

Economic Update, July 20, 2018  
Submitted by Bob Moreo

Summary: While the overall economic outlook remains steady and positive, a few sources of potential volatility bear watching in the coming weeks. Initial unemployment claims are at their lowest since December 6, 1969, and the Conference Board reports that its Leading Economic Index increased in June, “pointing to continuing solid growth in the U.S. economy.” According to the Federal Reserve’s summary of commentary on current economic conditions, retailers in Tennessee indicated that year-to-date sales have been above last year’s levels and that they expect this trend to continue through the rest of the year. However, the Federal Reserve also notes manufacturers’ widespread concern about tariffs and that in many parts of the country manufacturers “reported higher prices and supply disruptions.” And despite continued confidence in the housing market, reports released Wednesday show a sharp drop-off in new housing starts, [which hit a nine-month low](#). According to Michael Neal, senior economist at the National Association of Home Builders, [“the concern over material costs, especially lumber, is making it more difficult to build homes at competitive price points, particularly for newcomers entering the housing market.”](#)

Census Bureau

Monday, [Sales for Retail and Food Services](#): “Advance estimates of U.S. retail and food services sales for June 2018 . . . were \$506.8 billion, an increase of 0.5 percent from the previous month, and 6.6 percent above June 2017. Total sales for the April 2018 through June 2018 period were up 5.9 percent from the same period a year ago.”

Monday, [Manufacturing and Trade Inventories and Sales](#): “The combined value of distributive trade sales and manufacturers’ shipments for May . . . was estimated at \$1,449.7 billion, up 1.4 percent from April 2018 and up 8.6 percent from May 2017. Manufacturers’ and trade inventories . . . were estimated at an end-of-month level of \$1,936.9 billion, up 0.4 percent from April 2018 and up 4.4 percent from May 2017.”

Wednesday, [New Residential Construction](#): “Privately-owned housing units authorized by building permits in June were at a seasonally adjusted annual rate of 1,273,000 . . . 2.2 percent below the revised May rate of 1,301,000 and 3.0 percent below the June 2017 rate of 1,312,000. Single-family authorizations in June were at a rate of 850,000; this is 0.8 percent above the revised May figure of 843,000. Privately-owned housing starts in June were at a seasonally adjusted annual rate of 1,173,000 . . . 12.3 percent below the revised May estimate of 1,337,000 and 4.2 percent below the June 2017 rate of 1,225,000. Single-family housing starts in June were at a rate of 858,000; this is 9.1 percent below the revised May figure of 944,000.”

Bureau of Economic Analysis

Friday, [Gross Domestic Product by Industry](#): “Real estate and rental and leasing; information; and nondurable goods manufacturing were the leading contributors to the increase in U.S. economic growth in the first quarter of 2018. [Growth in] 14 of 22 industry groups contributed to the overall 2.0 percent increase in real GDP.”

Bureau of Labor Statistics

Tuesday, [Usual Weekly Earnings of Wage and Salary Workers](#): “Median weekly earnings of the nation’s 115.8 million full-time wage and salary workers were \$876 in the second quarter of 2018 (not seasonally adjusted). . . . This was 2.0 percent higher than a year earlier, compared with a gain of 2.7 percent in the Consumer Price Index for All Urban Consumers (CPI-U) over the same period.”

Thursday, [Productivity and Costs by Industry](#): “Labor productivity rose 2.7 percent in wholesale trade and 2.8 percent in retail trade, and declined by 2.2 percent in food services and drinking places in 2017. Unit labor costs, which reflect the total labor costs required to produce a unit of output, rose in food services and drinking places and fell in wholesale trade and retail trade. . . . When productivity gains outpace hourly compensation, unit labor costs decline.”

Friday, [State Employment and Unemployment](#): “Unemployment rates were lower in June in 9 states, higher in 3 states, and stable in 38 states and the District of Columbia. . . . Ten states had jobless rate decreases from a year earlier and 40 states and the District had little or no change.” With a gain of 13,000 jobs (+0.4 percent), Tennessee was one of five states with statistically significant employment changes from May 2018 to June 2018. “Over the year, 32 states [including Tennessee] added nonfarm payroll jobs and 18 states and the District were essentially unchanged.” Tennessee added 59,500 jobs from June 2017 to June 2018, a 2.0 percent increase.

Department of Labor

Thursday, [Initial Claims](#): “In the week ending July 14, the advance figure for seasonally adjusted initial claims was 207,000, a decrease of 8,000 from the previous week’s revised level. This is the lowest level for initial claims since December 6, 1969 when it was 202,000.”

National Association of Home Builders

Tuesday, [Housing Market Index](#): “Builder confidence in the market for newly-built single-family homes remained unchanged at a solid 68 reading in July. . . . ‘Consumer demand for single-family homes is holding strong this summer, buoyed by steady job growth, income gains and low unemployment in many parts of the country’ said NAHB Chairman Randy Noel.”

Federal Reserve

Tuesday, [Industrial Production and Capacity Utilization](#): “Industrial production rose 0.6 percent in June after declining 0.5 percent in May. For the second quarter as a whole, industrial production advanced at an annual rate of 6.0 percent, its third consecutive quarterly increase. Manufacturing output moved up 0.8 percent in June.

Wednesday, [The Beige Book](#): “Economic activity continued to expand across the United States, with 10 of the 12 Federal Reserve Districts reporting moderate or modest growth. . . . Manufacturers in all Districts expressed concern about tariffs and in many Districts reported higher prices and supply disruptions. . . . Consumer spending was up in all Districts. . . . Employment continued to rise at a modest to moderate pace in most Districts. Labor markets were described as tight, with most Districts reporting firms had difficulty finding qualified labor. . . . On balance, wage increases were modest to moderate. Prices increased in all Districts at a pace that was modest to moderate on average; reports showed upticks in inflation in several Districts.” For the Sixth District, including Middle and East Tennessee, “the overall outlook among businesses remains positive as most expect an increase in activity for the second half of the year.” In the Eighth District, covering West Tennessee, “firms reported modest increases in employment despite continued difficulties finding workers. Wages continued to increase modestly. . . . The consumer outlook in West Tennessee has improved since the first quarter, and households, on net, expect to increase spending in the next few months relative to a year ago. Retailers in Tennessee indicated that year-to-date sales have been above last year’s levels and expect this trend to continue through the rest of the year.”

## Mortgage Bankers Association

Wednesday, [Mortgage Applications](#): “Mortgage applications decreased 2.5 percent from one week earlier. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances (\$453,100 or less) increased to 4.77 percent from 4.76 percent. . . . The average contract interest rate for 30-year fixed-rate mortgages with jumbo loan balances (greater than \$453,100) decreased to 4.66 percent from 4.68 percent.”

## The Conference Board

Thursday, [Leading Economic Indicators \(LEI\)](#): The index for the “U.S. increased 0.5 percent in June to 109.8, following no change in May, and a 0.4 percent increase in April.” According to Ataman Ozyildirim, director of business cycles and growth research, “the widespread growth in leading indicators, with the exception of housing permits which declined once again, does not suggest any considerable growth slowdown in the short-term.”