

Economic Update, August 19, 2016  
Submitted by Reuben Kyle

Summary: It was another week of largely positive economic news: housing starts rose as did industrial production, real earnings, and the Leading Economic Indicators. Electronic commerce continues to grow much faster than total retail sales. The Consumer Price Index was flat and initial claims fell.

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

Monday (Actually Friday): Dr. R starts this report with his take on the weak economic growth of the past decade. There is too much to recount here but I recommend reading his arguments. His forecasts for the week – seen in the table at the beginning of the report – we pretty much spot on this time. He mentions a forecast for 3<sup>rd</sup> quarter GDP growth but doesn't give a number yet while suggesting it will be above 3%. He also gives his assessment of inflationary pressures, some of which tend to push the rate up, but his final conclusion is that the pressures – up and down – neutralize each other but with a “very slight tilt toward some increased inflation a few months ahead.”

Census Bureau

Tuesday, [New Residential Construction](#): In July 2016, The number of building permits issued was down by 0.1% from June but 0.9% higher than in July 2015. Housing starts increased by 2.1% from the previous month and by 5.6% from a year earlier. Housing completions fell by 8.3% from June but were 3.2% above those of July 2015.

Tuesday, [Quarterly E-Commerce Sales](#): In the 2<sup>nd</sup> quarter of 2016, E-commerce sales increased by 4.5% from Q1. Total retail sales rose by 1.5% from Q1. Year-over-year E-commerce sales in Q2 were 15.8% higher while total retail sales rose by 2.1%. On a seasonally adjusted basis, E-commerce sales increased as a percentage of total retail sales each quarter from 7.1% in Q2 2015 to 8.1% in Q2 2016.

Bureau of Labor Statistics

Tuesday, [Consumer Price Index](#): In July 2016, the All-Urban Consumers Price Index was unchanged from June. Excluding food and energy the index rose by 0.1%. Over the previous 12-month period the total index has risen by 0.8% and excluding food and energy the index was up by 2.2%. The index for all gasoline has fallen by 19.9% while the index for food has risen by 0.2% over the previous 12 months.

Tuesday, [Real Earnings](#): Based on an increase of 0.3% in average hourly earnings in July 2016 combined with no change in the CPI inflation-adjusted average hourly earnings increased by 0.4%. For production and nonsupervisory workers' real average hourly earnings rose by 0.3% as their average hourly earnings increased by 0.3% and the Consumer Price Index for Urban Wage Earners and Clerical Workers was up by 0.1%.

Wednesday, [Summer Youth Labor Force](#): In the summer – April to July – of 2016, the number of persons 16 to 24 years of age increased by 600,000, from 1.9 million to 2.5 million. The number employed in July 2016 was about 130,000 higher than in July 2015 and the unemployment rate among this age cohort fell from 12.2% to 11.5% over the year. “In July 2016, the largest percentage of employed youth worked in the leisure and hospitality industry (25 percent), which includes food services. An additional 18 percent of employed youth worked in the retail trade industry, and 13 percent worked in education and health services.

Friday, [Regional and State Employment and Unemployment](#): In July 2016, unemployment rates increased significantly in seven states, fell significantly in three, and were unchanged in 40 states plus the District of Columbia. [Tennessee's](#) unemployment rate rose from 4.1% to 4.3%, but that change was not statistically significant. From July 2015 to July 2016, Tennessee's unemployment rate declined a significant 1.3 percentage points from 5.3% to 4.3%. “Nonfarm payroll employment increased in 15

states in July 2016, decreased in Kansas, and was essentially unchanged in 34 states and the District of Columbia. Over the year, 34 states added nonfarm payroll jobs, North Dakota and Wyoming lost jobs, and 14 states and the District were essentially unchanged.” Tennessee added 4,800 jobs in July from June and 58,600 jobs since July 2015. From June construction gained 2,600 new jobs, government added 1,800 but manufacturing lost 900 jobs. Year-over-year, construction has gained 5,700 jobs, government 600, and manufacturing employment increased by 10,000.

#### U.S. Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance in the week ending August 13, 2016 dropped by 4,000 to 262,000 and the four-week moving average rose by 2,500 to 265,250. In the prior week ending August 6, two states plus Puerto Rico reported increases of 1,000 or more initial claims and one state reported a decrease of 1,000 or more. Tennessee reported an increase of 177 new claims.

#### Board of Governors of the Federal Reserve

Tuesday, [Industrial Production](#): In July 2016, industrial production increased by 0.7%, the largest increase since November 2014, and that follows the 0.4% increase in June. Construction production increased by 0.4% and manufacturing production was up by 0.5%. Capacity utilization increased by 0.5 percentage points to 75.9 compared with 80.0% for the period 1972-2015.

Wednesday, [Minutes of the Federal Open Market Committee \(FOMC\) Meeting](#): These are the minutes of the July 26-27, 2016 meeting of the FOMC. As usual the minutes begin with reports from the staff on economic conditions, financial conditions, and an economic outlook. The conclusions were that the economy had slowed somewhat and that the prospects are for slower growth the rest of the year compared to earlier forecasts. Next come the assessments of the committee participants. They viewed the situation in labor markets as “participants judged that labor market conditions were at or approaching those consistent with maximum employment...” Inflation measures continue to indicate a rate below the targeted 2% but their expectations are that the inflation rate should rise to that target gradually. There was considerable discussion about the strength of the labor market with some expressing concern that might impact a decision to raise the fed funds rate. A second matter of concern was the uncertainty raised by the UK voted to leave the European Union. They concluded that there was a need to monitor the situation closely. The policy decision was to leave the target for the fed funds rate at its current  $\frac{1}{4}\%$  to  $\frac{1}{2}\%$ . The vote was nine for maintaining the existing policy and one dissenting vote in favor of raising the fed funds rate by 1/4 percentage point. If you want to watch Chair Janet Yellen’s press conference you can click [here](#).

#### The Conference Board

Thursday, [Leading Economic Indicators \(LEI\)](#): In July 2016, the LEI increased by 0.4% to 124.3 (2010 = 100). “The U.S. LEI picked up again in July, suggesting moderate economic growth should continue through the end of 2016,” said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. “There may even be some moderate upside growth potential if recent improvements in manufacturing and construction are sustained, and average consumer expectations don’t deteriorate further.” The Coincident Economic Index also increased by 0.4%. The chart below shows both the Leading and Coincident indicators since 1999.

