

Economic Update, January 6, 2017  
Submitted by Reuben Kyle

Summary: It is the first Friday of the month, so the Employment Situation report is the big economic news of the week. While the total number of jobs added, 156,000, was not spectacular, there were healthy wage gains. The rest of the economic news this week was relatively positive, with the purchasing managers' surveys upbeat, motor vehicle sales strong, and consumer confidence remaining high.

Census Bureau

Tuesday, [Construction Spending](#): In November 2016, construction spending rose by 0.9% from October and by 4.1% from November 2015. Private construction spending, including residential construction, was up by 1.0%. Public construction spending increased by 0.8% for the month, with educational construction spending up by 2.1% and highway construction rising by 1.1%.

Friday, [Manufacturers' Shipments, Inventories, and Orders](#): In November 2016, new orders, shipments, and unfilled orders of manufactured goods all declined while inventories increased. In the case of manufactured durable goods, new orders and unfilled orders fell, in both instances led by transportation equipment. But shipments of manufactured durables increased, prompted by increases in shipments of primary metals. Inventories of manufactured durables also increased.

Bureau of Labor Statistics

Friday, [Employment Situation](#): Total nonfarm employment increased by 156,000 in December 2016, and the unemployment rate was 4.7%. According to the [Household Survey](#), there were few changes in the labor force statistics, and the labor force participation rate eased up 0.1 percentage point to 62.7%. Unemployment rates clicked up a little for most demographic groups, though rates for Teenagers, Black or African American, and Asians fell a few percentage points. From the [Establishment Survey](#), the private sector added 144,000 jobs and government employment increased by 12,000. Manufacturing gained 17,000 jobs, with Motor Vehicles and Parts contributing 2,900. In the service producing sector, Health Care and Social Assistance added 63,300 jobs. Average weekly hours worked was unchanged from November at 34.3. But the index of aggregate weekly payrolls was up by 0.5% to 131.7 (2007=100). The diffusion index for Total Private Employment was 57.1%, and for Manufacturing it was 48.7%.

Bureau of Economic Analysis

Friday, [U.S. International Trade in Goods and Services](#): In November 2016, the U.S. Balance of Trade in Goods and Service deficit increased by \$2.9 billion as exports fell by \$0.4 billion and imports increased by \$2.4 billion. The deficit in goods rose by \$3.4 billion, while the surplus in services increased by \$0.5 billion.

U.S. Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance for the week ending December 31, 2016, fell by 28,000 to 235,000, and the four-week moving average fell 5,750 to 256,750. In the previous week ending December 24, 13 states, including Tennessee, reported increases of 1,000 or more initial claims, and four states reported decreases of 1,000 or more. Tennessee reported an increase of 1,312 with the comment: "Layoffs in the administrative, support, waste management and remediation service, manufacturing, professional, scientific, and technical service, and accommodation and food service industries."

Board of Governors of the Federal Reserve System

Wednesday, [Minutes of Federal Open Market Committee Meeting](#): These minutes were for the December 13-14, 2016 meetings. As already reported the policy decision was to raise the target for the

federal funds rate to ½% to ¾%. “This increase in the target range was viewed as appropriate in light of the considerable progress that had been made toward the Committee’s objective of maximum employment and, in view of the rise in inflation since earlier in the year, the Committee’s confidence that inflation would rise to 2 percent in the medium term.” “Many participants judged that the risk of a sizable undershooting of the longer-run normal unemployment rate had increased somewhat and that the Committee might need to raise the federal funds rate more quickly than currently anticipated to limit the degree of undershooting and stem a potential buildup of inflationary pressures.”

ADP.com

Thursday, [Employment Report](#): In December 2016, private sector employment increased by 153,000 with the service sector adding 169,000 while manufacturing lost 16,000 jobs.

Institute for Supply Management

Tuesday, [December 2016 Manufacturing ISM Report on Business](#): The index rose by 1.5 percentage points from 53.2% in November to 54.7% in December. The overall economy expanded for the 91<sup>st</sup> consecutive month. The survey covers 18 industry sectors of which 11 reported expanding and six reported contracting. Below are a few of respondents’ comments.

- “Ramping up for year-end by reducing inventory.” (Chemical Products)
- “Very strong month in terms of booking and billing which will contribute to a good overall year revenue-wise.” (Computer & Electronic Products)
- “Our business remains strong and we are seeing continued growth.” (Plastics & Rubber Products)
- “We have been fairly steady the last few months and it appears business is strong into the 1st quarter of next year.” (Primary Metals)
- “Moving into [a] more inflationary environment, with lots of pressure to increase prices on a number of fronts.” (Food, Beverage & Tobacco Products)

Thursday, [December 2016 Non-Manufacturing ISM Report on Business](#): This index matched its November level of 57.2%, marking the 83<sup>rd</sup> consecutive month that the non-manufacturing economy expanded. Of the 18 industry sectors surveyed, 12 reported expanding and three 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\*  
DECEMBER 2016**

	Non-Manufacturing						Manufacturing		
Index	Series Index Dec	Series Index Nov	Percent Point Change	Direction	Rate of Change	Trend** (Months)	Series Index Dec	Series Index Nov	Percent Point Change
<b>NMI®/PMI®</b>	57.2	57.2	0.0	Growing	Same	83	54.7	53.2	+1.5
<b>Business Activity/Production</b>	61.4	61.7	-0.3	Growing	Slower	89	60.3	56.0	+4.3
<b>New Orders</b>	61.6	57.0	+4.6	Growing	Faster	89	60.2	53.0	+7.2
<b>Employment</b>	53.8	58.2	-4.4	Growing	Slower	7	53.1	52.3	+0.8
<b>Supplier Deliveries</b>	52.0	52.0	0.0	Slowing	Same	12	52.9	55.7	-2.8
<b>Inventories</b>	52.0	51.5	+0.5	Growing	Faster	4	47.0	49.0	-2.0
<b>Prices</b>	57.0	56.3	+0.7	Increasing	Faster	9	65.5	54.5	+11.0
<b>Backlog of Orders</b>	48.0	51.0	-3.0	Contracting	From Growing	1	49.0	49.0	0.0
<b>New Export Orders</b>	53.0	57.0	-4.0	Growing	Slower	4	56.0	52.0	+4.0
<b>Imports</b>	50.0	54.0	-4.0	Unchanged	From Growing	1	50.5	50.5	0.0
<b>Inventory Sentiment</b>	61.5	60.5	+1.0	Too High	Faster	235	N/A	N/A	N/A
<b>Customers' Inventories</b>	N/A	N/A	N/A	N/A	N/A	N/A	49.0	49.0	0.0
<b>Overall Economy</b>				Growing	Same	89			
<b>Non-Manufacturing Sector</b>				Growing	Same	83			

\* **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.

#### Markit Economics

Tuesday, [Purchasing Managers Index \(PMI\) Manufacturing Index](#): The December 2016 index was 54.3 compared with 54.1 in November and at a 21 month high. Chris Williamson, Chief Markit Economist, stated: "The manufacturing sector ended 2016 on a buoyant note, with promising signs that growth could pick up further in 2017. The pace of growth signaled by the PMI in December was the strongest for almost two years, and the combination of improving current demand and optimism for a further upturn in 2017 prompted companies to build inventory and boost capacity. The latter was reflected in the largest rise in factory payroll numbers for one and a half years. The upturn is being driven almost entirely by rising demand from domestic customers, with exports stymied by the dollar's recent surge."

Thursday, [Purchasing Managers Index \(PMI\) Services Index](#): In December 2016, this index slipped from 54.6 in November to 53.9, despite which the index continues to indicate that the service

sector is expanding if at a slightly slower rate. Chief Economist Williamson observed: “The US economy ended 2016 on a solid footing on which sustained growth looks set to be achieved in the coming year.” “The surveys signal GDP annualized growth of approximately 2.0% in the fourth quarter, a pace which we expect to be met – if not slightly exceeded – through 2017.” “The only real blot on the copybook was that prices charged showed the steepest rise for one and a half years, which could feed through to reduced consumption.”

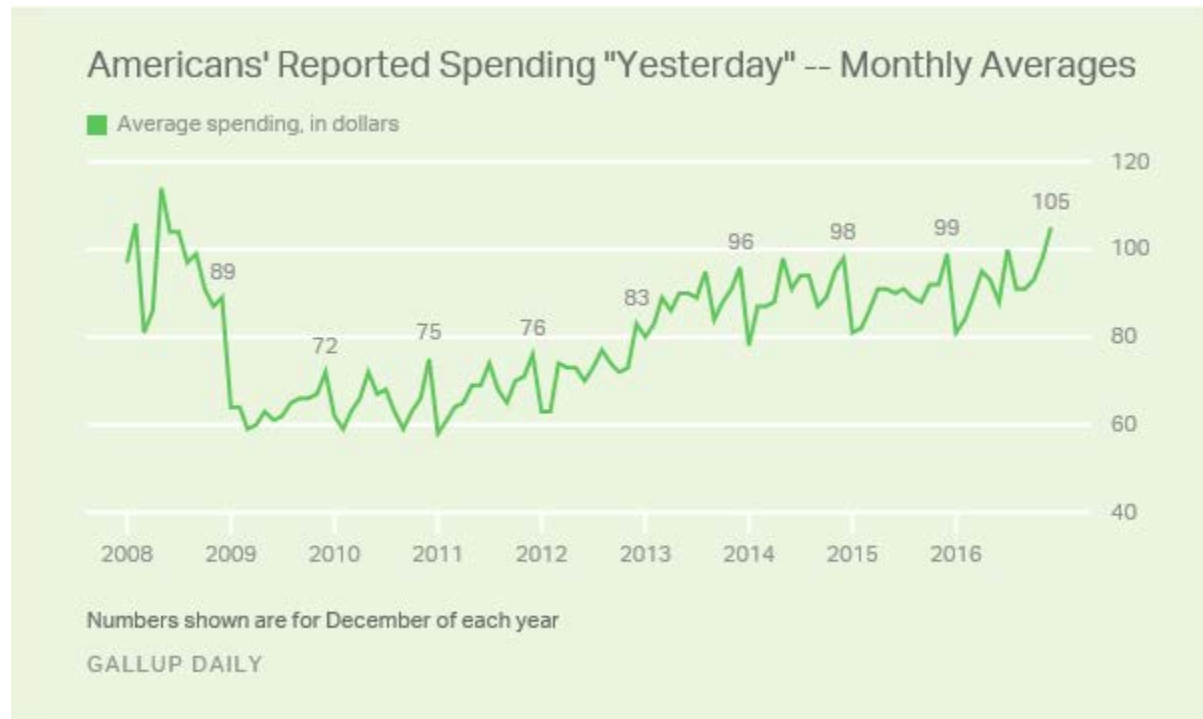
Autodata.com

Wednesday, [Motor Vehicle Sales](#): The December 2016 seasonally-adjusted annual sales rate was 18.46 million light vehicles, ending the calendar year at the highest rate for 2016. The rate exceeded 18 million units for two months and fell below 17 million for two months, so the total sales for 2016 were 17.479 million units, 0.4% higher than in 2015. Among Tennessee assemblers, General Motors car sales were up 20.9% in December 2016 compared with December 2015. Year-to-date GM car sales were 4.3% below those of 2015. Nissan’s car sales were down year-over-year in December by 10.3% and by 3.5% year-to-date. Volkswagen’s year-over-year sales increased by 20.3% in December, while their sales for the calendar year were 7.6% below 2015. Overall, passenger car sales for 2016 were 8.1% lower than in 2015, but light truck sales were up by 7.2%.

Gallup.com

Tuesday, [Economic Confidence Index](#): The December 2016 index averaged +9, up from +1 in November. “[F]or the final week in December, the index averaged +11, the best weekly average in Gallup’s tracking trend.”

Wednesday, [Consumer Spending Measure](#): In December 2016, average daily spending by U.S. consumers was \$105, compared to \$99 in November, and this \$105 average was the highest monthly average since Gallup began collecting this data in 2008. For all of 2016, the daily average was \$92, also the highest average since the 2008 collection began. The chart below shows the monthly averages since 2008.



Wednesday, [Job Creation Index](#): The year-end index for December 2016 was a +33, matching the high for the months May through October. In December 2015, the index was +30.

Thursday, [Good Jobs Rate](#): “The Gallup Good Jobs (GGJ) rate in the U.S. was 44.7% in December, down from 45.7% in November. While the GGJ rate often declines somewhat in December, this represents the first month with a year-on-year decrease since April 2014. The U.S. GGJ rate was 45.3% in December 2015.” The high for the year was 47.1% in July.

Bloomberg.com

Thursday, [Consumer Comfort Index](#): Although the complete report is no longer available to us, I can report the index level, which was 45.5, down from 46.0 the previous week.