Economic Update, July 1, 2016

Submitted by Reuben Kyle

Summary: The economic news is still dominated by the uncertainty created by the UK vote to leave the European Union. Today several economic surveys were released but they were taken before the vote. As a result the responses are now in question. The Institute for Supply Management, the organization doing the old Purchasing Managers' Index, did provide a last minute survey of its members as to the effect on their businesses. There was some good news in the latest estimate of Q1 GDP growth revised up to 1.1%, an improvement in the Consumer Confidence Index, and a better outlook for manufacturing.

Dr. Ratajczak's Weekly Commentary

Monday: As you might expect Dr. R begins with his take on the UK vote to leave the EU. His contention is that for the US economy the biggest impact will be on the dollar. The rise in the its value in international exchange—a result international investors seeking a "safe" harbor, a price we pay for a relatively strong, stable economy—will hurt US exports and cut GDP growth by ¾ percentage points in the second half of 2016 and 2017. By the way, he notes that the other safe harbor for currency is the Japanese yen and he predicts that a stronger yen will push the Japanese economy into recession. The longer-term risk is the prospect of a breakup of the EU and the end of the Euro. In the immediate future for the US his forecast for Q2 GDP growth is 2.6% and he is optimistic about the June jobs report.

Census Bureau

Friday, Construction Spending: In May 2016, construction spending was 0.8% below the level of April but 2.8% higher than in May 2015. Private spending was down by 0.3% while public construction spending was 2.3% lower than in April. Private residential spending was unchanged for the month, public educational spending fell by 5.4% and highway spending was down by 0.2%.

Bureau of Labor Statistics

Wednesday, Metropolitan Area Employment and Unemployment: In May 2016, unemployment rates were lower in 333 of 387 Metropolitan Statistical Areas (MSAs) compared with May 2015, the rates were higher in 49, and unchanged in five. The lowest unemployment rate of 2.1% was shared by Ames, Iowa; Burlington, Vermont; and Sioux Falls, South Dakota. The highest rate of 20.9% was in Yuma, Arizona. Over the previous 12-month period, total nonfarm employment increased in 311 MSAs, decreased in 70, and was unchanged in six. Among the 10 Tennessee MSAs, four had lower unemployment rates from April to May, four had higher rates, and two had unchanged rates. However, all 10 had lower unemployment rates than in May 2015. The Cleveland and Knoxville MSAs had the largest percentage point decline, two percentage points. From April to May 2016, six of the 10 Tennessee MSAs gained employment, three lost jobs, and total nonfarm employment in one did not changed. Year-over-year all 10 added jobs with Cleveland gaining the most in percentage terms followed by Memphis.

Bureau of Economic Analysis

Tuesday, Gross Domestic Product, 1st Quarter 2016 (3rd Estimate): The third estimate of the 1st quarter 2016 GDP growth rate is 1.1% up from the 0.8% in the second estimate and 0.5% in the advance. "The increase in real GDP in the first quarter reflected positive contributions from personal consumption expenditures (PCE), residential fixed investment, state and local government spending, and exports that were partly offset by negative contributions from nonresidential fixed investment, private inventory investment, and federal government spending. Imports, which are a subtraction in the calculation of

GDP, decreased…The deceleration in real GDP in the first quarter primarily reflected a deceleration in PCE, a larger decrease in nonresidential fixed investment, and a downturn in federal government spending that were partly offset by upturns in state and local government spending and exports and an acceleration in residential fixed investment."

Tuesday, Corporate Profits, 1st Quarter 2016: Corporate profits increased by $34.7 billion in the 1st quarter of 2016 after a $159.6 billion decrease in Q4 2015.

Wednesday, Personal Income and Outlays, May 2016: Personal income and disposable personal income (DPI) increased in May 2016 by 0.2%. When adjusted for inflation DPI increased by 0.1%. Real Personal Consumption Expenditures increased by 0.3%. All of these numbers were lower than in April.

U.S. Department of Labor

Thursday, Initial Claims: In the week ending June 25, 2016 new claims for unemployment insurance increased by 10,000 to 268,000 and the four-week moving average was unchanged at 266,750. The previous week ending June 18, three states reported increases of 1,000 or more initial claims and seven states reported decreases of 1,000 or more. Tennessee reported a decrease of 866 new claims.

The Conference Board

Tuesday, Consumer Confidence Index: The June 2016 index is 98.0 compared with 92.4 in May. "'Consumer confidence rebounded in June, after declining in May,' said Lynn Franco, Director of Economic Indicators at The Conference Board. 'Consumers were less negative about current business and labor market conditions, but only moderately more positive, suggesting no deterioration in economic conditions, but no strengthening either. Expectations regarding business and labor market conditions, as well as personal income prospects, improved moderately. Overall, consumers remain cautiously optimistic about economic growth in the short-term.'" (Wonder how that would look after BREXIT!)

Bloomberg.com

Thursday, Consumer Comfort Index: The latest index was 43.9 down from 44.2 the prior week. This latest reading is above the average of 43.5 for 2016 as well as the average of 41.7 since December 1985. "At 43.9 on its 0-100 scale, the CCI is not substantively different from last week – its highest since March – or its 2016 average, 43.5. It's held within a relatively narrow 2.9-point band for 28 weeks straight, though on the high side now after a healthy 2.1- point gain last week."

Institute for Supply Management

Friday, June 2016 ISM Manufacturing Index Report on Business: The June 2016 Purchasing Managers' Index was 53.2% up by 1.9 percentage points from May. However, that survey was done before the UK vote to leave the EU. As a result, ISM surveyed its members to see their reaction and the expected impact on their businesses. The table below gives the results of that survey.

For the remainder of 2016, due to Brexit, what do you expect to be the net financial impact on your organization?			
	Composite	Manufacturing	Non-Manufacturing
Negative impact	6%	7%	6%
Slightly negative impact	27%	31%	26%
Negligible impact	61%	58%	61%
Slightly positive impact	4%	4%	4%
Positive impact	2%	0%	2%

There is much more detail to this report and will leave it to you readers to dig that out for yourselves. Needless to say, at this early stage it very much remains to be seen what the actual impacts will be.

Markit Economics

Monday, Purchasing Managers' Index (PMI) Services Index Flash: The preliminary index for June 2016 is 51.3, unchanged from May. Chris Williamson, Chief Markit Economist, stated: “The survey data indicate that any rebound in the economy from the weak first quarter was largely confined to April, and that growth has since faded again. The June PMIs, which provide the first insight into national business activity in the second quarter, suggest the underlying rate of growth in the economy is only a meagre 1%."

Friday, PMI Manufacturing Index: The final June 2016 report gives the index at 51.3 compared with the 51.4 in the flash index reported last week and the 50.7 in the final May report. Chris Williamson, Chief Markit Economist, wrote “Although the manufacturing PMI ticked higher in June, the latest reading rounds off the worst quarter for goods producers for six years." Unlike the ISM Markit did not provide a special BREXIT addendum.

Autodata.com

Friday, Motor Vehicle Sales: The June 2016 U.S. motor vehicle seasonally-adjusted annual sales rate was 16.7 million compared with 17.45 million in May and the second lowest rate this year. Among the Tennessee assemblers, General Motors car sales were 1.3% lower than in June 2015 and year-to-date sales were 9.1% lower than a year earlier. Nissan car sales were up by 9% from June 2015 and 4.8% higher year-to-date. Volkswagen continues its difficulties with monthly sales 21.8% lower from June to June and 14.6% below the year-to-date sales for 2016 compared to 2015.

National Association of Realtors

Wednesday, Pending Home Sales: The Pending Home Sales Index in May 2016 was at 110.8 down from 115 in April. According to Lawrence Yun, Chief NAR Economist "pending sales slumped in May across most of the country. 'With demand holding firm this spring and homes selling even faster than a year ago, the notable increase in closings in recent months took a dent out of what was available for sale in May and ultimately dragged down contract activity…Realtors are acknowledging with increasing frequency lately that buyers continue to be frustrated by the tense competition and lack of affordable homes for sale in their market.'"

Standard & Poors'

Tuesday, S&P Case-Shiller Home Price Index: The latest index, for April 2016, shows the National Home Price Index up by 5.0% on an annual basis. That compares with the annual rate of 5.1% in March. Both the 10-City and 20-City index also declined by 0.1 percentage points from March to April. David Blitzer of S&P Dow Jones, stated; "The housing sector continues to turn in a strong price performance with the S&P/Case-Shiller National Index rising at a 5% or greater annual rate for six consecutive months…Last week's vote by Great Britain to leave the European Union is the most recent political concern while the U.S. elections in the fall raise uncertainty and will distract home buyers and investors in the coming months. The details in the S&P/Case-Shiller Home Price data also hint at possible softness. "

The Wall Street Journal

Monday, Economists React to 'Brexit': A Wave of Economic and Political Uncertainty: Here are some early observations about the impact of the UK departure from the EU. We will look for more later in the week.

Friday, Economic Forecasting Survey: In the June 2016 survey of 78 economic forecasters, 65 submitted responses. Their average forecast for 2nd quarter GDP growth is 2.4%, the same in Q3, and rising to 2.5% in the 4th quarter. The average forecast for the CPI in June is 1.2% and 1.8% in December 2016. They have oil prices at $50.21 by the end of December and $53 in June 2017. The average forecast for the unemployment rate in June is 4.8% and 4.7% in December of this year. Their average for monthly employment gains is 155,000. The average forecast for the increase in house prices is 4.1% by January 2017 with housing starts at 1.33 million by year's end. The predicted probability of a recession in the next 12 months is one-chance-in five (20%). Slightly more than half of the forecasters were predicting an increase in the fed funds rate in June and an additional 30% predicting one in September. This survey was taken before the UK vote but the forecasters were asked their predictions on the impact of a vote to leave on the U.S. economy. Nearly 50% said that financial markets would be negatively affected but not the economy. About one-third indicated that a leave vote would have a slightly negative impact on the U.S. economy and a small, 5%, number said it would have a "substantial negative effect."

The New York Times

Friday, Taking Refuge in Dollar Could Expose World Economy to New Perils: This article discusses the immediate impact of the BREXIT vote on world currencies. At the time this article was written the dollar had gained "nearly 3% compared with a broad basket of currencies," about 2.5% against the Euro, and about 12% against the pound. World stock markets seem to have regained their balance since the end of last week but are still down somewhat from earlier in the year. The danger in the currency appreciation of the dollar is that it, once again, raises the prices of U.S. exports something that has weighed the economy down for more than a year before this latest event.