

## Economic Update, January 8, 2016

Submitted by Reuben Kyle

Summary: Naturally the big economic news—just a reminder, I don't do the stock market—of the week is today's jobs report with 292,000 new jobs in December. Some reports dating from November indicate some softening in both manufacturing and the service sector. But even those cases there is no sign of recession. Motor vehicle sales for the year were very strong though passenger car sales were actually lower than in 2014. Virtually all of the measures of consumer confidence were up at the end of the year.

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

Monday: Dr. R begins the new year with his assessment of the prospects for 2016. It is recommended reading and not all bad news. His greatest concern is the world oil glut and repercussions from a release of the high inventories that could drive prices even lower. In the longer term, he sees increasing world demand for oil and falling supplies leading to a more normal balance by the end of the year. No \$100 oil anytime soon though. His outlook for Q4 2015 GDP growth is 1.9% and for higher growth in 2016 though toward the end of the year. His forecast for Friday's jobs report is 178,000 new jobs. This report will be his last until the end of January.

### Census Bureau

Monday, [Construction Spending](#): In November 2015, construction spending was 0.4% below the level of October but 10.5% higher than in November 2014. Total private construction spending was 0.2% below that in October, but private residential spending was 0.3% above October's. Total public construction spending was 1.0% below that in the prior month, but educational construction spending was 5.0% higher than in October.

Wednesday, [US International Trade in Goods and Services](#): November 2015 exports were lower for the month by \$1.6 billion, but imports fell by \$3.8 billion with the result that the trade deficit for goods and services fell by \$2.2 billion. The deficit in goods was down by \$2.3 billion, while the surplus in services declined by \$0.1.

Wednesday, [Manufacturers' Shipments, Inventories, and Orders](#): In November 2015, new orders for manufactured goods were 0.2% lower than in October, shipments and unfilled orders each rose 0.2% as inventories declined 0.3%. In the case of new orders, the leader of the decline was primary metals. In all other cases, the prime mover was transportation equipment.

Friday, [Monthly Wholesale Trade, Sales and Inventories](#): November 2015 sales of merchant wholesalers were 1.0% lower than in October and 4.6% lower than in November 2014. Sales of durable goods were up 0.4% for the month though down from a year earlier. Sales of lumber and construction materials were 1.4% higher than in the previous month. Sales of nondurables were down 2.4% from October. Inventories fell 0.3% from October but were 2.2% higher than in October 2014. The inventory/sales ratio was 1.32 compared with 1.31 in October and 1.24 in October a year ago.

### Bureau of Labor Statistics

Friday, [Employment Situation](#): In December 2015, total nonfarm employment increased by 292,000 while the unemployment rate was unchanged at 5.0%. From the Household Survey, the labor force increased by nearly 500,000, the labor force participation ratio increased by 0.1 to 62.6%, and the number of unemployed dropped by 20,000. The unemployment rates for adult women, African-

Americans, Hispanic or Latinos, those with less than a high school diploma, and those with some college all fell. The number of persons who could find only part-time work declined by 49,000.

From the Establishment Survey, the number of new private sector jobs increased by 275,000, and the government sector added 17,000. Construction gained 45,000 jobs while motor vehicles and parts manufacturing lost 2,400. Among the service-providing industries, the big gainers were Professional and Business Services, Health Care and Social Services, Transportation and Warehousing, and Leisure and Hospitality. Average weekly hours worked was unchanged at 34.5, and the Diffusion Indexes for both the total private sector and manufacturing were well over 50% meaning that more than half of the industries were adding employment.

### **ADP.com**

Wednesday, [ADP Employment Report](#): Private sector employment increased by 257,000 jobs in December 2015. Construction added 24,000 jobs, manufacturing added 2,000, and professional/business services gained 66,000.

### **US Department of Labor**

Thursday, [Initial Claims](#): New claims for unemployment insurance in the week ending January 2, 2016, numbered 277,000, down by 10,000 from the prior week, and the four-week moving average was down by 1,250. For the week ending December 26, 2015, 15 states reported increases of 1,000 or more in initial claims, and seven states reported decreases of 1,000 or more. Tennessee reported an increase of 160 new claims.

### **Board of Governors of the Federal Reserve**

Wednesday, [Minutes of the Federal Open Market Committee \(FOMC\) Meeting](#): These minutes are from the FOMC meeting held December 15-16, 2015. The policy decision was to raise the target range for the fed funds rate to ¼% to ½%. "Members observed that after this initial increase in the federal funds rate, the stance of monetary policy would remain accommodative. However, some members said that their decision to raise the target range was a close call, particularly given the uncertainty about inflation dynamics, and emphasized the need to monitor the progress of inflation closely."

### **Institute for Supply Management (ISM)**

Monday, [December 2015 Manufacturing ISM Report on Business](#): The December Purchasing Managers' Index was 48.2%, down 0.4 percentage points from 48.6% in November, the second consecutive month of contraction in the manufacturing sector. Nonetheless, the overall economy expanded for the 79<sup>th</sup> consecutive month. The survey covers 18 industry sectors of which six reported growth and ten reported contracting. One positive measure in the report was that exports grew after contracting during the month. Some comments from respondents are below.

- "Low oil prices are negatively impacting oil and gas exploration activities. Low oil prices are generally positive for the petrochemical industry." (Petroleum & Coal Products)
- "Month-over-month sales were down, profitability up." (Chemical Products)
- "December revenue is flat compared to last month." (Computer & Electronic Products)
- "Still very slow due to oil prices." (Fabricated Metal Products)
- "Deflation in many commodities is helping with product savings. Sales are strong with a backlog." (Transportation Equipment)

- "Targeting reduced inventories for raw materials by year-end." (Textile Mills)

Wednesday, [December 2015 Non-Manufacturing ISM Report on Business](#): The Non-Manufacturing Index (NMI) in December 2015 was 55.3% compared with 55.9% the previous month. Eleven of the 18 industry sectors surveyed report growing in December, and five reported contracting. The table below gives the results for both the NMI and the manufacturing surveys in December.

ISM® NON-MANUFACTURING SURVEY RESULTS AT A GLANCE									
COMPARISON OF ISM® NON-MANUFACTURING AND ISM® MANUFACTURING SURVEYS*									
DECEMBER 2015									
Index	Non-Manufacturing						Manufacturing		
	Series Index Dec	Series Index Nov	Percent Point Change	Direction	Rate of Change	Trend** (Months)	Series Index Dec	Series Index Nov	Percent Point Change
NMI®/PMI®	55.3	55.9	-0.6	Growing	Slower	71	48.2	48.6	-0.4
<b>Business Activity/Production</b>	58.7	58.2	+0.5	Growing	Faster	77	49.8	49.2	+0.6
<b>New Orders</b>	58.2	57.5	+0.7	Growing	Faster	77	49.2	48.9	+0.3
<b>Employment</b>	55.7	55.0	+0.7	Growing	Faster	22	48.1	51.3	-3.2
<b>Supplier Deliveries</b>	48.5	53.0	-4.5	Faster	From Slower	1	50.3	50.6	-0.3
<b>Inventories</b>	53.0	54.5	-1.5	Growing	Slower	9	43.5	43.0	+0.5
<b>Prices</b>	49.7	50.3	-0.6	Decreasing	From Increasing	1	33.5	35.5	-2.0
<b>Backlog of Orders</b>	50.0	51.5	-1.5	Unchanged	From Growing	1	41.0	43.0	-2.0
<b>New Export Orders</b>	53.5	49.5	+4.0	Growing	From Contracting	1	51.0	47.5	+3.5
<b>Imports</b>	49.0	51.0	-2.0	Contracting	From Growing	1	45.5	49.0	-3.5
<b>Inventory Sentiment</b>	64.5	63.5	+1.0	Too High	Faster	223	N/A	N/A	N/A
<b>Customers' Inventories</b>	N/A	N/A	N/A	N/A	N/A	N/A	51.5	50.5	+1.0
<b>Overall Economy</b>				Growing	Slower	77			
<b>Non-Manufacturing Sector</b>				Growing	Slower	71			

\* 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

Monday, [Purchasing Managers' Index \(PMI\) Manufacturers' Index](#): In December 2015, this index was 51.2 down from 52.8 in November. This index is still above the 50.0 neutral level, indicating that manufacturing is still expanding but at the lowest rate since October 2012. Chris Williamson, chief Markit Economist, said, "The manufacturing sector saw a disappointing end to 2015, and its plight looks set to continue into the New Year as headwinds show no sign of abating any time soon. Order book growth has stalled as producers report some of the toughest trading conditions since the end of the global financial crisis. The strong dollar is hurting exporters as well as hitting domestic sales as firms compete against inflows of cheap imports. Low oil prices are meanwhile hitting demand for goods and machinery from the energy sector."

Wednesday, [PMI Services Index](#): The December 2015 services index was 54.3 compared with 56.1 in November. Chris Williamson, Markit's chief economist, said, "The PMI surveys show the service sector losing momentum alongside a stalling of growth in the manufacturing sector, pushing the overall rate of economic expansion down to the weakest for a year."

#### **Autodata.com**

Tuesday, [Motor Vehicle Sales](#): Year-end figures for sales of light vehicle deliveries in December 2015 are very strong, but read them carefully. For the year, total sales were nearly 17.5 million vehicles, up 5.7% from 2014, but total passenger car sales—the figures relevant for Tennessee assemblers—were down 2.2%. Light truck sales, on the other hand, were up 13.1%. General Motors sales in December 2015 compared with December 2014 up 5.7% though car sales fell 13.1%, and for the calendar year, car sales were down 14.2%. Their truck sales were 16.3% for the year. Nissan's total sales in December year-over-year were up 18.7% with car sales rising 3.2%. For the year, Nissan's total sales were up 7.1% while car sales dropped 1.7%. Volkswagen car sales in December were down year-over-year 9.1%, and for the entire year, they fell 4.8%.

#### **Bloomberg.com**

Thursday, [Consumer Comfort Index](#): For the first survey in January 2016, this index was 44.2, up from 43.6 for the last week of 2015. Over the entire year of 2015, the index averaged 42.9, the highest level since 2007 but below the average of 45.3 for the years 1985-2007.

#### **Gallup.com**

Monday, [US Consumer Spending Measure](#): The December 2015 average daily spending by US consumer was \$99, up by \$7 from November and higher than the \$98 in December 2014 and the \$96 in December 2013. Over the entire year of 2015, the average was \$89, identical to that in 2014. This measure is consistent with other reports that consumers have not spent their savings from the drop in gasoline prices. One would expect to see an increase in the savings rate in the next report on Personal Income and Outlays.

Tuesday, [Economic Confidence Index](#): In December 2015, the US Economic Confidence index was -11 up slightly from the previous month and from -14 in mid-2015. "The highest income group, those earning \$90,000 or more a year, are neutral overall about the state of the economy with an index score of zero. Americans with annual household incomes between \$60,000 and \$89,999 are slightly negative in their views of the economy with a score of -5. "Americans living in households that make less than this are even more dismal about the national economy. The index score for those in households earning between \$24,000 and \$59,999 is -16, and the score for those earning less than \$24,000 is an even lower -20."

Wednesday, [Job Creation Index](#): This index was +30 in December 2015 slightly less than the +32 over the six months from May to October 2015. Over the year, the index average was +30, the highest since Gallup began tracking this measure in 2008.

Thursday, [Good Jobs Rate](#): "The GGJ metric tracks the percentage of the US adult population, aged 18 and older, who work for an employer full time—at least 30 hours per week. Gallup does not count adults who are self-employed, work fewer than 30 hours per week, are unemployed, or are out of the workforce as payroll-employed in the GGJ metric." The December 2015 rate was 45.3%, up slightly from 44.9% the previous month. The report says that, by their measures, labor markets ended the year on a "high note."

***The Wall Street Journal***

Monday, [How Will the US Fare in 2016 and Beyond? Top Economists Break Out Their Crystal Balls](#): Here are outlooks for 2016 from four economists, including two former chairs of the President's Council of Economic Advisors. It won't surprise you that there is some differences in their views