

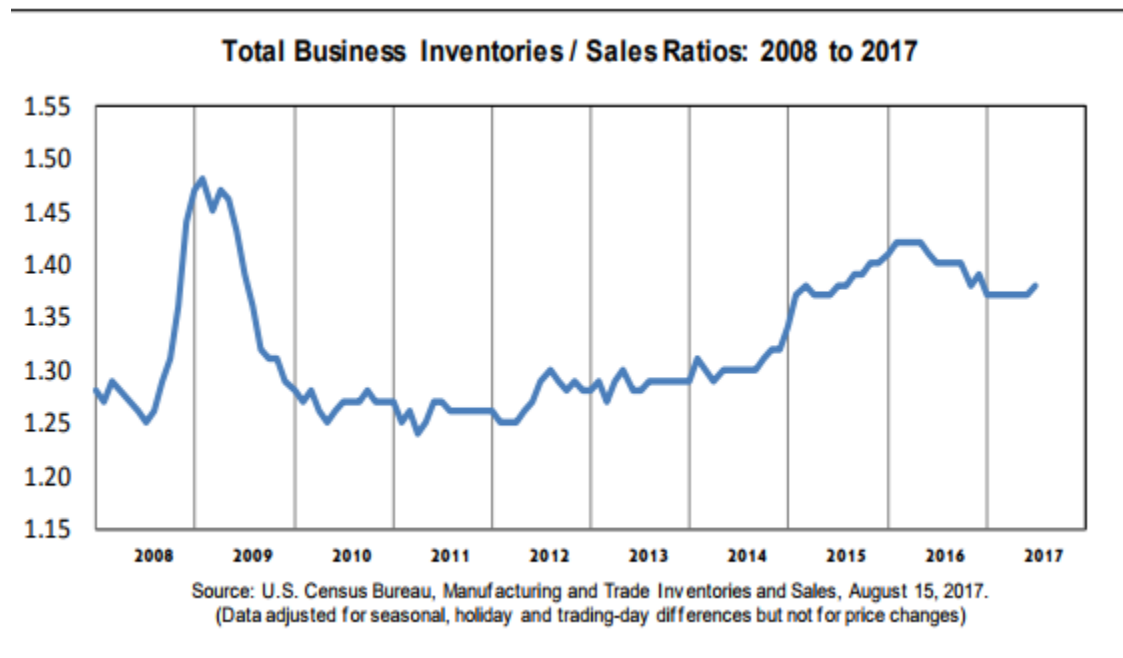
Economic Update, August 18, 2017
Submitted by Reuben Kyle

Summary: The economic news of the week was mixed but largely positive. On the downside, construction and housing continues to be quite volatile with housing numbers down in July, which showed up in the construction labor numbers. Despite that, the home builders' confidence index was up. Other labor market indicators, such as summer youth employment, initial claims, and Tennessee's state unemployment rate, were all strong. Manufacturing statistics continue to move up though not rapidly. Consumer confidence measures also continue to be positive. This week, I included an interesting story about the geographic location of industrial robots. Tennessee comes off as a major user of industrial robots, and given the importance of the motor vehicle and parts sector in our economy, that should come as no surprise.

Census Bureau

Tuesday, [Advance Monthly Sales for Retail and Food Services](#): Preliminary estimates of July 2017 sales by retail and food service providers were 0.6% higher than in June and 4.2% higher than in July 2016. Retail sales alone rose by 0.6% while non-store retail sales were up by 11.5% year-over-year.

Tuesday, [Manufacturing and Trade, Inventories and Sales](#): In June 2017, the combined sales of distributive trade and shipments by manufacturers gained 0.3% from May and by 4.3% from June 2016. Inventories increased by 0.5% while the inventory/sales ratio was 1.38, up a tick from 1.37 in May but down slightly from the 1.40 of June 2016. Below is a graph of the inventory/sales ratio since 2008.



Wednesday, [New Residential Construction](#): In July 2017, the number of building permits issued declined by 4.1% from June, but it is 4.1% higher than in July 2016. Housing starts fell by 4.8% from June and 5.6% below that in July 2016. Housing completions were also down by 6.2% from June but were 8.2% above the number in July of last year.

Friday, [Advance Quarterly Services Report](#): In the 2nd quarter of 2017, sales revenues for a selected group of services industries were up by 3.2% from the 1st quarter and by 6.2% from Q2 2016. Among those industries included were "Utilities", which were down by 7.7% from Q1; "Transportation

and Warehousing,” up by 8.2%; “Real Estate and Rental and Leasing,” 9.2% higher than in Q1; and “Arts, Entertainment, and Recreation,” up by 13.5%.

Bureau of Labor Statistics

Tuesday, [U.S. Import and Export Price Indexes](#): In July 2017, the Import Price Index rose by 0.1%, prompted by a 0.5% rise in fuel prices. Since July 2016, this index is up by 1.5%, also led by an 8.9% increase in the fuel index. Nonfuel import prices fell by 0.1% in July and have risen by 0.7% since July 2016. For the month, the export price index increased by 0.4%, led by a 2.1% rise in agricultural prices. Year-over-year, the export index is up by 0.8% with the agricultural index falling by 1.4%.

Wednesday, [Summer Youth Labor Force](#): In July 2017, 2.9 million people aged 16 to 24 were employed. That number is up by 1.9 million from April. The labor force participation rate for this age cohort was 60.6% in July, “little different from a year earlier.” The youth unemployment rate was 9.6% or 1.9 percentage points lower than in 2016.

Friday, [State Employment and Unemployment](#): In July 2017, unemployment rates rose in three states, fell in one state, and were “stable” in 46 states and the District of Columbia. North Dakota had the lowest unemployment rate at 2.2% and Alaska had the highest rate at 7.0%. [Tennessee’s](#) rate fell to 3.4%, the lowest unemployment on record for the state and down from 3.6% in June and 4.8% in July 2016. Total nonfarm employment rose in 11 states plus the District of Columbia. Tennessee added 4,700 jobs in July, though construction and manufacturing lost jobs, offsetting gains in leisure and hospitality and professional and business services. Since July 2016, Tennessee employment has increased by 49,100 jobs.

U.S. Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance for the week ending August 12, 2017, fell by 12,000 to 232,000, and the four-week moving average dropped 500 to 240,500. The previous week, ending August 5, four states reported increases of 1,000 or more initial claims and two states reported decreases of 1,000 or more. Tennessee reported a decrease of 225 new claims.

Board of Governors of the Federal Reserve

Wednesday, [Minutes of the Federal Open Market Committee \(FOMC\) Meeting](#), July 25-26, 2017: The minutes begin with reviews of the current financial and economic situation by both the staff and participants in the meeting. The general consensus was that GDP growth and labor markets had stabilized. There was considerable discussion about the inflation rate. “Still, most participants indicated that they expected inflation to pick up over the next couple of years from its current low level and to stabilize around the Committee’s 2 percent objective over the medium term. Many participants, however, saw some likelihood that inflation might remain below 2 percent for longer than they currently expected, and several indicated that the risks to the inflation outlook could be tilted to the downside.” Most participants preferred to defer any decision about reducing the Fed’s security holdings “until an upcoming meeting.” The policy decision was to maintain the fed funds target at between 1% and 1^{1/4}% and to continue rollover of maturing Treasury securities for the time being.

Thursday, [Industrial Production](#): In the month of July 2017, industrial production increased by 0.2%, and year-over year, it has risen by 2.2%. Construction production fell by 0.4% for the month, and manufacturing declined by 0.1%. Capacity utilization was unchanged from June at 76.7%. For the previous 12-month period, it has increased from 75.9, or 0.7 percentage points. The latest capacity utilization figure is 3.2 percentage points below the average of 79.9% for the period 1979-2016.

The Conference Board

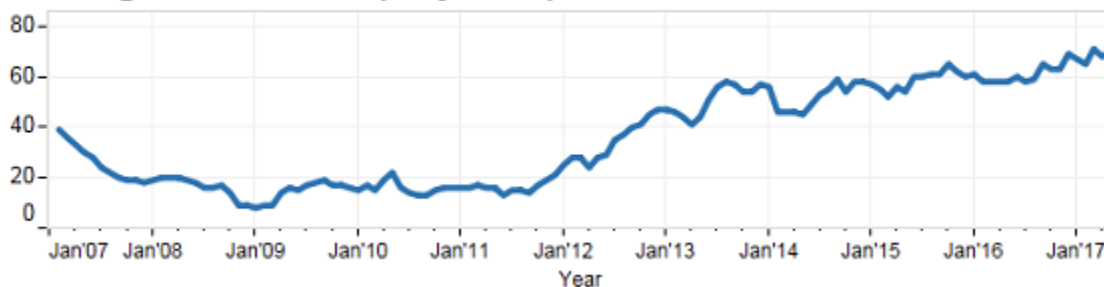
Thursday, [Leading Economic Indicators \(LEI\)](#): In July 2017, the LEI rose by 0.3% to 128.3 (2010 = 100). “The U.S. LEI improved in July, suggesting the U.S. economy may experience further improvements

in economic activity in the second half of the year,” said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. “The large negative contribution from housing permits, a reversal from June, was more than offset by gains in the financial indicators, new orders and sentiment.” The Coincident Economic Index also rose by 0.3% to 115.7 (2010 = 100).

National Association of Home Builders

Tuesday, [Housing Market Index](#): In August 2017, the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) increased from 60 to 64. Chief NAHB Economist Robert Dietz wrote: “The fact that builder confidence has returned to the healthy levels we saw this spring is consistent with our forecast for a gradual strengthening in the housing market...GDP growth improved in the second quarter, which helped sustain housing demand. However, builders continue to face supply-side challenges, such as lot and labor shortages and rising building material costs.” The graph below shows this index since January 2007, which was about the peak of the pre-recession housing market.

Housing Market Index (May 2017)



Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading is 51.2 compared with 51.4 the previous week.

The University of Michigan

Friday, [Consumer Sentiment Survey](#): The mid-month index for August 2017 reads 97.6 compared to the final July reading of 93.4. Richard Curtin, Chief Economist for Surveys of Consumers, stated: “Consumer confidence rose in the first half of August to its highest level since January due to a more positive outlook for the overall economy as well as more favorable personal financial prospects. The two component indices moved in opposite directions, with the Current Conditions Index falling slightly from its decade peak, and the Expectations Index posting a more substantial rebound.”

The Brookings Institution

Wednesday, [Where the Robots Are](#): Here is a very interesting story about the distribution of industrial robots around the U.S. Tennessee ranks high in the list of industrial robots in place. A map showing the geographic distribution has a large circle in middle Tennessee and several smaller ones across the state. Among the largest 100 MSAs, the Nashville-Davidson-Murfreesboro-Franklin ranks fifth in the country with nearly 4,000 robots in 2015 at a rate of 4.8 per thousand workers. Knoxville ranked 10th with more than 1,200 and 3.7 robots per thousand workers. Among all MSAs, Morristown, Tennessee ranked fifth with 13.3 robots per thousand workers. In 253 metro areas, robots numbered fewer than two per thousand workers.