup>st</sup> quarter of 2017, after-tax sales and profits of retail trade corporations with assets of \$50 million and more were up by \$96 billion and \$4.3 billion, respectively. The chart below shows after-tax profits by quarter since 2013.



Thursday, [Quarterly Services Survey](#): In the 2<sup>nd</sup> quarter of 2017, total revenue for a group of selected services was up by 3.2% from the 1<sup>st</sup> quarter and by 6.2% from Q2 2016. The sectors with increased revenues included: information; professional, scientific, and technical; administrative and support and waste management and remediation services; transportation and warehousing; finance and insurance; real estate and rental and leasing; educational services; health care and social assistance; among others.

Friday, [Monthly Wholesale Trade, Sales and Inventories](#): In July 2017, sales of merchant wholesalers were down 0.1% from June but 5.9% higher than in July 2016. Inventories were up by 0.6% from June and by 3.3% from a year earlier. The inventory/sales ratio was 1.30 in July compared with 1.29 in June and 1.33 in July 2016.

Bureau of Labor Statistics

Wednesday, [County Employment and Wages](#): In the 1<sup>st</sup> quarter of 2017, year-over-year, employment increased in 299 of the 346 largest counties in the U.S. York County, South Carolina, had the largest percentage increase with a 6.8% rise. Williamson County, Tennessee, ranked third in this group with 4.6% increase in employment and Rutherford County, Tennessee, ranked 10th with a 3.7% gain. “The U.S. average weekly wage increased 6.6 percent over the year, growing to \$1,111 in the first quarter of 2017. McLean, Illinois, had the largest over-the-year percentage increase in average weekly wages with a gain of 27.8 percent.” Ranking by percentage change in average weekly wage, Knox County, Tennessee, was 63<sup>rd</sup> and Rutherford County was 73<sup>rd</sup>. Williamson County ranked 118<sup>th</sup> but with an average weekly wage of \$1,287.

Thursday, [Productivity and Costs](#): In the 2<sup>nd</sup> quarter of 2017, nonfarm business labor productivity increased by 1.5% as output rose by 4.0% while labor hours worked were up by 2.5% from the 1<sup>st</sup> quarter. Since Q2 2016, productivity has increased by 1.3%. Unit labor costs rose by 0.2% in the quarter as average hourly earnings were up by 1.8% and productivity increased by 1.5%. In the manufacturing sector, productivity increased by 2.9% as output rose by 2.1% and hours worked fell by 0.7%.

Friday, [Employer Costs for Employee Compensation](#): In June 2017, average hourly compensation was \$35.28 of which \$24.10 was wages and \$11.18 was in the form of benefits. Compensation of state and local government workers averaged \$48.06 per hour, and \$30.12 was wages and salaries and \$17.94 was benefits. There are lots of data in this report with considerable detail on type of employment and type of compensation.

U.S. Department of Labor

Thursday, [Initial Claims](#): Keeping in mind that this period includes the impact of Hurricane Harvey in the week ending September 2, 2017, initial claims were 298,000, an increase of 62,000, and the four-week moving average was 250,250, up 13,500. In the previous week, ending August 26—before the arrival of Harvey—two states reported an increase of 1,000 or more new claims and one state—Texas—reported a decrease of 1,000 or more. Tennessee reported a decrease of 248 initial claims from the prior week.

Board of Governors of the Federal Reserve

Wednesday, [Beige Book](#): The surveys used to compile this report were completed before August 28, 2017, and before the impact of Hurricane Harvey was felt. It covers a period in the months of July and August for all 12 Federal Reserve Districts. Overall, the districts report modest to moderate economic expansion with some slowing of employment growth. The Atlanta Federal Reserve Bank reports a modest pace for growth in the Sixth District during July through mid-August. “Broadly, business contacts expressed that labor demand continued to outweigh supply in fields such as information technology, construction, and healthcare. Construction industry contacts reported that the

lack of available labor was still so severe that companies were turning down business opportunities...Firms continued to implement various methods to attract and retain top talent, often in lieu of wage increases. Contacts shared that in addition to offering flexible work hours and locations, more vacation time, and training and education opportunities, they were increasingly focused on social responsibility initiatives and support systems to encourage work-life harmony." Retail sales were stronger than expected though automobile dealers experienced a slowdown in sales. Real estate brokers and builders report flat sales though they remain optimistic about the next three months. Manufacturing expanded but at a slower pace "with about half" anticipating higher production levels in coming months. The St. Louis Federal Reserve Bank reports that the Eighth District economy has improved "at a modest pace" since the last report. "Contacts reported moderate wage growth since the previous report, as tightness in the labor market has resulted in upward pressure on wages. On net, 61 percent of contacts reported wages were higher or slightly higher than a year ago, and a similar share reported increases in labor costs." Real estate tax collections declined in Tennessee in July and automobile sales have not met expectations. Manufacturing activity "increased modestly" but the pace of growth has slowed. New capital expenditure plans by manufacturers are reported. While cotton seed prices were down, the conditions of cotton and rice crops have improved and were better than this period last year.

Institute for Supply Management

Wednesday, [August 2017 Non-Manufacturing ISM Report on Business](#): The Non-Manufacturing Index was 55.3%, up 1.4 percentage points from July's 53.9% and indicating the 92<sup>nd</sup> consecutive month of expansion by this sector of the U.S. economy. Of the 18 industry sectors surveyed in August, 15 reported expanding and two reported contracting. The table below 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*									
August 2017									
	Non-Manufacturing						Manufacturing		
Index	Series Index Aug	Series Index Jul	Percent Point Change	Direction	Rate of Change	Trend** (Months)	Series Index Aug	Series Index Jul	Percent Point Change
<b>NMI®/PMI®</b>	55.3	53.9	+1.4	Growing	Faster	92	58.8	56.3	+2.5
<b>Business Activity/Production</b>	57.5	55.9	+1.6	Growing	Faster	97	61.0	60.6	+0.4
<b>New Orders</b>	57.1	55.1	+2.0	Growing	Faster	97	60.3	60.4	-0.1
<b>Employment</b>	56.2	53.6	+2.6	Growing	Faster	42	59.9	55.2	+4.7
<b>Supplier Deliveries</b>	50.5	51.0	-0.5	Slowing	Slower	20	57.1	55.4	+1.7
<b>Inventories</b>	53.5	56.5	-3.0	Growing	Slower	5	55.5	50.0	+5.5
<b>Prices</b>	57.9	55.7	+2.2	Increasing	Faster	3	62.0	62.0	0.0
<b>Backlog of Orders</b>	53.5	52.0	+1.5	Growing	Faster	7	57.5	55.0	+2.5
<b>New Export Orders</b>	55.0	53.0	+2.0	Growing	Faster	7	55.5	57.5	-2.0
<b>Imports</b>	50.5	51.5	-1.0	Growing	Slower	3	54.5	56.0	-1.5
<b>Inventory Sentiment</b>	61.0	67.5	-6.5	Too High	Slower	243	N/A	N/A	N/A
<b>Customers' Inventories</b>	N/A	N/A	N/A	N/A	N/A	N/A	41.0	49.0	-8.0
<b>Overall Economy</b>				Growing	Faster	97			
<b>Non-Manufacturing Sector</b>				Growing	Faster	92			

\* **Non-Manufacturing ISM® Report On Business®** data is seasonally adjusted for the 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.

#### IHS Markit Economics

Wednesday, [Purchasing Managers' Index](#): The seasonally adjusted IHS Markit U.S. Services Business Activity Index registered 56.0 in August [2017], up from July's reading of 54.7. The latest survey extended the current sequence of activity growth to 18 months. Moreover, the upturn was the fastest since November 2015, with a number of panelists stating that higher activity was underpinned by a greater willingness to spend among clients and improving market conditions." Chief Business Economist for HIS Market Chris Williamson writes: "The US service sector moved up a gear in August, providing a welcome boost to the economy after the sister PMI survey showed slower manufacturing growth. The two PMI surveys collectively point to the fastest rate of economic expansion since January as businesses enjoyed a summer growth spurt."

## TACIR/MTSU Tracking Tennessee's Economy

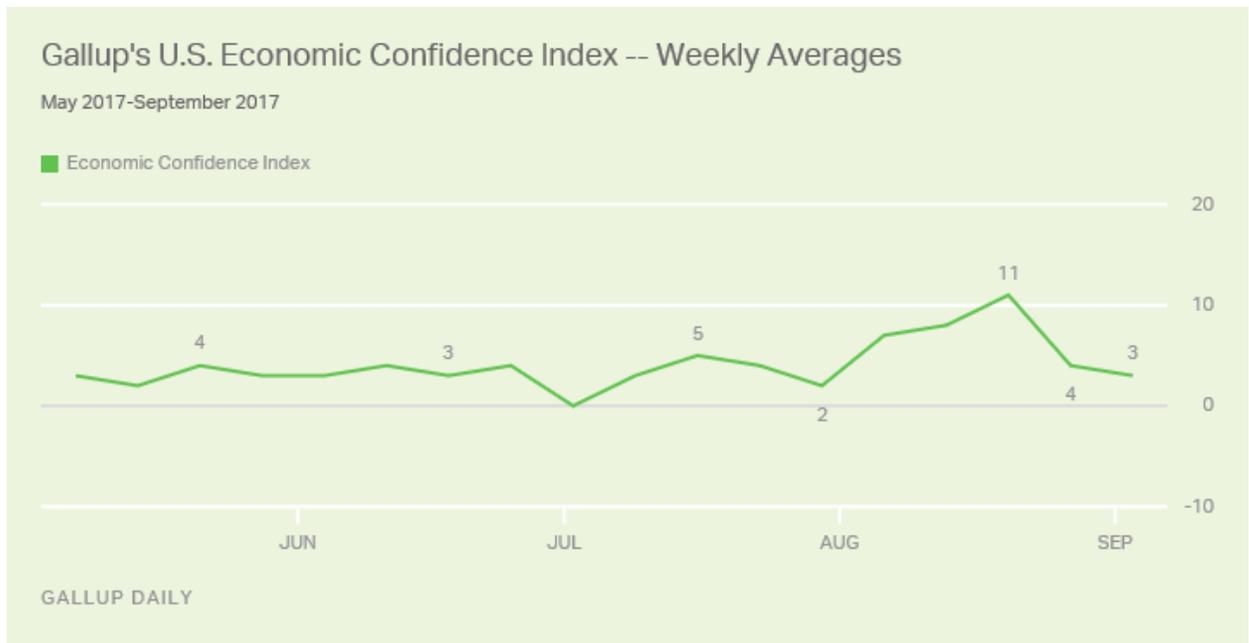
Tuesday, [Economic Indicators](#): Dr. David Penn of the MTSU Department of Economics and Finance reports that the Tennessee economic indicators have been updated through July 2017. Initial claims are down with a weekly average of 2,535. On a seasonally adjusted basis, state sales tax collections were almost unchanged from June at \$716.8 million. The seasonally adjusted average hourly earnings were \$22.70, up \$0.20 from the previous month.

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading is 52.6, down from 53.3 the previous week.

Gallup.com

Tuesday, [Economic Confidence Index](#): In August 2017, the index averaged +6, up from +4 in July. The graph below shows the weekly averages of this index from May until the first week of September. August readings rose to +11 in the third week of the month but then fell to +3 in the last week of the month.



*The Wall Street Journal*

Thursday, [Economic Forecasting Survey](#): The August 2017 survey of 76 forecasters returned 56 responses, and the average forecasts are reported here. The 3<sup>rd</sup> quarter 2017 GDP growth rate is predicted to be 2.7% compared with the actual 2.6% in Q2. The 4<sup>th</sup> quarter rate is forecast to be 2.5% and 2.4% in Q1 2018. In December 2017, the CPI is forecast to be 1.7%, rising to 2.0% in June 2018 and 2.1% in December 2018. The price of oil per barrel is forecast to be \$48.94 by December of this year and \$50.34 by June 2018. The unemployment rate is forecast to be 4.3% in December of this year and 4.1% by December 2018. Payroll employment growth is forecast to average 164,264 jobs per month in 2017. The yield on 10-year Treasury notes is forecast to rise 23 basis points by December. The rate of increase in house prices is forecast to moderate to 4.5% by January 2018, and housing starts are forecast at 1.31 million by the end of 2017. Respondents set the probability of a recession in the next 12-month period at slightly better than one-chance-in-five. More than 80% of respondents expect another increase in the fed funds rate by the December 2017 meeting of the FOMC. Almost 71% expect the committee to announce the shrinking of the Fed's security portfolio in September, which would be consistent with the

expected rise in long-term Treasury yields. Finally, more than half of respondents see a downside risk to their forecasts for the GDP growth rate.

The Brookings Institution

Thursday, [How the Opioid Epidemic Has Affected the U.S. Labor Force, County-by-County](#): This report is on a study of the relation between opioid use and labor force participation. It includes a map of all U.S. counties and the combined effect of opioid use and changes in the labor force participation rate for men ages 25-54. Tennessee counties are heavily impacted. "In 2016, Princeton economist Alan Krueger made headlines with a shocking finding that nearly half of prime age men (or men ages 25 to 54) who are not in the labor force take pain medication on a daily basis. Two-thirds of those men—or about 2 million—take *prescription* pain medication on a daily basis."

*The Houston Chronicle*

Friday, [Harvey could add to oil glut, depress prices](#): If you are concerned about the impact of the hurricanes on gasoline prices, here is an interesting piece from the Oil Capital of the country. Oil continued to be extracted while refineries were shut down for "almost two weeks." Remember that it is inventories that drive prices. There may be a delay before a drop in oil prices affects gas prices and, of course, there is no gas available in some places, especially south Florida at the moment.