

Economic Update, March 4, 2016  
Submitted by Reuben Kyle

Summary: It is the first Friday of the month and the big story, as usual, is the BLS jobs report. The news was good with more than 240,000 jobs added. The rest of the economic news was largely good as well. Manufacturing has perked up as indicated by Census statistics as well as the Purchasing Managers' Index. Motor vehicle sales remain strong. Take a look at the articles at the end of this update for some not so good news about parts of the country and the state of Tennessee that are not doing so well.

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

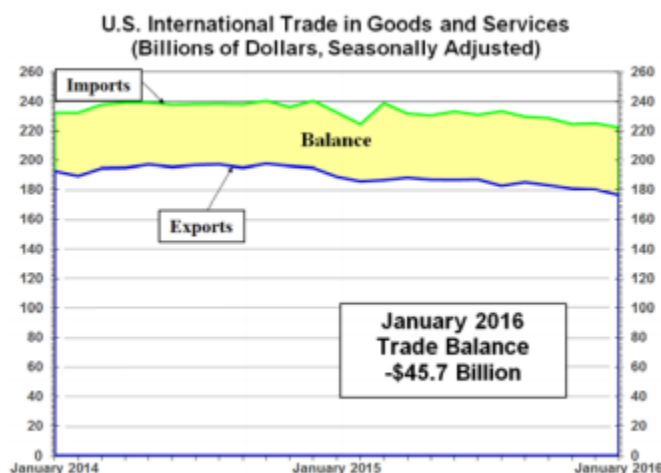
Monday: This week Dr. R holds forth on the U.S. and world political scene but with some insights into oil markets. His forecast for Friday's job number is 193,000. He dissects GDP growth but doesn't provide any forecasts yet.

Census Bureau

Tuesday, [Construction Spending](#): In January 2016, construction spending was 1.5% above that in December. And 10.5% higher than in January 2015. Private construction rose by 0.5% with residential flat but nonresidential construction up by 1.0%. Public construction increased by 4.5% led by highway spending 14.7% higher than in December and education spending 1.9% below the previous month.

Thursday, [Manufacturers' Shipments, Inventories, and Orders](#): New orders, shipments, and unfilled orders for manufactured goods all increased in January 2016. Led by transportation equipment new orders and shipments for manufactured durables both increased and unfilled orders increased led by computers and electronic products. Meanwhile, inventories for both manufactured durables and nondurables fell.

Friday, [U.S. International Trade in Goods and Services](#): In January 2016, the U.S. Balance of Trade in Goods and Services deficit increased by \$1.0 billion as exports fell by \$3.8 billion while imports decreased by \$2.8 billion. The graph below shows the decline over the past year of both U.S. exports and imports. Readers may remember that the United States has experienced a balance of trade deficit (export minus imports < zero) for most of the past 60 years.



Bureau of Labor Statistics

Thursday, [Productivity and Costs](#): In the 4<sup>th</sup> quarter of 2015 labor productivity fell by 2.2% from the 3<sup>rd</sup> quarter and year-over-year productivity increased by 0.5%. Unit labor costs increased by 3.3% in the 4<sup>th</sup> quarter and by 2.1% over the previous four quarters. In manufacturing, productivity declined by 0.7% due to a 0.1% increase in output and a 0.7% increase in hours worked.

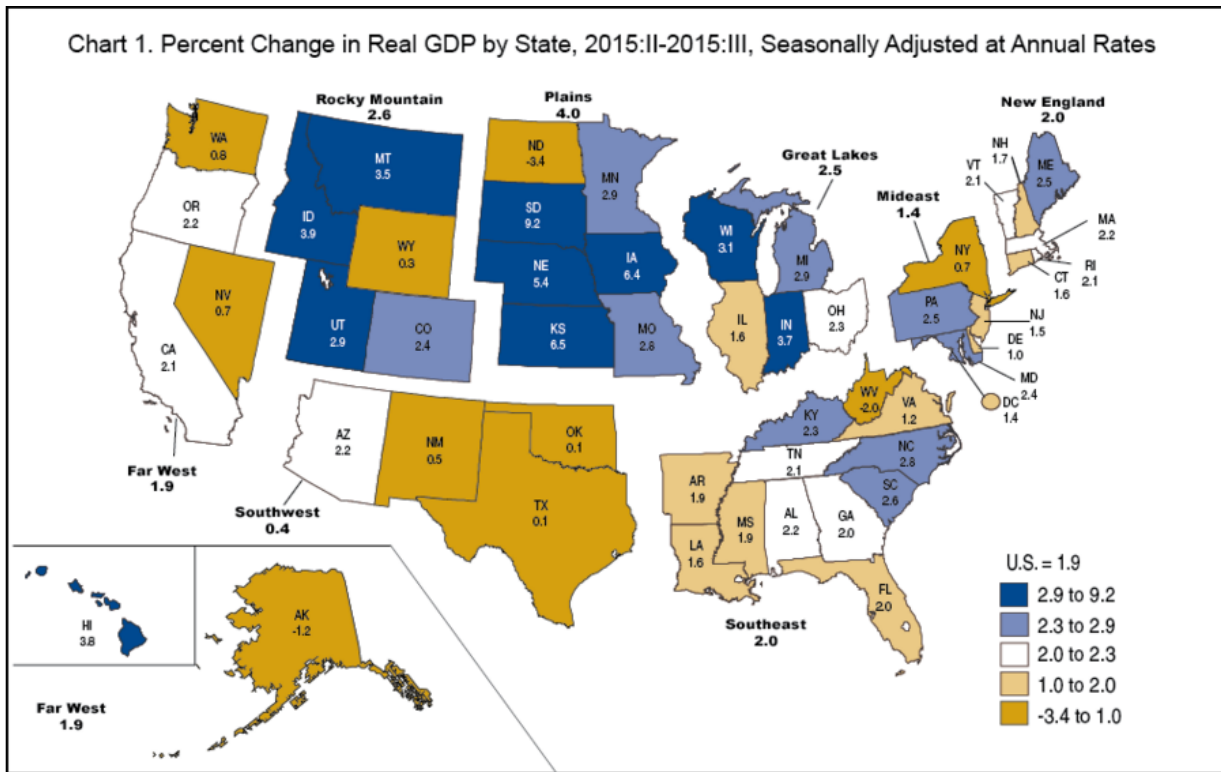
Friday, [Employment Situation](#): In February 2016, the U.S. economy added 242,000 jobs and the unemployment rate was 4.9%, unchanged from January. From the Household Survey, the labor force increased by 555,000, the labor-force participation rate inched up to 62.9%, and the number of people not in the labor force fell by 374,000. Unemployment rates for almost all demographic groups were unchanged. From the Establishment Survey, private sector employment increased by 230,000 while government added 12,000 jobs. There were 19,000 new construction jobs and while total manufacturing employment fell by 16,000, motor vehicles and parts gained 2,000. In the service-producing sector the big gainers were in retail trade, health care and social assistance, and leisure and hospitality. Average weekly hours worked slipped by 0.2 to 34.4. The diffusion index for all 262 private industries was 59.4% and for 79 manufacturing industries it was 48.7%. (Economists define an industry as the group of businesses that produce the “same” or similar products or services. The most commonly used catalog of industries today is the [North American Industry Classification System](#) or NAICS. Older readers will remember the Standard Industrial Classification system or SIC. NAICS began to replace the SIC in 1997.)

ADP.com

Wednesday, [Employment Report](#): Private sector employment increased by 214,000 jobs in February 2016. The goods producing industries added 5,000 jobs and the service producing industries added 208,000. ( Don’t ask me about those other 1,000!) Construction employment increased by 27,000 while manufacturing lost 9,000 jobs. (By the way, as of 2014 [manufacturing accounted](#) for 7.1% of total U.S. employment and services 81%.)

Bureau of Economic Analysis

Wednesday, [Gross Domestic Product by State](#): “Real gross domestic product (GDP) increased in 47 states and the District of Columbia in the third quarter of 2015, according to statistics on the geographic breakout of GDP released today by the Bureau of Economic Analysis. Overall, U.S. real GDP by state growth slowed to an annual rate of 1.9 percent in the third quarter of 2015 after increasing 3.8 percent in the second quarter. Retail trade; health care and social assistance; and agriculture, forestry, fishing, and hunting were the leading contributors to real U.S. economic growth in the third quarter.”



U.S. Department of Labor

Thursday, [Initial Claims](#) For the week ending February 27, 2016 new claims for unemployment insurance increased by 6,000 to 278,000 and the four-week moving average fell 1,750 to 270,250. In the previous week ending February 20 two states reported increases of 1,000 or more in initial claims and four states reported decreases of 1,000 or more. Tennessee reported an increase of 724 new claims.

Board of Governors of the Federal Reserve

Wednesday, [Beige Book](#): The overall report states that the 12 Federal Reserve Districts report that economic activity continues to expand though with some variation around the country. The Sixth District, or Atlanta Federal Reserve Bank, indicated that activity in its area improved “modestly” from January to mid-February 2016. Consumer spending increased moderately with tourism and hospitality reporting the strongest results. Real estate and “many builders” were upbeat about their sector. Commercial realtors and commercial builders were among the more optimistic. Manufacturing contacts reported that their business had improved since the previous report. “New orders and production levels increased notably, and payrolls at manufacturing firms rose slightly.” Transportation providers were mixed in their outlook with port activity increasing as did intermodal traffic. Air cargo and total rail carloads were down. The increase in interest rates appeared to have little impact on banking and finance. “Some retailers continued to note that hiring had become easier, particularly for low to mid-skilled positions. However, firms seeking employees for high-demand fields, such as information technology, engineering, and construction continued to experience difficulty filling jobs. A number of businesses reported hiring less qualified workers and increasing investment in training programs in response to challenges finding experienced labor.” [Emphasis added.] Wage growth was reported to be subdued with the Fed inflation survey at the lowest level since its inception in 2011. In the Eighth District, the St. Louis Federal Reserve Bank, the report was “mixed.” Their survey of wages found growth to be “strong” while employment and prices increased at a “modest pace.” Retail activity was

flat. Manufacturing contacts also gave a mixed review with some planning capital expenditure increases but also some closures. Service sector reports were “positive.” Real estate sales were up by 3.1% year-over-year in Memphis and the outlook is good. Memphis reported strong demand for commercial and industrial loans.

#### Institute for Supply Management

Tuesday, [February 2016 Manufacturing ISM Report on Business](#): The manufacturing Purchasing Manager Index rose by 1.3 Percentage points to 49.5% from 48.2% but that still put the index in the contraction range for the fifth consecutive month. The overall economy expanded for the 81<sup>st</sup> consecutive month. “A PMI® above 43.2 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the February PMI® indicates growth for the 81<sup>st</sup> consecutive month in the overall economy, while indicating contraction in the manufacturing sector.” Of the 18 industry sectors surveyed nine reported growing and seven reported contracting. Below are some comments by respondents.

- "Low oil prices and reduced activity continue affecting our business." (Petroleum & Coal Products)
- "U.S. business demand is solid; international demand is soft." (Chemical Products)
- "Mobility spend is up." (Computer & Electronic Products)
- "Business has to get better. And it appears it is. Healthy backlog for 2016." (Fabricated Metal Products)
- "Very strong demand for product. Material availability very good and commodity pricing continues to be depressed." (Machinery)

Thursday, [February 2016 Report on Business Non-Manufacturing Index](#): The non-manufacturing index was 53.4% in February down 0.1 percentage points from January but it indicates that the sector is growing, for the 73<sup>rd</sup> consecutive month if a bit more slowly. Of the 18 industry sectors surveyed 14 report growing and three report contracting. Some comments from respondents are below.

- "Overall business is increasing." (Health Care & Social Assistance)
- "Business and revenue holding steady with optimistic future ahead for [the] rest of 2016." (Information)
- "Economy still in very slow growth mode — some additional work scope to current projects helping to maintain current level of business." (Professional, Scientific & Technical Services)
- "Local markets are very competitive." (Finance & Insurance)
- "Industry is being hit with commodity pricing at over 12 year lows." (Mining)

#### Markit Economics

Tuesday, [Purchasing Managers' Index \(PMI\) Manufacturing Index](#): In February 2016, this index was at 51.3 compared with 52.4 in January but since it above 50.0 it indicates that U.S. manufacturing is still growing. According to Chris Williamson, Markit's Chief Economist: “The February data add to signs of distress in the US manufacturing economy. Production and order book growth continues to worsen, led by falling exports. Jobs are being added at a slower pace and output prices are dropping at a rate not seen since mid-2012.” He stated that the “deterioration” in manufacturing has “tracked” the rise in the dollar in foreign exchange.

Thursday, [PMI Services Index](#): For the first time since October 2013 this index at 49.7 is below the 50.0 neutral level. Chief Economist Williamson stated: “Business activity stagnated in February as malaise spread from the manufacturing sector to services. The Markit PMIs are signalling (sic) a stagnation of the economy in February, suggesting growth has deteriorated further since late last year.”

Autodata.com

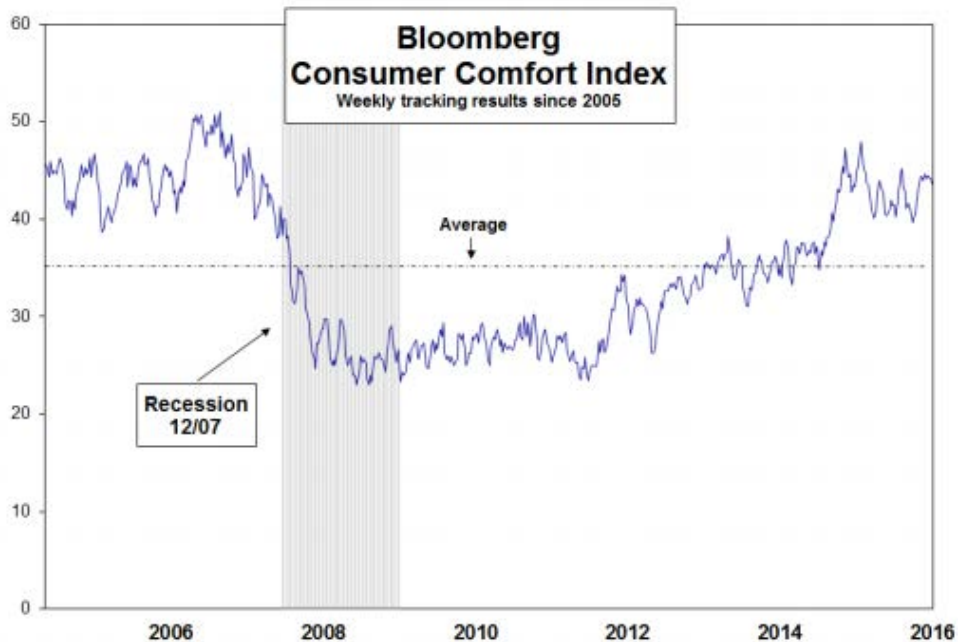
Tuesday, [Motor Vehicle Sales](#): U.S. light vehicle sales in February 2016 were 17.54 million units on an annual, seasonally-adjusted basis., very similar to the 17.58 million units in January. This latest sales figure is more than a million units higher than in February 2015. Tennessee assemblers, General Motors and Nissan, both had increased sale for the month compared with February 2005. General Motors car sales increased by 0.9% year-over-year while Nissan's car sales were up by 7.5%. Only Volkswagen suffered a drop in sales, of 13.2%, from a year earlier. Once again truck sales were the big gainers for the total market. In fact, for all sellers sales of passenger cars declined slightly for the month.

National Association of Realtors

Monday, [Pending Home Sales](#): In January 2016, the Pending Homes Sales Index declined by 2.5% from 108.7 in December to 106.0. The index for 2015 was the highest since 2006. According to NAR Chief Economist Lawrence Yun: "While January's blizzard possibly caused some of the pullback in the Northeast, the recent acceleration in home prices and minimal inventory throughout the country appears to be the primary obstacle holding back would-be buyers," he said. "Additionally, some buyers could be waiting for a hike in listings come springtime."

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading was 43.6 compared with 44.2 the previous week. The chart below shows the index since 2005.



Gallup.com

Tuesday, [Economic Confidence Index](#): "Americans' confidence in the U.S. economy has held steady since July. Gallup's Economic Confidence Index averaged -13 in February [2016], within the narrow range of -14 to -11 recorded over the past eight months. Consumers' confidence in the economy is notably lower than a year ago, when the index registered +1 for February -- one of only two positive monthly readings since 2008.

Wednesday, [Job Creation Index](#): This index was unchanged at +29 from January to February 2016. It is down from its peak of +32 in May through October 2015 but appears to have stabilized.

Thursday, [Good Jobs Rate](#): The percentage of adult Americans with full-time jobs was 44.6% in February 2016. That compares with 44.7% in January but it is the highest rate in February since Gallup began collecting this measure. “The latest results are based on Gallup Daily tracking interviews with 28,383 U.S. adults, conducted Feb. 1-29 by landline telephone and cellphone. GGJ is not seasonally adjusted.”

*The Wall Street Journal*

Last week: [In An Improving Economy, Places in Distress](#): I spotted this article too late for last week’s report but it is very interesting and provides a link to [an interactive map of U.S. zip codes](#) showing a number of measures of economic activity that reveal distress in the community. You can check out your own zip code. The bad news for Tennessee is that Memphis is one of the 10 most “distressed” cities in the country. Plus, 27% of Tennessee zip codes are identified as distressed. The map demonstrates that adjacent neighbors can be dramatically different in the measures reported. An excellent example is the wider Memphis area in which adjacent zip codes range from the lowest distress measures to the highest.

*The New York Times*

Friday, [How Much More Can the Labor Force Grow?](#): This article discusses issue of how likely it is that people who left the labor force during the Great Recession are to re-enter the labor force. Since November of last year the labor force has added 1.5 million people. Still, wages have increased at a very modest, 2.2% for 2015, pace.