Economic Update, August 11, 2017
Submitted by Reuben Kyle

Summary: It was another week of pretty good economic news, which is actually good news since there were no major negatives reported. Labor market news continues to be positive with the number of job openings up and initial claims continuing at low levels, despite an increase last week. The monthly WSJ Economic Forecasting Survey shows optimism with only slight signs of caution. Inflationary pressures remain nonexistent. This week I included an interesting article—blog—on negative interest rates. It is an economics lesson without being too dull or dismal.

Census Bureau

Wednesday, Monthly Wholesale Trade, Sales and Inventories: In June 2017, sales of merchant wholesalers were 0.7% higher than in May and 5.5% above those in June 2016. Inventories were up by 0.7% for the month and by 2.8% from a year earlier. The inventory/sales ratio was 1.29, unchanged from May and compared to 1.32 in June 2016.

Bureau of Labor Statistics

Tuesday, Job Openings and Labor Turnover Survey (JOLTS): In June 2017, the number of job openings increased by 461,000 to 6.16 million while the number of hires was little changed at 5.4 million, and the total number of separations was also virtually unchanged from May at 5.2 million. The quit rate was 2.2% compared with 2.1% in May.

Wednesday, Productivity and Costs: In the 2nd quarter of 2017, nonfarm business labor productivity increased by 0.9% as total output rose by 3.4% and labor-hours worked increased by 2.5%. Over the previous 12-month period, productivity increased by 1.2%. For the quarter, unit labor costs rose by 0.6% with a 1.6% rise in hourly compensation and the 0.9% gain in productivity. Over the past four quarters, unit labor costs fell by 0.2%.

Thursday, Producer Price Index (PPI): In July 2017, the PPI for Final Demand fell by 0.1%, and for the previous 12-month period, the index is up by 1.9%. For goods, the index is also down by 0.1% while for services it is 0.2% lower. In the case of goods, the principal move was a decline of 0.3% in energy, and for services, the leader was transportation and warehousing.

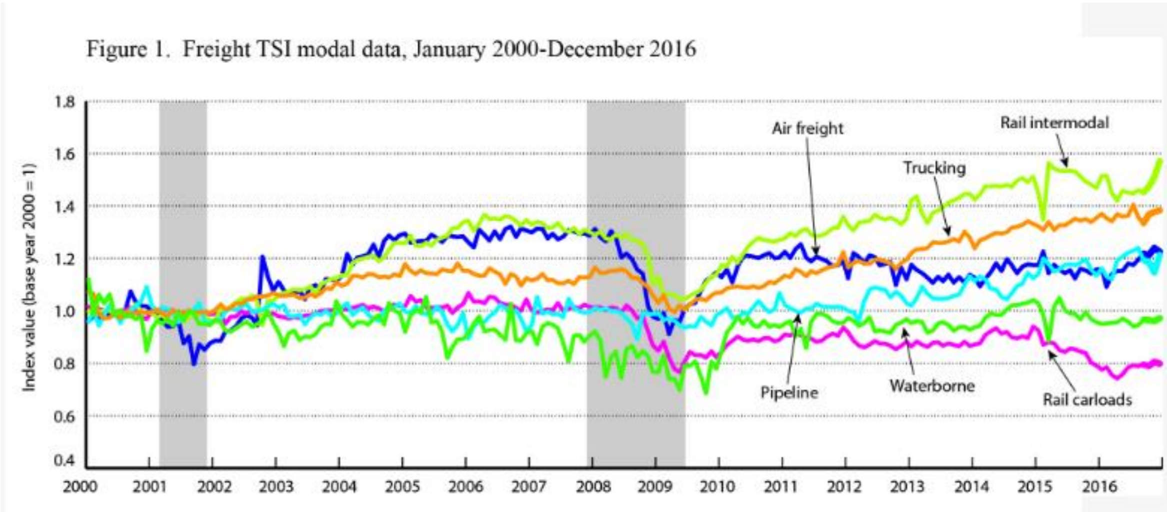
Friday, Consumer Price Index (CPI): In July 2017, the CPI increased by 0.1%, with or without food and energy, and over the past 12-month period, the index is up by 1.7%. The largest increases came in electricity, up by 0.4%, and medical care commodities, up by 1.0%. The biggest declines were in utility (piped) gas service, down 2.3%; fuel oil, down 2.0%; and new vehicles, down 0.5%. "Vehicle sales have been weak this year, and it's being reflected in prices, which fell 0.5 percent in the month. Lodging away from home is another major negative in the July report. It fell a record 4.2 percent as motels and hotels cut prices."

Friday, Real Earnings: Real average hourly earnings rose by 0.2% in July 2017 as average hourly earnings increased by 0.3%, and the CPI increased by 0.1%; the same results applied to production and nonsupervisory workers. Over the past 12 months, real average hourly earnings were up by 0.7%. For production and nonsupervisory workers, the increase was 0.8%.

U.S. Department of Transportation

Monday, Bureau of Transportation Statistics, Freight by Mode since the Recession: This report discusses the growth of values of freight by mode moved. The graph below shows indexes of all modes since 2000.

Wednesday, June 2017 Freight Transportation Index: In June 2017, this index fell by 0.8% from 127.2 in May to 126.2. The decline was "due to significant decreases in trucking and water while air freight and rail carloads and intermodal grew. Pipeline remained steady."



U.S. Department of Labor

Thursday, Initial Claims for unemployment insurance increased for the week ending August 5, 2017, by 3,000 to 244,000 while the four-week moving average fell by 1,000 to 241,000. For the prior week ending July 29, no state reported an increase of 1,000 or more new claims, and nine states reported decreases of 1,000 or more. Tennessee reported a decline of 364 initial claims from the previous week.

Board of Governors of the Federal Reserve

Monday, Labor Market Conditions Index: ***Notice:*** *As of August 3, 2017, updates of the labor market conditions index (LMCI) have been discontinued; the July 7, 2017 vintage is the final estimate from this model. We decided to stop updating the LMCI because we believe it no longer provides a good summary of changes in U.S. labor market conditions. Specifically, model estimates turned out to be more sensitive to the detrending procedure than we had expected, the measurement of some indicators in recent years has changed in ways that significantly degraded their signal content, and including average hourly earnings as an indicator did not provide a meaningful link between labor market conditions and wage growth.*

The Conference Board

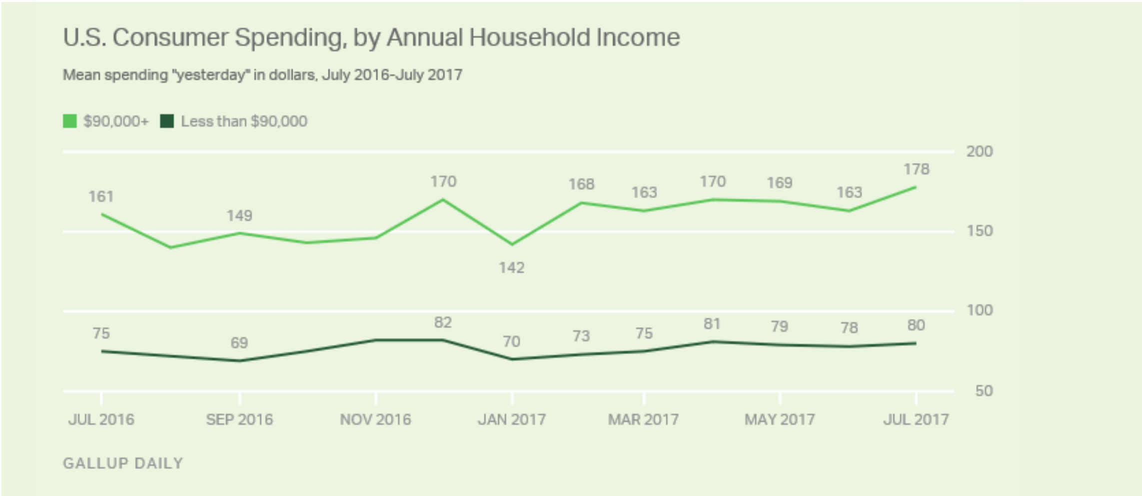
Monday, Employment Trends Index: The July 2017 index was 133.77, up from 132.42 in June and up by 4.8% from July 2016. "July's increase in the ETI was fueled by positive contributions from all eight components. From the largest positive contributor to the smallest, these were: Percentage of Firms with Positions Not Able to Fill Right Now, Ratio of Involuntarily Part-time to All Part-time Workers, Industrial Production, Number of Employees Hired by the Temporary-Help Industry, Consumer Confidence 'Jobs Hard to Get' Percentage, Real Manufacturing and Trade Sales, Job Openings, and Initial Claims for Unemployment Insurance."

Bloomberg.com

Thursday, Consumer Comfort Index: The latest index reading is 51.4, up from 49.6 the week before. "Strength in consumer confidence ultimately points to strength in the labor market."

Gallup.com

Monday, U.S. Consumer Spending Measure: In July 2017, U.S. consumers spent an average of $109 per day, marking the sixth consecutive month that spending has averaged $100 or more daily. The $109 was the highest monthly average recorded since Gallup began collecting this measure. Not surprisingly, there is a wide disparity between daily spending by those households with incomes of $90,000 or more and those with incomes of less than $90,000.



The Wall Street Journal

Thursday, Economic Forecasting Survey: In the August 2017 survey, 64 of 78 forecasters responded. Their average forecast or prediction is reported here. Third quarter 2017 GDP growth is forecast to be 2.4%, compared with the actual rate of 2.6% in Q2. Q4 2017 growth is forecast to be 2.5%, and for calendar 2017, the prediction is 2.25%. The Consumer Price Index is forecast to increase by 1.8% by December of 2017 and 2.2% in December 2018. Oil prices are forecast to be $49.76 in December 2017 and $51.12 in June 2018. (As I write, the price is $48.76.) Unemployment is forecast at 4.2% in December 2017 and 4.1% by June 2018. The average monthly increase in employment is predicted to be 168,750 for the year 2017. In January 2018, the rate of increase in housing prices is forecast to be 4.5%, down one percentage point from the previous January. Housing starts are projected at 1.32 million annually in January 2018, compared to 1.24 million the beginning of this year. The average predicted probability of a recession in the next 12 months is 15%. That is about 2 chances in 13, but 51% of respondents see a downside risk for their growth rate forecast. Roughly 90% of those responding see a hike in the fed funds rate by December 2017, and three out of four expect the Fed to begin reducing its security holdings in September. (Remember that that foretells an increase in long-term interest rates.) Finally, the survey asked: "Do your forecasts for 2017 and 2018 incorporate a substantial fiscal stimulus due to tax cuts, infrastructure spending or other policy changes that have not yet been enacted?" In January 2017, the response was nearly 75% "yes" and in August 2017 that response was 25% "yes."

The New York Times

Sunday, When Foreign Companies Are Making, Not Killing U.S. Jobs: This story is about international capital investment in Tennessee. The lead is about Mahindra, the Indian tractor manufacturer, which assembles tractors in Chattanooga but the story discusses Volkswagen and other foreign companies operating in the state.

An Economics Lesson from the Conversable Economist

Tuesday, Negative Interest Rates: Evidence and Practicalities: Thanks to my MTSU colleague, Dr. Duane Graddy, for this informative article on negative interest rates. It is not technical with a minimum of economists' jargon. The bottom line is that the experience with negative interest rates—you pay the bank to hold your money—is not new, even for Americans, but it remains to be seen what the consequences would be if (or rather when) we have another recession.