Economic Update, October 28, 2016
Submitted by Reuben Kyle

Summary: Actually, it was a pretty good week for economic news. The 3rd quarter GDP growth was slightly better than expected, manufacturing seems to be perking up, the housing markets are strong, and initial claims continue at very low levels. The only downer is consumer confidence.

Dr. Ratajczak's Weekly Commentary

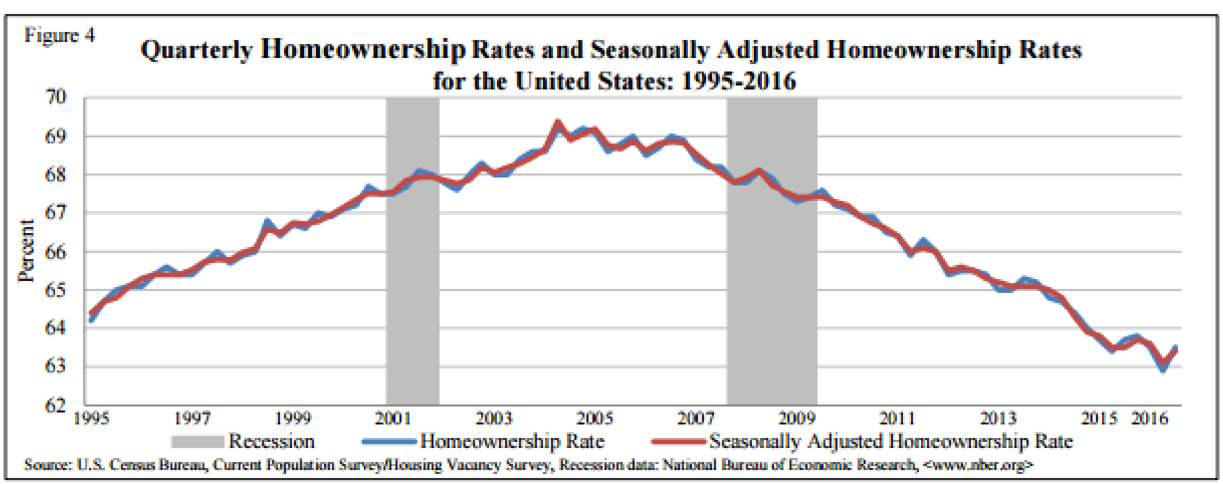
Monday: Starting with Dr. R's summary table of economic indicators, his forecast/prediction of Friday's 3rd quarter GDP growth is 2.2%. At one point his forecast was over 3.0%. His analysis starts with an examination of the U.S. economic doldrums and he lists a number of reasons why it is not due to the lack of capacity. Those include healthy corporate and household balance sheets. His conclusion is the deterrent is uncertainty, some of which can be attributed to the election. He sees inflation still below the Fed's 2% target but trending up. Finally, his take on the Fed raising interest rates: he says that they will lose "any remaining credibility" if they don't raise the fed funds rate in December. He projects two one-quarter percent rate increases in 2017 and again in 2018.

Census Bureau

Wednesday, New Residential Sales: In September 2016, sales of new single-family houses were up by 3.1% from August and 29.8% higher than in September 2015. The median sales price of these houses was $313,500 compared with $293,800 in August. At the current sales rate, there is a 4.8-month supply of houses available.

Thursday, Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders: The initial September 2016 report on durable goods manufacturing presents a mixed picture. New orders for durable goods declined by 0.1%, but excluding transportation equipment, those orders increased by 0.2%, and excluding defense, they were up by 0.7%. Shipments increased by 0.8%, led by transportation equipment for which shipments rose by 2.3%. Unfilled orders declined by 0.4% while inventories increased by 0.1%. In the case of nondefense capital goods, new orders, shipments, and inventories all increased while unfilled orders declined. For defense capital goods, new orders fell by 7.7%, shipments and unfilled orders both increased, and inventories decreased.

Thursday, Housing Vacancies and Homeownership: In the 3rd quarter of 2016, the rental vacancy rate was 6.8%, up a tick from 6.7% in the 2nd quarter, and the homeowner vacancy rate was 1.8%, also up by 0.1 percentage point from the previous quarter. The homeownership rate increased in the 3rd quarter from 62.9% to 63.5%. The chart below shows the homeownership rate since 1995.

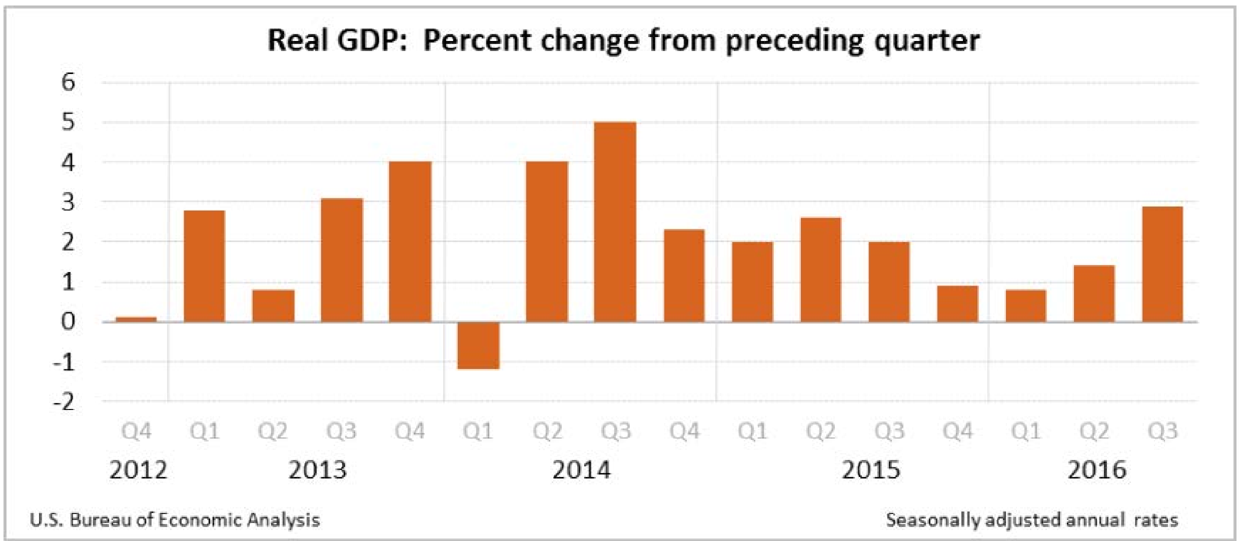


Bureau of Labor Statistics

Friday, Employment Cost Index: In the 3rd quarter of 2016, ending in September, compensation costs and wages and salaries plus benefits for civilian workers increased by 0.6%. Over the period September 2015 through September 2016, compensation costs increased by 2.3%. In the case of state and local government workers, the increase was 2.6% over the previous 12-month period.

Bureau of Economic Analysis

Friday, Gross Domestic Product, 3rd Quarter (Advance Estimate): The first estimate of 3rd quarter 2016 GDP growth is 2.9%. "The increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures (PCE), exports, private inventory investment, federal government spending, and nonresidential fixed investment that were partly offset by negative contributions from residential fixed investment and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased." The graph below shows the quarterly GDP growth rates since 2012. The second estimate will be released on November 29, 2016.



U.S. Department of Labor

Thursday, Initial Claims: In the week ending October 22, 2016, new claims for unemployment insurance fell by 3,000 to 258,000, and the four-week moving average rose by 1,000 to 253,000. The four-week moving average of the number of insured unemployed declined by 6,250 to 2,051,250, the lowest level since July 1, 2000. In the previous week ending October 15, six states reported increases of 1,000 or more initial claims, and five states reported decreases of 1,000 or more. Tennessee reported a decrease of 28 new claims.

Federal Housing Finance Agency (FHFA)

Tuesday, FHFA House Price Index: In August 2016, this index rose by 0.7% from July and by 6.4% between August 2015 and August 2016. The 12-month change in the East South Central region, which includes Tennessee, was 6.5%. "The FHFA monthly HPI is calculated using home sales price information from mortgages sold to, or guaranteed by, Fannie Mae and Freddie Mac."

Standard & Poor's

Tuesday, S&P Corelogic Case-Shiller House Price Index: The August 2016 National Home Price Index was up by 0.5% for the month and by 5.3%, on an annual basis. The National index is "constructed to accurately track the price path of typical single-family homes located in each metropolitan area provided. Each index combines matched price pairs for thousands of individual houses from the available universe of arms-length sales data. The S&P CoreLogic Case-Shiller U.S. National Home Price Index tracks the value of single-family housing within the United States. The index is a composite of single family home price indices for the nine U.S. Census divisions and is calculated quarterly." "Case-Shiller data, unlike FHFA data, are averaged over three months and are also value-weighted which puts greater emphasis on higher priced homes."

National Association of Realtors

Thursday, Pending Home Sales: In September 2016, the Pending Home Sales Index rose by 1.5% to 110.0 and now stands at 2.4% higher than in September 2015. "Lawrence Yun, NAR chief economist, says a robust increase in the West and a healthy bump in the South pushed pending sales upward in September. 'Buyer demand is holding up impressively well this fall with Realtors® reporting much stronger foot traffic compared to a year ago…Although depressed inventory levels are keeping home prices elevated in most of the country, steady job gains and growing evidence that wages are finally starting to tick up are encouraging more households to consider buying a home."

The Conference Board

Tuesday, Consumer Confidence Index: In October 2016, the index fell from 103.5 in September to 98.6 (2010=100). "Consumer confidence retreated in October, after back-to-back monthly gains," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of current business and employment conditions softened, while optimism regarding the short-term outlook retreated somewhat. However, consumers' expectations regarding their income prospects in the coming months were relatively unchanged. Overall, sentiment is that the economy will continue to expand in the near-term, but at a moderate pace."

Bloomberg.com

Thursday, Consumer Comfort Index: The latest index stands at 43.9, rebounding from 41.3 the previous week. "Leading the rise is a strikingly more positive view of the U.S. economy, long the laggard of the three CCI gauges, posting one of its largest one-week gains on record. The outlook on personal finances and the buying climate brightened as well."

University of Michigan

Friday, Consumer Sentiment Index: The October 2016 index is at 87.2, down from 91.2 in September. Richard Curtin, Chief Economist for Surveys of Consumers, stated: "The Sentiment Index slipped in October to the same low recorded last September and to the lowest level since October 2014. The October decline was due to less favorable prospects for the national economy, with half of all consumers anticipating an economic downturn sometime in the next five years for the first time since October 2014."

Markit Economics

Monday, Purchasing Managers' Index (PMI) Manufacturing Index Flash: In the preliminary release for October 2016, the index rose from 51.5 to 53.2, the strongest increase since October 2015. Chris Williamson, Chief Markit Economist, stated: "Manufacturing showed further signs of pulling out of the malaise seen earlier in the year, starting the fourth quarter on a solid footing. Both output and new orders are rising at the fastest rates for a year amid increasingly widespread optimism that demand will pick up again after the presidential election, which has been commonly cited as a key factor that has subdued spending and investment in recent months."

Wednesday, PMI Services Flash: The preliminary October 2016 report has the service sector index at 54.8 from 52.3 in September, and that is the biggest jump in this index since November 2015. Tim Moore, Senior Markit Economist, stated: "The latest survey data reveal a decisive shift in growth momentum across the U.S. service sector, which mirrors the more robust manufacturing performance seen during October. Taken together, the ‘flash’ PMIs suggest that the economy is growing at an annualized rate of around 2% at the start of the fourth quarter.”