

Economic Update, May 6, 2016

Submitted by Reuben Kyle

Summary: As usual on the first Friday of the month, the big story is the BLS Employment Situation report, and the April jobs number is 160,000. There are lots of things behind that headline number as you can see below. On the negative side of the week's economic news, the purchasing managers' survey of the manufacturing sector were both down, though the BEA report on new orders for manufactured goods rose for the first time in some months. Initial claims rose in the latest week's report, and the consumer confidence measures were down. On the upside, the purchasing managers' surveys of the service-producing were both up, as was construction spending, and motor vehicle sales. This week I included a couple of interesting pieces on student debt and China, as well as a report from the MTSU Business & Economic Research Center on STEM jobs. (Just a reminder: I haven't worked there since 1999!)

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

Monday: This week Dr. R is reviewing the policies of central banks around the world. He is not a fan of the negative interest rates in Europe and Japan. It is amazing, as he points out, that when the central bank of Japan reduced rates into the negative range—than means banks charge depositors to hold their money—with the intent to encourage the frugal Japanese to spend more, in fact, they save more, and other Asians bought yen. One significant factor is the US dollar has fallen in exchange rates, and that will help our exports. His forecast for Friday's jobs report is 208,000, and his initial forecast for 2nd quarter GDP growth is 1.7%. He also expects motor vehicle sales to rebound to over the 17 million annual rate. (That number will be reported sometime later today, Tuesday, as I write.)

Census Bureau

Monday, [Construction Spending](#): In March 2016, the seasonally adjusted annual rate of construction spending was \$1,137.5 billion, 0.3% higher than in the previous month and 8.0% above the level of March 2015. In the 1st quarter of 2016, construction spending has been 9.0% higher than in the comparable period of 2015. Private spending was 1.1% more than in February with residential construction spending up 1.6%. Public construction was 1.9% below that of the prior month even though educational construction spending was up 0.4% and highway spending was 0.4% higher than in February.

Wednesday, [US International Trade in Goods and Services](#): The US Balance of Trade in Goods and Services deficit fell in March 2016 to \$40.4 billion from \$47.0 billion in February. The decline in the deficit resulted from a \$1.5 billion drop in exports and an \$8.1 billion decline in imports. The deficit in goods fell by \$6.0 billion, while the surplus in services increased by \$0.5 billion.

Wednesday, [Manufacturers' Shipments, Inventories, and Orders](#): New orders for manufactured goods increased 1.1% in the month of March 2016, shipments were up 0.5%, unfilled orders declined 0.1%, and inventories were up 0.2%. New orders for both manufactured durable and nondurable goods increased in March after both had decreased in February.

Institute for Supply Management

Monday, [April 2016 Manufacturing ISM Report on Business](#): The April index is 50.8%, down by 1.0 percentage point from March's 51.8%. They survey firms in 18 industry sectors; 11 reported growing, and four reported contracting. Some respondents comments are below.

- "We are still running at capacity. New CapEx for \$30 million to increase capacity, but will not be online until 2017." (Food, Beverage & Tobacco Products)
- "Remaining a bit sluggish overall although showing signs of a pickup in some areas." (Chemical Products)
- "While oil prices have recovered slightly, the industry as a whole continues to struggle greatly." (Computer & Electronic Products)
- "Steel prices are increasing, but it is supply-side driven. General economy is plugging along with no big changes. Kind of lackluster." (Fabricated Metal Products)

ISM® NON-MANUFACTURING SURVEY RESULTS AT A GLANCE COMPARISON OF ISM® NON-MANUFACTURING AND ISM® MANUFACTURING SURVEYS* APRIL 2016									
	Non-Manufacturing						Manufacturing		
Index	Series Index Apr	Series Index Mar	Percent Point Change	Direction	Rate of Change	Trend** (Months)	Series Index Apr	Series Index Mar	Percent Point Change
NMI®/PMI®	55.7	54.5	+1.2	Growing	Faster	75	50.8	51.8	-1.0
Business Activity/Production	58.8	59.8	-1.0	Growing	Slower	81	54.2	55.3	-1.1
New Orders	59.9	56.7	+3.2	Growing	Faster	81	55.8	58.3	-2.5
Employment	53.0	50.3	+2.7	Growing	Faster	2	49.2	48.1	+1.1
Supplier Deliveries	51.0	51.0	0.0	Slowing	Same	4	49.1	50.2	-1.1
Inventories	54.0	52.5	+1.5	Growing	Faster	13	45.5	47.0	-1.5
Prices	53.4	49.1	+4.3	Increasing	From Decreasing	1	59.0	51.5	+7.5
Backlog of Orders	51.5	52.0	-0.5	Growing	Slower	4	50.5	51.0	-0.5
New Export Orders	56.5	58.5	-2.0	Growing	Slower	3	52.5	52.0	+0.5
Imports	54.0	53.0	+1.0	Growing	Faster	3	50.0	49.5	+0.5
Inventory Sentiment	61.0	62.5	-1.5	Too High	Slower	227	N/A	N/A	N/A
Customers' Inventories	N/A	N/A	N/A	N/A	N/A	N/A	46.0	49.0	-3.0
Overall Economy				Growing	Faster	81			
Non-Manufacturing Sector				Growing	Faster	75			

* **Non-Manufacturing ISM® Report On Business®** data is seasonally adjusted for Business Activity, New Orders, Prices and Employment Indexes. **Manufacturing ISM® Report On Business®** data is seasonally adjusted for New Orders, Production, Employment and Supplier Deliveries.

** Number of months moving in current direction.

Wednesday, [April 2016 Non-Manufacturing ISM Report on Business](#): The non-manufacturing survey in April 2016 yielded an index of 55.7%, up from 54.5% in March. Thirteen of the 18 non-

manufacturing industry sectors surveyed reported expanding, and four reported contracting. The table above gives the complete details from both the manufacturing and non-manufacturing surveys. Note that the non-manufacturing sector has now expanded for 75 consecutive months, while the overall economy has expanded for 81 consecutive months. Also below are a few comments from respondents.

- "Severe non-skilled labor shortage is hurting the construction industry." (Construction)
- "Business is holding steady, revenue is almost as anticipated and costs are lower which is helping to maintain current profitability." (Finance & Insurance)
- "We expect our business condition to improve in Q2 as compared to Q1. Typically, Q1 is our slowest period and business activity picks up later through the year." (Health Care & Social Assistance)
- "Very favorable cost conditions all around." (Accommodation & Food Services)

Markit Economics

Monday, [Purchasing Managers' \(PMI\) Manufacturing Index](#): The final April 2016 index is 50.8, down from 51.5 in March. Chris Williamson, Markit's Chief Economist, stated: "The April PMI data suggest there's no end in sight to the current downturn in manufacturing activity. The survey indicates that factory output is dropping at an annualized rate of approximately 3%, and Page 2 of 3 © Markit factory headcounts are being culled at a rate of around 10,000 per month."

Wednesday, [PMI Services Index](#): The final April 2016 index for this survey is at 52.8 up from 51.3 in March. This latest index is the highest level since January. Chief Economist Williamson observed, "The PMI surveys show the economy continuing to pick itself up after the stagnation seen in February, with growth accelerating for a second successive month in April. However, the rate of expansion remains tepid, reliant on sluggish growth in services as manufacturers report a stalling of production. . . . The drop in confidence seen so far this year is beginning to hit the labour market, with the survey signaling 160,000 extra jobs being created in April, down from an average of 200,000 in the first three months of the year." [Remember that these Brits can't spell. I'm no great speller either, but the spell checker does help.]

Autodata.com

Tuesday, [Motor Vehicle Sales](#): In April 2016, the seasonally adjusted, annual sales rate of light motor vehicles in the US was 17.42 million, a rebound from the 16.57 million in March. The April figure is slightly below the 17.5+ million in January and February but well above the 16.75 million of April 2015. Tennessee assemblers had mixed results in April compared with a year earlier. General Motors car sales were 12.2% lower than in April 2015, and year to date, their sales are down 6.0%. Nissan's car sales, on the other hand, were up 12.9% year over year and 6.8% year to date. Volkswagen's sales were 9.7% lower compared with April 2015 and 11.7% below the year-to-date sales for 2015. The numbers continue to show truck sales far outpacing those of cars except in Nissan's case. [The Wall Street Journal](#) summarizes the report.

Bureau of Labor Statistics

Wednesday, [Productivity and Costs, 1st Quarter 2016](#): Labor productivity declined 1.0% in the 1st quarter of the year as output increased 0.4% while labor-hours increased 1.5%. As a result, unit labor costs increased 4.1% during the quarter and 2.3% over the previous four quarters. Manufacturing productivity increased 1.9% in the quarter.

Thursday, [Multifactor Productivity Trends](#), Annual 2015: Multifactor productivity is a measure of the effect on output of all the factors of production: labor, capital, and technology. Measuring it is a complicated process, unlike labor productivity, which is output divided by labor-hours worked. "Private nonfarm business sector multifactor productivity increased at a 0.2% annual rate in 2015, the US Bureau of Labor Statistics reported today. (See chart 1, table A.) This 2015 gain reflected a 2.8% increase in output and a 2.6% increase in the combined inputs of capital and labor. Capital services grew 2.6% and labor input—which is the combined effect of hours worked and labor composition—also grew 2.6%. Capital intensity, defined as capital services per hour, increased at a 0.4% annual rate in 2015, which is the first increase in this measure since 2010."

Friday, [Employment Situation](#): In April 2016, 160,000 jobs were added to total nonfarm employment, and the unemployment rate was unchanged from March at 5.0%. According to the Household Survey, the labor force declined by 362,000 and the labor force participation rate fell by 0.2 percentage points to 62.8%. Among the different demographic groups surveyed, all the unemployment rates changed very little except Hispanic or Latino ethnicity, which rose 0.5 percentage points to 6.1%. By education level, the unemployment rate fell only for those with bachelor's degrees or higher, and that rate was 2.4%. From the Establishment Survey, private sector employment increased by 171,000 jobs, while government sector employment fell by 11,000. By industry sector, construction added 1,000 jobs, manufacturing gained 4,000 led by an increase in motor vehicles and parts with 6,100 jobs. Private-sector service-providing employment gained 174,000 with professional and business services adding 65,000, health care and social assistance gaining 38,200, and leisure and hospitality increased by 22,000 jobs. Average weekly hours worked bumped up 0.1 to 34.5. The diffusion indexes were 56.3% for total private, numbering 262 industries, and 48.5% for 79 manufacturing industries.

ADP.com

Wednesday, [ADP Employment Report](#): In April 2016, this survey reports 156,000 jobs added with small businesses of fewer than 50 employees gaining 93,000 and medium-sized businesses adding 39,000. Manufacturing lost 11,000 jobs during the month but construction employment increased by 14,000 and trade/transportation/utilities added 25,000.

US Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance in the week ending April 30, 2016, increased by 17,000 to 274,000, and the four-week moving average increased by 2,000 to 258,000. The four-week moving average of the number of insured unemployed declined by 17,000 in the week ending April 23 to the lowest level since November 11, 2000. In that same week, three states reported increases of 1,000 or more initial claims, and three states reported decreases of 1,000 or more. Tennessee reported a decrease of 36 new claims.

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading was 42.0 compared with 43.4 last week. "Weakening views of Americans' personal finances and the buying climate alike dragged the Bloomberg Consumer Comfort Index to its lowest of the year this week—the latter reversing a slow gain last month. . . . At 42.0, the CCI overall finally broke out of the 2.0-point range it's held all year, though not in the right direction. After showing very little movement in the first three months of the year, it's now 1.6 points below its mid-April level."

Gallup.com

Monday, [US Consumer Spending Measure](#): In April 2016, average daily spending by US consumers was \$95, the highest level for the month of April in Gallup's nine years of tracking this measure. This level marked a \$6 increase from March, also the largest March-to-April jump. Reminder: "The April 2016 average is based on interviews with more than 15,000 US adults. Each day, Gallup asks Americans how much they spent 'yesterday' in restaurants, gas stations, stores or online—not counting home, vehicle or other major purchases, or normal monthly bills—to provide an indication of Americans' discretionary spending."

Tuesday, [Economic Confidence Index](#): The April 2016 index was -14 compared with -10 in March. Readers may recall that this index peaked in January 2015 at +3, otherwise, with one exception, it has been negative since its inception in 2008. "Gallup's US Economic Confidence Index is based on Americans' ratings of current conditions and their outlook on whether the economy is getting better or worse. Since March 2015, Americans have been more upbeat about the current state of the economy than about the direction in which it is headed. In late 2014 and early 2015, as gas prices dropped, the two ratings were generally similar."

Wednesday, [Job Creation Index](#): The April index was +30, only slightly changed from the +32 in March, "keeping Gallup's Job Creation Index near its highest level ever recorded." The index for the private sector was +31, while for the government sector the index was +24. Both dropped very slightly from the month before.

Thursday, [Good Jobs Rate](#): Gallup's measure of employed to population was 44.9% in April 2016, and that was the highest level since 2010. Their measures of the unemployment rate, 5.2%, and the "workforce participation rate," 67.3%, were also the best levels since 2000 and June 2013, respectively.

MTSU Business and Economic Research Center

Wednesday, [Tennessee's STEM Workforce Falls Short in Size, Skills](#): A survey of "businesses, mayors, local economic development officials, and school principals" conducted in partnership with [Mind2Market](#) and MTSU's Small Business Development Center found that the state faces challenges in meeting the demand for science, technology, engineering, and mathematics (STEM) workers. The study reports that 11.8% of Tennessee's jobs are "STEM-related" compared with 13.1% nationally and 15.9% in the state of Massachusetts. Currently, STEM degree production in Tennessee is about 11,195 while the average annual demand is 18,897. A few comments from the report identify these challenges.

- "More than 88% of community stakeholders indicated that the Tennessee education system does not produce enough quality/competitive individuals.
- "About 78% of community stakeholders did not think that students are graduating with the proper skills for STEM-related jobs. About 73% of community stakeholders argued that the workforce in Tennessee is not going to meet the demands of advanced technology.
- "Community stakeholders rank math proficiency as number one and connecting education with employment as the number two critical challenge for Tennessee."

The Wall Street Journal

Monday: [Student Debt Level is About to Set a New Record, But the Picture Isn't All Bad](#): The story gives a figure of \$37,172 of debt owed by this year's college graduates compared with \$35,000 in 2015. The Not So Bad part of the story is that median starting salaries in 2015 were \$43,000, up from \$39,992 the year before. Plus the unemployment rate for "recent" college graduates is 4.6%. As we have heard before, the problem is for those who start college, incur debt, and then don't graduate.

Tuesday, an interesting headline on a story about China. "Chinese authorities have issued verbal warnings to economists, analysts, and business reporters whose gloomy public remarks on the economy are out of step with the government's upbeat statements." It is likely that whoever those "authorities" are will learn that you cannot fool the market.

The New York Times

Tuesday, [China's Steel Makers Undercut Rivals as Economy Slows](#): As a follow-up to the above China headline, this article gives specifics on Chinese efforts to hide their economic problems. What this story doesn't say is that what the result of the undercutting of international prices means is that China is subsidizing the rest of the world's steel consumers.

Wednesday, [Moore's Law Running Out of Room, Tech Looks for a Successor](#): In 1965, Dr. Gordon Moore, founder of Intel, predicted that "the number of components that could be etched onto the surface of a silicon wafer was doubling at regular intervals and would do so for the foreseeable future." When he made that prediction, the fastest chip could store 1,000 bits of data. Today that figure is 20 billion! There have been predictions of the demise of Moore's Law for a number of years. This article deals with the latest concerns and possible new technologies.