

Economic Update, September 9, 2016
Submitted by Reuben Kyle

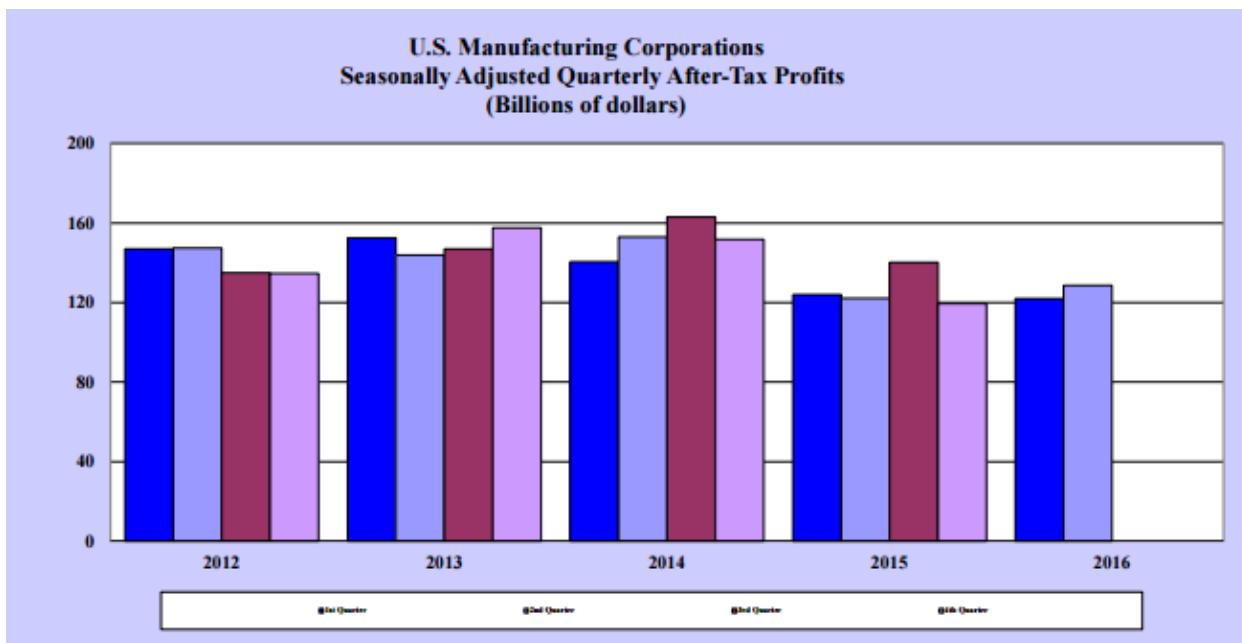
Summary: This week there were lots of economic news reports with no significant negative items but nothing especially inspiring. The U.S. economy continues to slowly expand though the rate of expansion has definitely slowed over the past 12 months. The *Wall Street Journal* monthly survey of 60 or more economic forecasters indicates some apprehension about the near-term economic growth rate, and 80% of the respondents do not expect a recession in the next 12 months. One bright spot in the week's news was a healthy increase in the number of job openings.

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

Tuesday: This week Dr. R begins with a dismal take on last week's jobs report. He follows that with a detailed dissection of employment by sector. He has a lot more detail than I ever provide. He remains optimistic about 3rd quarter GDP growth, citing the Atlanta Fed's forecast of 3.5% and his own of 3.1%. His forecast for this week's JOLTS is a 1.8% increase in job openings and a 1.5% increase in hires. While he argues that consumers are in pretty good shape he notes that the savings rate is 5.7%, a reflection that consumers could spend more.

Census Bureau

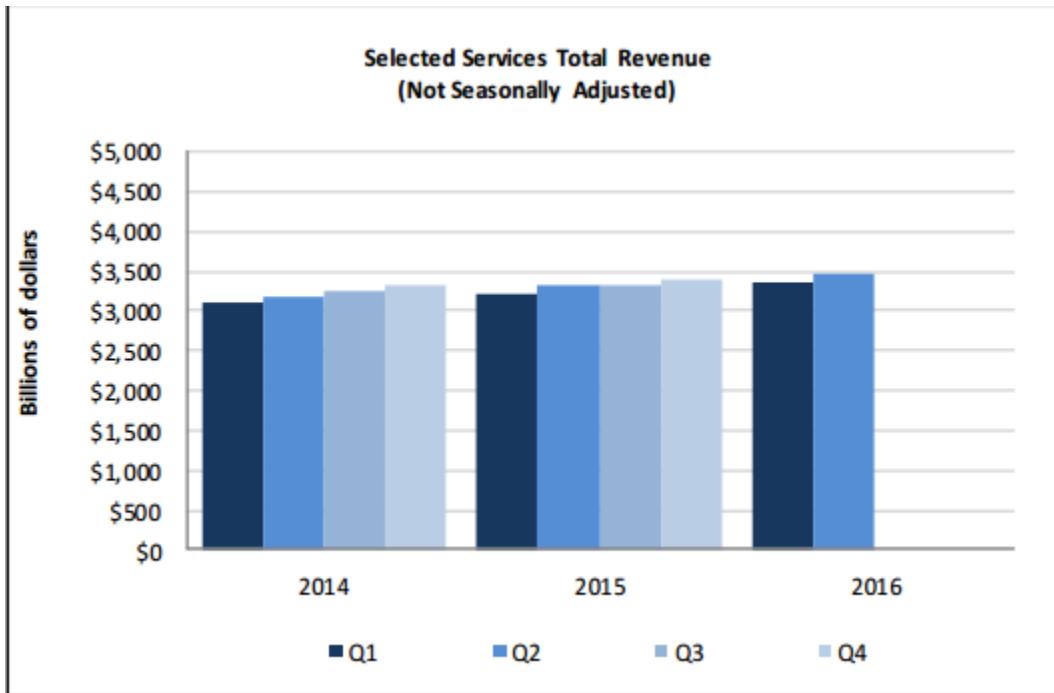
Tuesday, [Quarterly Financial Report: Manufacturing, Mining, Wholesale Trade and Selected Service Industries](#): In the 2nd quarter 2016, after-tax profits of U.S. manufacturing corporations were \$128.7 billion, up from \$122.0 billion in the 1st quarter and from \$122.1 billion in Q2 2015. The chart below shows quarterly profits since 2011.



Tuesday, [Quarterly Financial Report: Retail Trade](#): Second quarter 2016 after-tax profits of U.S. retail corporations with assets of \$50 million or more were \$24.2 billion, up by \$4.1 billion from Q1 2016 and by \$2.3 billion from Q2 2015. Compared with Q1 2015, retail sales were down in Q1 2016 but rebounded in Q2 2016.

Thursday, [Quarterly Services Survey](#): This report includes information on a number of different service sector industries so I will only give you the total revenues for the whole group in the 2nd quarter of 2016. Those revenues total \$3,457.9 billion up by 3.4% from the 1st quarter of this year and by 4.3%

from Q2 2015. The chart below shows the quarterly revenues for this group of selected services since 2014.



Friday, [Monthly Wholesale Trade: Sales and Inventories](#): In July 2016, sales by merchant wholesalers were down by 0.4% from June and by 1.0% from July 2015. Inventories were unchanged from June but 0.5% higher than the year earlier. The inventory/sales ratio in July was 1.34 compared with 1.33 in June and 1.32 in July 2015.

Bureau of Labor Statistics

Wednesday, [County Employment and Wages](#): From March 2015 to March 2016, 319 of the 344 largest counties in the U.S. saw increased employment. Williamson County, Tennessee had the largest percentage increase, 7.9%, over that period and Rutherford County, Tennessee ranked fourth with a 5.5% increase. The average weekly wage in Williamson County was \$1,198, down by 4.9% from a year earlier, followed by Davidson at \$1,097, up by 1.8% over that period.

Wednesday, [Job Openings and Labor Turnover Survey \(JOLTS\)](#): In July 2016, the number of job openings was 5.9 million, an increase of 228,000 from June. The number of hires was 5.2 million, an increase of 56,000 from June, while the number of separations fell by 27,000 to 4.9 million. The quit rate was 2.1%. “Over the 12 months ending in July, hires totaled 62.5 million and separations totaled 60.0 million, yielding a net employment gain of 2.5 million. These totals include workers who may have been hired and separated more than once during the year.”

Thursday, [Employer Costs for Employee Compensation](#): In June 2016, the average hourly employee compensation was \$34.05 of which 68.6%, or \$23.35, were wages and salaries and \$10.70, 31.4%, were in the form of benefits. The table below details the compensation packages of all civilian workers, private industry workers, and state and local government workers.

Table A. Relative importance of employer costs for employee compensation,
June 2016

Compensation component	Civilian workers(1)	Private industry	State and local government
Wages and salaries	68.6%	69.7%	63.3%
Benefits	31.4	30.3	36.7
Paid leave	6.9	6.9	7.2
Supplemental pay	3.1	3.6	0.9
Insurance	8.8	8.0	12.1
Health benefits	8.3	7.6	11.8
Retirement and savings	5.1	3.9	10.6
Defined benefit	3.2	1.7	9.8
Defined contribution	2.0	2.2	0.8
Legally required	7.5	7.9	5.9

1 Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government.

U.S. Department of Labor

Thursday: [Initial Claims](#) for unemployment insurance in the week ending September 3, 2016, numbered 259,000, down 4,000 from the previous week, and the four-week moving average was 261,250, a decrease of 1,750. In the prior week ending August 29, two states reported increases of 1,000 or more new claims, and one state reported a decrease of 1,000 or more. Tennessee reported a decrease of 100 initial claims.

Board of Governors of the Federal Reserve

Tuesday, Labor Market Conditions Index: The latest index was -0.7 compared with +1.3 in July. The July level was the only month in 2016 when this index was positive. Despite this behavior, the [BLS employment reports](#) show an increase in employment each month of this year, with an average of 182,000 jobs per month.

Wednesday, [Beige Book](#): “Reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand at a modest pace on balance during the reporting period of July through late August [2016]. Most Districts reported a “modest” or “moderate” pace of overall growth. However, Kansas City and New York reported no change in activity, and Philadelphia and Richmond noted that, while still expanding, activity slowed from the previous period. Contacts across the twelve Districts generally expect moderate economic growth in coming months.” The Atlanta Federal Reserve Bank, the Sixth District, reported “modest” growth. Retail sales grew slightly but with possible slowing. Automobile dealers noted a slowdown in their sales. Tourism activity seems to be higher than the previous year but not what had been expected. Home builders report that activity was up from the year before and they expect that activity to increase in the next three months. For commercial real estate, the report was similar with contractors noting some backlogs. Manufacturing contacts report a slight increase since the last survey and expectations for future production are for considerable increases. Transportation reports were mixed with rail traffic flat and some slowdown in trucking activity. Demand for loans in housing markets increased. “Business contacts continued to describe a tightening labor market with challenges finding high-quality workers to fill open positions,

particularly in fields that require high-skills, such as information technology, finance, and engineering.” That said, there was no wage pressure reported. In the Eighth District, the report was for improved economic conditions since the last survey. “Among businesses surveyed during mid-August, 60 percent reported nominal wages were higher relative to the same time last year and 30 percent reported employment was higher or slightly higher.” In Memphis, restaurants and hospitality providers reported strong activity. The survey of manufacturing contacts found about evenly divided sentiment with one-third reporting increased activity, one-third no change, and one-third decreased activity. Suppliers of materials used in mining and the oil and gas business reported weakened activity but those in transportation equipment and industrial machinery reported expansion plans. Providers of services were generally positive. July home sales in Memphis were down by 4%, but residential construction activity improved. Farm prices are down with lower expected farm incomes, but crop conditions indicate strong yields.

Institute for Supply Management

Tuesday, [August 2016 Non-Manufacturing ISM Report on Business](#): This purchasing managers' index is 51.4 %, down by 4.1 percentage points from July but still indicating that the non-manufacturing sector of the U.S. economy continues to expand for the 79th consecutive month. Of the 18 industry sectors surveyed, 11 reported expanding while seven 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 2016										
	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	
NMI®/PMI®	51.4	55.5	-4.1	Growing	Slower	79	49.4	52.6	-3.2	
Business Activity/Production	51.8	59.3	-7.5	Growing	Slower	85	49.6	55.4	-5.8	
New Orders	51.4	60.3	-8.9	Growing	Slower	85	49.1	56.9	-7.8	
Employment	50.7	51.4	-0.7	Growing	Slower	3	48.3	49.4	-1.1	
Supplier Deliveries	51.5	51.0	+0.5	Slowing	Faster	8	50.9	51.8	-0.9	
Inventories	48.0	54.0	-6.0	Contracting	From Growing	1	49.0	49.5	-0.5	
Prices	51.8	51.9	-0.1	Increasing	Slower	5	53.0	55.0	-2.0	
Backlog of Orders	49.5	51.0	-1.5	Contracting	From Growing	1	45.5	48.0	-2.5	
New Export Orders	46.5	55.5	-9.0	Contracting	From Growing	1	52.5	52.5	0.0	
Imports	50.5	53.0	-2.5	Growing	Slower	7	47.0	52.0	-5.0	
Inventory Sentiment	64.0	63.0	+1.0	Too High	Faster	231	N/A	N/A	N/A	
Customers' Inventories	N/A	N/A	N/A	N/A	N/A	N/A	49.5	51.0	-1.5	
Overall Economy				Growing	Slower	85				
Non-Manufacturing Sector				Growing	Slower	79				

* 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.

Markit Economics

Wednesday, [PMI Services Index](#): In August 2016, this purchasing managers' index was 51.0 compared with 51.4 in July so that the index remains in the expansion range. Combined with last week's manufacturing index, the Markit Final U.S. Composite Index for August was 51.5, down slightly from 51.8 in July. Markit Chief Economist Chris Williamson stated: "The weak PMI readings send a downbeat note on economic growth in the third quarter. Taken together, the manufacturing and services PMIs are pointing to an annualised GDP growth rate of a mere 1%, similar to the subdued pace signaled by the surveys throughout the year to date, suggesting that those looking for a strengthening in the rate of economic growth will be disappointed once again."

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index was 44.0, up from 43.4 the previous week. "Even with this week's pause, the recent whipsaw indicates conflicted economic sentiment. Employment remains strong but not impressive and August earnings growth was disappointing. Gallup data suggest that consumer spending, the tentpole of economic strength this year, may have declined slightly last month. Prospects for a fall rate hike seem muddied. And the election season can add an extra dose of turmoil."

Gallup.com

Tuesday, [U.S. Consumer Spending Measure](#): In August 2016, Americans reported spending an average of \$91 per day , down from \$100 per day in July. This \$91 is slightly above the \$89 in August 2015 but below the averages for August 2014 and 2013. "The spending average for August is on par with the average of \$90 for 2016 so far. In Gallup's nearly nine-year trend, August has generally not been a standout month for spending, ranking neither among the highest nor the lowest spending months in most years."

Tuesday, [Economic Confidence Index](#): The August 2016 index is -11, up from -15 in July and the highest it has been since March when it was-10. "The recent uptick in Americans' confidence in the economy began in the final week of July when the index's weekly average rose six points to -10."

Wednesday, [Job Creation Index](#): The August 2016 Job Creation Index was 33% with 44% of respondents reporting that their employers are hiring and 11% of respondents indicating that their employers are laying people off. This index was remained at 33 for the four months of May through August of this year. "The latest results, based on interviews conducted Aug. 1-31 with 17,894 full- and part-time U.S. workers, continue a pattern seen over the past 19 months, during which the index never dipped below +29."

The Wall Street Journal

Thursday, [Economic Forecasting Survey](#): In the September 2016 survey of 77 economic forecasters, 60 responded to some or all of the 38 measures requested. The average forecast of the 3rd quarter U.S. GDP growth rate is 2.9%. (Compare that figure with those in Dr. Ratajczak's commentary.) The average forecast for Q4 2016 and Q1 2017 are 2.4% and 2.2%, respectively. The average forecast for the Consumer Price Index as of December 2016 is 1.6%, rising to 2.1% by June 2017. By December 2016 the average forecast for oil prices is \$47.02, rising to \$51.23 by June 2017. (As I write the price is \$47.43.) Last week's unemployment rate was 4.9%, and the average forecast for December 2016 is 4.7%, falling to 4.5% by the end of 2017. The average monthly increase in total nonfarm employment is 175,228 jobs for 2016. Home prices are forecast to rise at an average annual rate of 4.4% by the end of this year, and that would be down from the 5.8% increase in 2015. Housing starts are projected to be 1.31 million in 2016. The forecasters set the probability of a recession in the next 12 months at 20%. However, 73% of the respondents report a "downside risk" for their growth forecast. Finally, the latest prediction for a hike in the fed funds rate is December 2016 with nearly 74% predicting that date.