

Economic Update, October 21, 2016  
Submitted by Reuben Kyle

Summary: The economic news of the week was pretty good. Building permits issued were up strongly, existing home sales rose, builders' confidence remains high, industrial production increased, and the Leading Economic Indicators rose. Even the down numbers were not bad, initial claims increased but remain at a very low level, Tennessee's unemployment rate edged up but remains nominally below the national average, and the Bloomberg Consumer Comfort index fell but has varied little the past several months.

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

Monday: Looking at his table of indicators this week, Dr. R seems to have hit just about everything but housing starts. His commentary is a reminder of why economics is called the Dismal Science. He gives a couple of pessimistic scenarios of good times leading to bad times. On the down side, he has reduced his forecast for 4<sup>th</sup> quarter GDP growth without giving us a number. As a two-handed economist, he did raise his forecast for October jobs from 166,000 to 182,000 because of the drop in initial claims and the number of people receiving unemployment benefits. This week he devotes his in-depth analysis to pricing behavior in many industry sectors.

Census Bureau

Wednesday, [New Residential Construction](#): In September 2016, the number of building permits issued was 6.3% above the number in August and 8.5% above the figure in September 2015. Housing starts were 9.0% below those of the previous month and 11.9% below the number in September 2015. However, the number of housing starts for single-family houses was 8.1% above the number in August. Housing completions were down by 8.4% from August and 5.8% below the number a year earlier.

Bureau of Labor Statistics

Tuesday, [Consumer Price Index \(CPI\)](#): In September 2016, the CPI for All Urban Consumers rose by 0.3% led by increases in gasoline and housing prices. Excluding food and energy, the CPI was up by 0.1%. The all-items index has risen by 1.5% over the prior 12-month period.

Tuesday, [Real Earnings](#): With a 0.2% increase in average hourly earnings combined with the 0.3% rise in the CPI, real (inflation adjusted) average hourly earnings declined by 0.1%. From September 2015 through September 2016, real average hourly earnings have increased by 1.0%. Over that same period, real average hourly earnings of wage and salary workers rose by 1.4%.

Thursday, [Usual Weekly Earnings by Wage and Salary Workers](#): In the 3<sup>rd</sup> quarter of 2016, full-time wage and salary workers earned \$827 per week, a 3% increase over the same period in 2015, while the CPI increased by 1.1% over that period. The median weekly earnings of women were \$745 or 81.8% of that for men, who earned \$911. As usual, there are lots of numbers in this report.

Friday, [Regional and State Employment and Unemployment](#): In September 2016, seven states had significantly lower unemployment rates than in August, one state had a significantly higher rate, and the rates in 42 states plus the District of Columbia were "stable." New Hampshire and South Dakota had the lowest rates, 2.9% each, and Alaska had the highest rate at 6.9%. [Tennessee's](#) unemployment rate was 4.5%, up 0.2 percentage points from the August rate. (By the way, Tennessee's unemployment rate was not significantly different than the national rate of 5.0% nor was the change from 4.4% to 4.6% significant.) Total nonfarm employment significantly increased in 14 states, including Tennessee, three states had significantly lower employment, and 32 states had little or no change in employment from August. In September, Tennessee added 14,800 jobs, for a 0.5% increase. Year-over-year, Tennessee has gained 71,300 jobs, or a 2.5% increase. For the month, Tennessee added the most new jobs in government, 8,000; professional/business services, 2,400; and health care/social assistance, 2,200.

## U.S. Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance in the week ending October 15, 2016 increased by 13,000 to 260,000, and the four-week moving average rose by 2,250 to 251,750. The four-week moving average number of insured unemployed in the week ending October 5 was 2,058,250, the lowest average since July 8, 2000. For the week ending October 5, nine states plus Puerto Rico reported increases of 1,000 or more new claims, and no state reported decreases of that amount. Tennessee reported an increase of 549.

## Board of Governors of the Federal Reserve

Monday, [Industrial Production](#): In September 2016, industrial production increased by 0.1%, and for the 3<sup>rd</sup> quarter of 2016, industrial production rose by 1.8% “for its first quarterly increase since the third quarter of 2015.” Production in construction gained 0.8%, and manufacturing added 0.2%. Capacity utilization increased by 0.1 percentage points to 75.4%, which is still well below the 1972-2015 average of 80.0%.

Wednesday, [Beige Book](#): This report from each of the twelve Federal Reserve District banks covers the period from late August to early October 2016. “Most Districts indicated a modest or moderate pace of expansion; however, the New York District reported no change in overall activity. Compared with the previous report, the pace of growth improved in the St. Louis, Kansas City, and Dallas Districts. Outlooks were mostly positive, with growth expected to continue at a slight to moderate pace in several Districts.” In the Sixth District—the Atlanta Federal Reserve Bank—the survey covered late August through September and the economic conditions were reported to be “improving at a modest pace.” Retail sales were largely flat but tourism and hospitality activity was described as “bouncing back” with the outlook for the rest of 2016 as positive. Reports on construction and real estate were for slow but steady growth. Nonresidential construction was reported to be ahead of the same period in 2015. Area manufacturers indicated that activity had decreased slightly and fewer contacts expect an increase in production in the next six months. Transportation and warehousing were reported as slowing except for e-commerce activity. Banking contacts indicated that consumer confidence and credit issues for homeowners had improved. “Firms still experienced challenges finding qualified workers at various levels to fill job openings, and low-skilled positions were becoming increasingly more difficult to fill. Business contacts continued to report investing in automation with an end game of reducing headcounts and increasing productivity.” In the Eighth District—the St. Louis Fed—the report was of modest improvement since the last report. Contacts across the district report “high demand for labor in some industries, particularly in manufacturing, construction, healthcare, and financial services.” Retail and automobile sales grew modestly since the previous report though a survey of Memphis households indicated no plans for increased spending relative to last year. Manufacturing and other business activity reported mixed results with some automobile suppliers announcing expansion to meet increased demand. “Several firms that provide healthcare, online retail, and education services reported plans to build new facilities and hire new employees.” Package delivery services also announced plans to expand. In Memphis, residential real estate sales in August increased by 14%, and multi-family housing construction showed “continued interest.” Record yields are expected in corn, cotton, and soybean crops.

## The Conference Board

Thursday, [Leading Economic Indicators \(LEI\)](#): The September 2016 LEI increased by 0.2% to 124.4 (2010 =100). Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board stated: “The U.S. LEI increased in September, reversing its August decline, which together with the pickup in the six-month growth rate suggests that the economy should continue expanding at a moderate pace through early 2017.” Housing permits, unemployment insurance claims, and the interest rate spread were the main components lifting the index in September. Overall, the

strengths among the leading indicators are outweighing modest weaknesses in stock prices and the average workweek.” The Coincident Economic Indicator also increased by 0.2% to 114.2 (2010=100).

#### National Association of Home Builders

Tuesday, [Housing Market Index](#): In October 2016, this index, a measure of builders confidence, slipped two points to 63 but “remains solid.” “[B]uilder confidence stands at its second-highest level in 2016, a sign that the housing recovery continues to make solid progress,” said NAHB Chairman Ed Brady, a home builder and developer from Bloomington, Ill. “However, builders in many markets continue to express concerns about shortages of lots and labor.”

#### National Association of Realtors

Thursday, [Existing Home Sales](#): In September 2016, existing home sales rose by 3.2% to a seasonally-adjusted, annual rate of 5.47 million homes. First-time buyers accounted for the boost with 34% of the sales. Lawrence Yun, Chief NAR Economist, said: “The home search over the past several months for a lot of prospective buyers, and especially for first-time buyers, took longer than usual because of the competition for the minimal amount of homes for sale...Most families and move-up buyers look to close before the new school year starts. Their diminishing presence from the market towards the end of summer created more opportunities for aspiring first-time homeowners to buy last month.” The median price for all types of houses was \$234,200, an increase of 5.6% from a year earlier and the 55<sup>th</sup> consecutive month of year-over-year increases.

#### Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading was 41.3 down from the previous 42.1 and back to the low for the year. The graph below shows the index since January 2015.

