Economic Update, July 28, 2017
Submitted by Reuben Kyle

Summary: It was a pretty busy week for economic news with a Federal Open Market Committee (FOMC) meeting, 2nd quarter GDP numbers for both the states and the entire U.S., all three consumer confidence surveys, housing market reports, and the monthly Wall Street Journal economic forecasting survey. The bottom line is that the U.S. economy continues to rock along with some signs of improvement ahead and some cautionary indicators.

Census Bureau

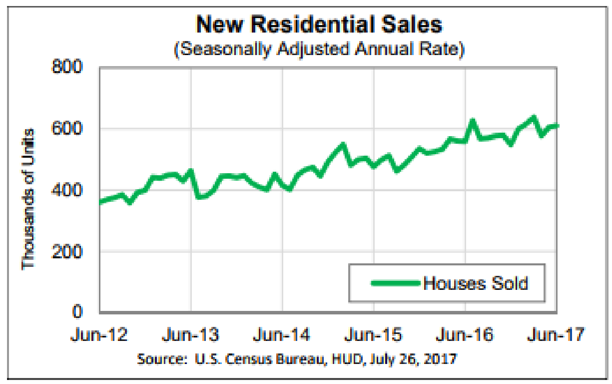
Wednesday, New Residential Sales: In June 2017, sales of new single-family houses rose by 0.8% from May and by 9.1% more than in June 2016. On a seasonally-adjusted annual basis, the sales rate was 610,000, up from 605,000. The current inventory of new houses is 272,000, and the present sales rate constitutes a 5.4-month supply. The graphic below gives more detail.

NEW RESIDENTIAL SALES JUNE 2017

New Houses Sold[1]:	610,000
New Houses For Sale[2]:	272,000
Median Sales Price:	$310,800

Next Release: August 23, 2017

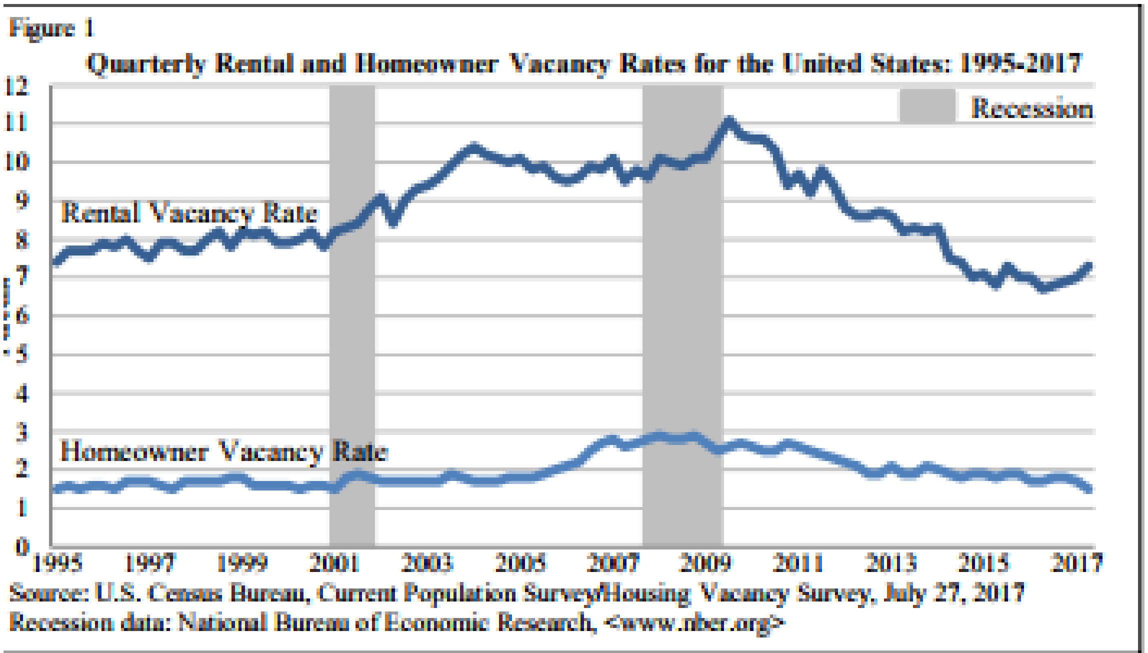
[1]Seasonally Adjusted Annual Rates
[2]Seasonally Adjusted
Source: U.S. Census Bureau, HUD, July 26, 2017



Thursday, Advance Economic Indicator Report (International Trade, Retail, and Wholesale Trade): In June 2017, U.S. exports increased by $1.8 billion over May, imports fell by $0.7, and the U.S. Balance of Trade deficit declined by $2.5 billion, or 3.7%. Wholesale inventories increased in June by 0.6% for the month and by 2.5% from June 2016. Retail inventories also rose in June by 0.6% for the month and by 3.4% year-over-year.

Thursday, Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders: June 2017 new orders for manufactured durable goods increased by 6.5% Transportation equipment prompted the increase, rising by 19.0%. Shipments fell by less than 0.1%, but the decline was also led by transportation equipment, which dropped 0.6%. Unfilled orders increased in June, up 1.3%. Again, transportation equipment led the increase with a jump of 1.7%.

Thursday, Housing Vacancies and Homeownership: In the 2nd quarter of 2017, the national vacancy rate for rental housing was 7.3%, and the vacancy rate for homeowner housing was 1.5%. Those figures compare with 6.7% in Q2 2016 for rental housing and 1.7% for homeowner housing. The homeownership rate was 63.7%, up 0.8 percentage points from a year earlier. The chart below shows the vacancy rates since 1995.



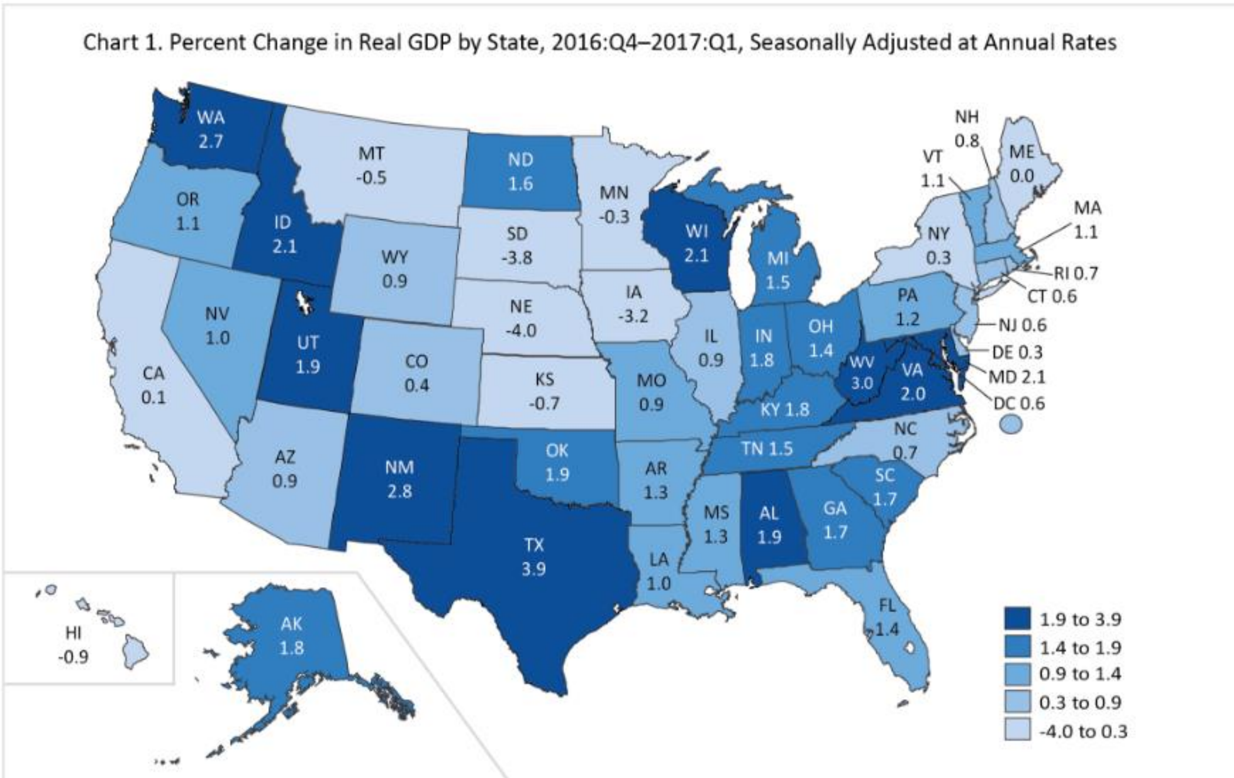
Bureau of Labor Statistics

Wednesday, [Quarterly Data Series on Business Employment Dynamics]: In the 4th quarter of 2016, 7.5 million jobs were created, down 185,000 from the previous quarter. Over Q4, job losses amounted to 7.1 million, resulting in a net gain of 376,000 jobs. Gross job gains exceeded gross job losses in 41 states. "Tennessee had the lowest rate of gross job losses as a percent of employment at 5.0 percent."

Friday, [Employment Cost Index]: In June 2017 and over the 2nd quarter of 2017, compensation costs for civilian workers increased by 0.5%, with wages and salaries, accounting for 70% of compensation, rising 0.5%, and benefits, the other 30% of compensation costs, up by 0.6%. Over the 12-month period June 2016 through June 2017, compensation costs rose by 2.4%. Private sector compensation costs were up by 2.4% over that same period while state and local government workers compensation increased by 2.6%. The difference in compensation between those two groups is in increases in benefits, 2.2% for the private sector and 3.2% for the public sector employees.

Bureau of Economic Analysis

Wednesday, [Gross Domestic Product by State]: In the 1st quarter of 2017, real U.S. GDP increased by 1.2% and real GDP increased in 43 states and the District of Columbia. Tennessee's GDP increased by 1.5%, which ranked in the fourth quintile. Texas had the highest rate at 3.9% and Nebraska had the lowest at -4.0%. The map below shows GDP growth in all 50 states.



U.S. Bureau of Economic Analysis

Friday, Gross Domestic Product, 2nd Quarter 2017 (advance estimate) and Annual Update: Second quarter real U.S. GDP increased by 2.6% compared with 1.2% in the 1st quarter. "The increase in real GDP in the second quarter reflected positive contributions from personal consumption expenditures (PCE), nonresidential fixed investment, exports, and federal government spending that were partly offset by negative contributions from private residential fixed investment, private inventory investment, and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased." Current-dollar GDP increased by 3.6%, with the price index for gross domestic purchases rising by 0.8%.

U.S. Department of Labor

Thursday, Initial Claims: New claims for unemployment insurance in the week ending July 22, 2017, increased by 10,000 to 244,000, and the four-week moving average was also unchanged at 244,000. In the previous week ending July 15, five states reported increases of 1,000 or more new claims, and 10 states plus Puerto Rico reported decreases of 1,000 or more. Tennessee reported a decrease of 537 initial claims from the prior week.

Board of Governors of the Federal Reserve

Tuesday, Meeting of the Federal Open Market Committee (FOMC)

Wednesday, FOMC Meeting Announcement: The FOMC voted to maintain the current fed funds target at 1%-1 1/4% and to continue reinvesting the payments from U.S. securities as they mature. "The Committee expects to begin implementing its balance sheet normalization program relatively soon."

The Conference Board

Tuesday, Consumer Confidence Index: In July 2017, this index rose from 117.3 to 121.1 (1985=100). Lynn Franco, Director of Economic Indicators at The Conference Board, stated: "Consumer confidence increased in July following a marginal decline in June…Consumers' assessment of current conditions remained at a 16-year high [147.8 compared to 151.3 in July 2001] and their expectations for the short-term outlook improved somewhat after cooling last month. Overall, consumers foresee the current economic expansion continuing well into the second half of this year."

Bloomberg.com

Thursday, Consumer Comfort Index: The latest index reading is 48.6, up from 47.6 the previous week. "The consumer comfort index has been unusually bumpy, rising 1 point in the July 23 week to a 48.6 level that is now safely above the 9-month low of 47.0 that was hit back in the July 9 week. Readings on consumer spirits all show optimism but have been mixed including this report and a falling consumer sentiment report that is offset by outstanding strength in the consumer confidence report."

University of Michigan

Friday, Consumer Sentiment Index: The final index reading for July 2017 is 93.4 compared with 95.1 in June. "Consumer confidence remained largely unchanged at the same favorable level recorded at mid-month. The overall Sentiment Index has declined by 5.1 Index-points since the January peak, which was the highest figure in a dozen years. The relatively small decline still left the Sentiment Index higher in the first seven months of 2017 than in any other year since 2004."

Markit Economics

Monday, Purchasing Managers' Index (PMI) Composite Flash: The preliminary composite PMI in July 2017 is 54.2, up from 53.9 in June. The headline on the report reads: "Sharpest expansion of US private sector output for six months in July." Chris Williamson, Chief IHS Markit Economics Economist, writes: "The July PMI surveys show an economy gaining growth momentum at the start of the third quarter, enjoying the strongest monthly improvement in business activity since January…The overall rate of expansion remains modest rather than impressive. The surveys are historically consistent with annualized GDP growth of approximately 2%, but the signs are that growth could accelerate further in coming months." The composite index incorporates the preliminary results from surveys of both manufacturing and service industry surveys.

National Association of Realtors

Monday, Existing Home Sales: In June 2017, the seasonally adjusted annual sale rate of all types of existing homes was 5.52 million units, down 1.8% from 5.62 million in May. This rate is 0.7% higher than a year ago but the second lowest rate in 2017. Lawrence Yun, Chief NAR Economist, states: "Closings were down in most of the country last month because interested buyers are being tripped up by supply that remains stuck at a meager level and price growth that's straining their budget…The demand for buying a home is as strong as it has been since before the Great Recession. Listings in the affordable price range continue to be scooped up rapidly, but the severe housing shortages inflicting many markets are keeping a large segment of would-be buyers on the sidelines."

Standard & Poor's

Tuesday, S&P Corelogic Case-Shiller House Price Index: In May 2017, the Case-Shiller U.S. National index rose by 5.6%, on an annual basis, matching the increase in April. In their 20-City Composite Index, the cities of Seattle, Portland, and Denver had the highest rates of year-over-year increase at 13.3%, 8.9%, and 7.97%, respectively. According to David M. Blitzer, Managing Director and Chairman of the Index Committee at S&P Dow Jones Indices: "Home prices continue to climb and outpace both inflation and wages…Housing is not repeating the bubble period of 2000-2006: price increases vary across the country unlike the earlier period when rising prices were almost universal; the number of homes sold annually is 20% less today than in the earlier period and the months' supply is declining, not surging. The small supply of homes for sale, at only about four months' worth, is one cause of rising prices. New home construction, higher than during the recession but still low, is another factor in rising prices."

Federal Housing Finance Agency (FHFA)

Tuesday, [FHFA House Price Index]: In May 2017, this index was up by 0.4% from April and by 6.9% since May 2016. The difference between these two housing price indexes is that the FHFA index is only for mortgages "sold to, or guaranteed by Fannie Mae and Freddie Mac." The Shiller-Case index "combines matched price pairs for thousands of individual houses from the available universe of arms-length sales data."

The Wall Street Journal

Monday. [Economic Forecasting Survey]: The July 2017 survey received responses from 62 of 76 individuals and organizations. Only the average projections or forecasts are given below. The graphics in the report provide more information on the range of responses to each measure. Second quarter GDP growth is predicted to be at a rate of 2.73%, dropping slightly to 2.56% in Q3 and 2.4% in Q4. The rate for calendar year 2017 is forecast to be 2.28%. The Consumer Price Index is forecast to be 1.8% by December 2017 and 2.2% by June 2018. With the current price of oil at $46.34, as I write, the December 2017 price is predicted to be $47.45, rising to $49.70 by June 2018. The unemployment rate, currently at 4.4%, is forecast to be 4.3% in December of this year and 4.2% by June of next year. Average monthly payroll growth is expected to be 162,371 for the year. The rate of increase in house prices is predicted to moderate for the year, from 5.3% to 4.4%, with housing starts rising from 1.24 million to 1.32 million. The probability of a recession in the next 12-month period is about one-chance-in seven, with 57% of respondents seeing a downside risk for their GDP growth rate forecast. More than 60% of respondents expect the Fed to begin shrinking their security holdings in September and more than 80% see that happening by December 2017. (That decision could prompt an increase in long-term interest rates.) Finally, only 3.2% of respondents expect an increase in the fed funds rate in this week's FOMC meeting, but nearly all expect an increase by the end of 2017.

The New York Times

Tuesday, [Economy Needs Workers, But Drug Tests Take a Toll]: Here is very disturbing but hopeful story. As we have been reading for some time, there are jobs available but not enough workers to fill them. One big reason is the use of drugs. A very important point made by one of those interviewed for this story stated: "I've heard kids say pot isn't a drug. It may not be, but pot will prevent you from getting a job."