

Economic Update, May 27, 2016

Submitted by Reuben Kyle

Summary: We got really mixed signals this week from the economic news. The UK Markit Economics purchasing managers' surveys are pretty discouraging, and the revised Q1 GDP growth rate was less than the expected 1.0%. But the housing market numbers were very strong. The early April manufacturing reports are encouraging after several months of negatives. Initial claims continue to be very low and consumer confidence surveys, while not great, are pretty positive.

No commentary this week from Dr. Ratajczak.

Bureau of Economic Analysis

Friday, [Gross Domestic Product, 1st Quarter 2016 \(Second Estimate\) and Corporate Profits](#): This is the "second estimate" of Q1 2016 GDP growth, and we will get a third number June 28. The first or "advance" rate was 0.5%; the second estimate was 0.8%. The revisions occur when more complete data become available, and in this instance, it was more personal consumption expenditures, higher residential fixed investment, and more state and local government expenditures that added slightly to the rate. Remember that these numbers are all adjusted for inflation, and the current-dollar Q1 GDP growth figure is 1.4%. Corporate profits increased by \$6.5 billion in Q1 2016 compared with a decrease of \$159.6 billion decrease in Q4 2015.

Economic Innovation Group

Tuesday, [The New Map of Economic Growth and Recovery](#), Economic Innovation Group: A contribution from Deputy Executive Director Lippard compares the economic recoveries of 1992 through 1996, 2000 through 2006, and 2010 through 2014. A time-lapse map shows which US counties accounted for 50% of each recovery's jobs. The one for the latest recovery is not encouraging. In Tennessee, only Davidson is among those counties; four counties made the grade in the first of those three recoveries, and five were included in the second. A similar map of business establishment growth is even less encouraging.

The Wall Street Journal

Wednesday, [Economic Forecasting Survey](#), May 2016: The May survey includes forecasts by 66 of 78 individual and organizations. The average forecast for Q2 2016 GDP growth is 2.18% with slightly higher rates in Q3 and Q4. Their average forecast of the Consumer Price Index by December 2016 is an increase of 1.7%, only crossing the 2.0% level by June 2017. The forecast for oil prices by the end of 2016 is \$45.23, and as I write, the price is \$49. The unemployment rate as of June 2016 is forecast to be just under 4.9%. Home prices are expected to increase 4.24% through the end of this year with housing starts at 1.32 million. The average forecast probability of a recession in the next 12 months is just at one-chance-in-five, 19.6%. Finally, the majority, 52.8%, of forecasters see the Fed as raising the fed funds rate by July 2016; 84% see that as happening by September 2016. The group rates the "down-side risk," in other words the chance that the economy will perform worse than their current forecasts, at 63.3%.

Federal Housing Finance Agency (FHFA)

Wednesday, [FHFA House Price Index](#): In the 1st quarter of 2016, housing prices were up 1.3% from Q4 2015 and 5.7% from Q1 2015. On an annualized basis, the quarterly increase was 5.22%, and that was the lowest rate of increase since 2014.

National Association of Realtors

Thursday, [Pending Home Sales](#): in April 2016, pending home sales increased by 5.1% from March to reach the highest level since February 2006. The index was at 116.3 compared with 110.7 in March. Chief NAR Economist Lawrence Yun said, "The building momentum from the over 14 million jobs created since 2010 and the prospect of facing higher rents and mortgage rates down the road appear to be bringing more interested buyers into the market."

Census Bureau

Tuesday, [New Residential Sales](#): In April 2016, sales of new single-family houses were 16.6% higher than in March and 23.8% above those in April 2015. The median sales price was \$321,100, up from \$297,900 in March. This number is pretty volatile, but the jump indicates an increase in houses priced above \$300K. At the current sales rate, there is a 4.7-month supply of new houses available.

Thursday, [Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders](#): The advance report for April 2016 on manufacturing shows new orders up 3.4%, shipments up 0.6%, unfilled orders increased 0.6%, and inventories down 0.2%. The complete report will be out June 3.

Markit Economics

Monday, [Purchasing Managers' Index \(PMI\) Manufacturing Index Flash](#): The preliminary index for May 2016 is 50.5, down from 50.8 in April. Chris Williamson, chief Markit economist, offered the following comments: "The weak manufacturing PMI data cast doubt on the ability of the US economy to rebound from its disappointing start to the year in the second quarter. "The survey is signalling (sic) that manufacturing will act as a drag on economic growth in the second quarter, leaving the economy once again dependent on the service sector, and consumers in particular, to sustain growth."

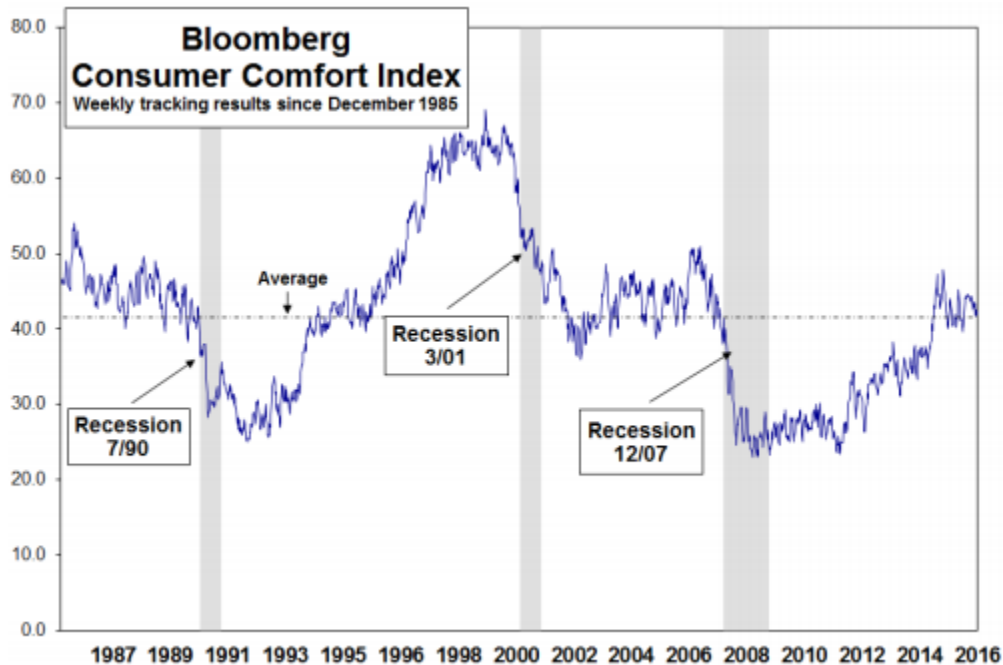
Wednesday, [Purchasing Managers' Index \(PMI\) Services Index Flash](#): The preliminary reading for this index in May 2016 is 51.2 compared with 52.8 in April. Chief Markit Economist Chris Williamson gives this assessment: "A deterioration in the survey data for May dealt a blow to hopes that the US economy will rebound in the second quarter after the dismal start to the year. Service sector growth has slowed in May to one of the weakest rates seen since 2009, and manufacturing is already in its steepest downturn since the recession."

US Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance in the week ending May 14 were 268,000, a decline of 10,000 from the previous week, and the four-week moving average was 278,500, up by 2,750. In the prior week ending May 7, two states reported increases of 1,000 or more new claims and three states, including Tennessee, reported decreases of 1,000 or more. Tennessee reported a decline of 1,561 in initial claims but offered no explanation.

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index is 42.0, down from 42.6 the week before and below the average of 43.5 for 2016. The chart below shows this index since 1987.



University of Michigan

Friday, [Consumer Sentiment Index](#): The final index number of May 2016 is 94.7. You may remember that the preliminary number was 95.0, so it dropped a bit at the end of the month. “Consumers were a bit less optimistic in late May than earlier in the month, but sentiment was still substantially higher than last month. Indeed, there have only been four prior months since the January 2007 peak in which the Sentiment Index was higher than in May 2016, all recorded at the start of 2015.”