

Economic Update, March 11, 2016

Submitted by Reuben Kyle

Summary: This week the economic news did not include any big stories, but most of the news was upbeat. Initial claims fell, service-sector sales rose, import prices declined, the freight transportation index increased, and at least some Tennessee counties are growing strongly. Measures of Tennessee's economic activity were positive at the end of 2015. On the downside, the slowdown in the US economy as measured by wholesale trade in late 2015 may have carried over in the early part of the year.

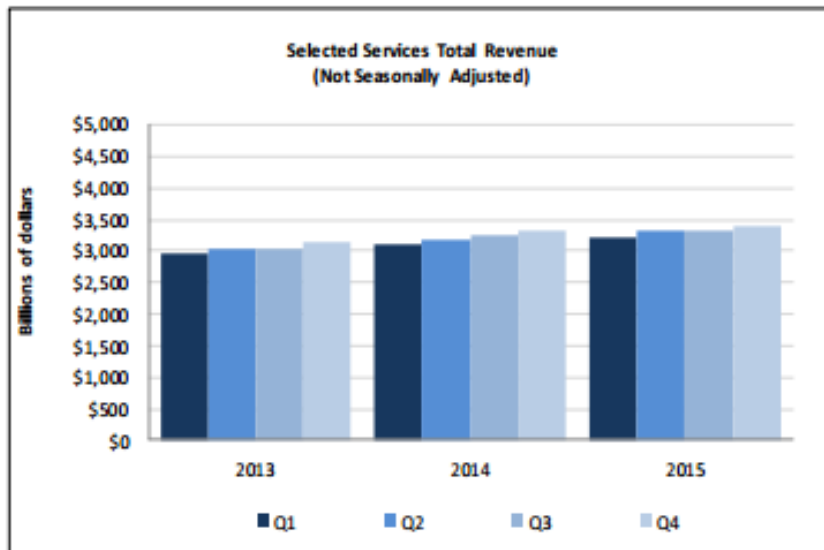
Dr. Ratajczak's [Weekly Commentary](#)

Monday: Dr. R has lots to say about the international economy, leading off with his assessment of the recent increase in oil prices. He also has an interesting take on last week's jobs report. In his view, the result was "disappointing" because of the dip in average weekly hours worked. He contends that the ultimate effect was a negative "multiplier" effect despite 242,000 new jobs. If you are interested, he thoroughly dissects the jobs report by industry. Oh, he also predicts an increase in the fed funds rate by September.

Census Bureau

Wednesday, [Wholesale Trade; Sales and Inventories](#): In January 2016, sales by merchant wholesalers were 1.3% below December's and 3.1% lower than in January 2015. Inventories were 0.3% higher than in the prior month and 2.0% above the level of January 2015. The inventory/sales ratio was 1.35 compared with 1.33 in December and 1.28 the previous January.

Thursday, [Quarterly Estimate of Selected Services Industries](#): In the 4th quarter of 2015, estimated sales revenues for a group of service industries rose 1.5% from the 3rd quarter of 2015 and 2.1% from Q4 2014. The chart below shows the quarterly estimates for 2013, 2014, and 2015. Note that these data are not seasonally adjusted. The report gives estimates for 12 industry sectors.



US Department of Transportation

Wednesday, [Freight Transportation Index](#): In January 2016 this index, based on the "amount of freight carried by the for-hire transportation industry" was 122.2 from 121.6 in December. This increase

was the second consecutive increase, the first time that has happened since November 2014. The index is now 29.0% higher than at its low point of 94.7 in April 2009.

Bureau of Labor Statistics

Wednesday, [County Employment and Wages](#): In the 3rd quarter of 2015, employment increased in 312 of the 342 largest US counties compared with the same period in 2014. The largest percentage increase, 6.5%, was in Williamson County, Tennessee. Rutherford County's employment increased 3.9%, the 39th largest increase among the largest counties in the US. "Within Williamson, the largest employment increase occurred in professional and business services, which gained 2,538 jobs over the year (8.8%)." Nationally, the average weekly wage was up 2.6%. Davidson County, Tennessee, had a 5.5% increase and ranked eighth among the largest counties. Williamson County's increase was 5.2% and ranked 10th. Davidson and Williamson tied at 9th for the largest dollar increase in wages (\$54). Hamilton County ranked 25th in this group of large counties with an increase of 4.5%.

Thursday, [Employer Costs for Employee Compensation](#): In December 2015, employer costs for employee compensation averaged \$33.58 per hour and ranged from \$17.53 for service workers to \$55.47 for management and professional workers. Wages and salaries accounted for 68.7% and benefits accounted for the remaining 31.3% of the average amount. The average hourly compensation for state and local government workers was \$44.97, with sales and office workers receiving \$31.15 and management and professional workers receiving \$54.16. Wages and salaries account for 63.6% and benefits 36.4% for this group.

Friday, [US Import and Export Price Indexes](#): The US Import Price Index fell 0.3% in February 2016, making it the 10th month of the past 12 in which the index declined. Since February 2015, the index has fallen 6.1% led by a 37.3% reduction in fuel prices. Even nonfuel prices have fallen, by 2.7%, over the past 12 months. The Export Price Index also fell in February, by 0.4% and declined 6.0% over the 12 months from February 2015 to February 2016. The big mover in exports is a 10.4% decline in agricultural prices.

US Department of Labor

Thursday, [Initial Claims](#): For the week ending March 5, 2016, initial claims for unemployment insurance fell by 18,000 to 259,000, and the four-week moving average was down by 2,500 to 267,500. In the previous week, ending February 27, two states reported an increase of 1,000 or more new claims and two states reported decreases of 1,000 or more. Tennessee reported a decrease of 134 new claims.

Board of Governors of the Federal Reserve

Monday, Labor Market Conditions Index: This index was sharply negative at -2.4 in February 2016, down from -0.8 in January and +2.3 in December. Interesting given the strong jobs report last Friday.

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading was 43.8 compared with 43.6 the previous week. Since the end of 2015, the index has remained within a 1.0-point range. "Call it the long pause: Americans' ratings of current economic conditions haven't stayed this steady for this long—now 11 weeks and counting—in the past 16 years."

Gallup.com

Monday, [US Consumer Spending Measure](#): In February 2016, the Gallup measure of daily spending by consumers was \$84, up slightly from January's \$81. The table below shows the pattern of changes in spending from January to February since 2008. It also shows the dramatic effect of the Great Recession on consumer spending behavior. Looking down the columns, it's hard to miss the fact that spending has still not returned to pre-recession levels. The figures for 2016 are just one dollar below those for 2013.

Comparison of Average Daily Reports of Spending, January to February

Monthly averages

	January	February	Difference
2016	\$81	\$84	+3
2015	\$81	\$82	+1
2014	\$78	\$87	+9
2013	\$80	\$83	+3
2012	\$63	\$63	0
2011	\$58	\$61	+3
2010	\$62	\$59	-3
2009	\$64	\$64	0
2008	\$97	\$106	+9

Gallup Daily tracking

MTSU Business & Economic Research Center

Thursday, [Tennessee Housing Report](#): This report includes some Tennessee data that we don't get from other sources. Housing permits, vacancy rates, home sales, mortgage tax collections, real estate transfer tax collections, mortgage defaults, and home prices. It has a new format and looks very good. Basically, all the measures are pointing in a positive—that is, toward an improving state economy—direction.

The Wall Street Journal

Thursday, [Economic Forecasting Survey](#): The March 2016 survey of more than 60 economic forecasters begins with a forecast of quarterly GDP growth. The average forecast for the 1st quarter of 2016 is 2.1%, 2.4% for the 2nd quarter, and 2.35% for all of 2016. As of June 2016, the average forecast for the change in the Consumer Price Index is +1.1% and +1.8% as of December 2016. Oil prices are forecast to average \$37.27 per barrel by June 2016 and \$42.61 by December of this year. (As this is written, 4/11/2017 7:50 AM, the price is \$37.57.) The unemployment rate for June 2016 is forecast at 4.8% and 4.6% for the end of the year. Ten-year US Treasury notes are expected to yield as of December 2016 compared with 1.948% as I write. The rate of increase in home prices is forecast to be 4.8% for 2016, down from the 5.4% average forecast for 2015. Housing starts in 2015 were 1.10 million and are forecast to be 1.23 million in 2016. The March average probability of a recession within the next 12 months is just under one chance in five. Seventy-six percent of respondents expect the next increase in the fed funds rate to occur in June 2016. More than 20% of respondents see the current election process as creating more uncertainty in financial markets. Finally, nearly 72% of respondents see a risk that GDP growth could be less than their current forecast and only 18% see a risk of underestimating growth in the next 12 months.