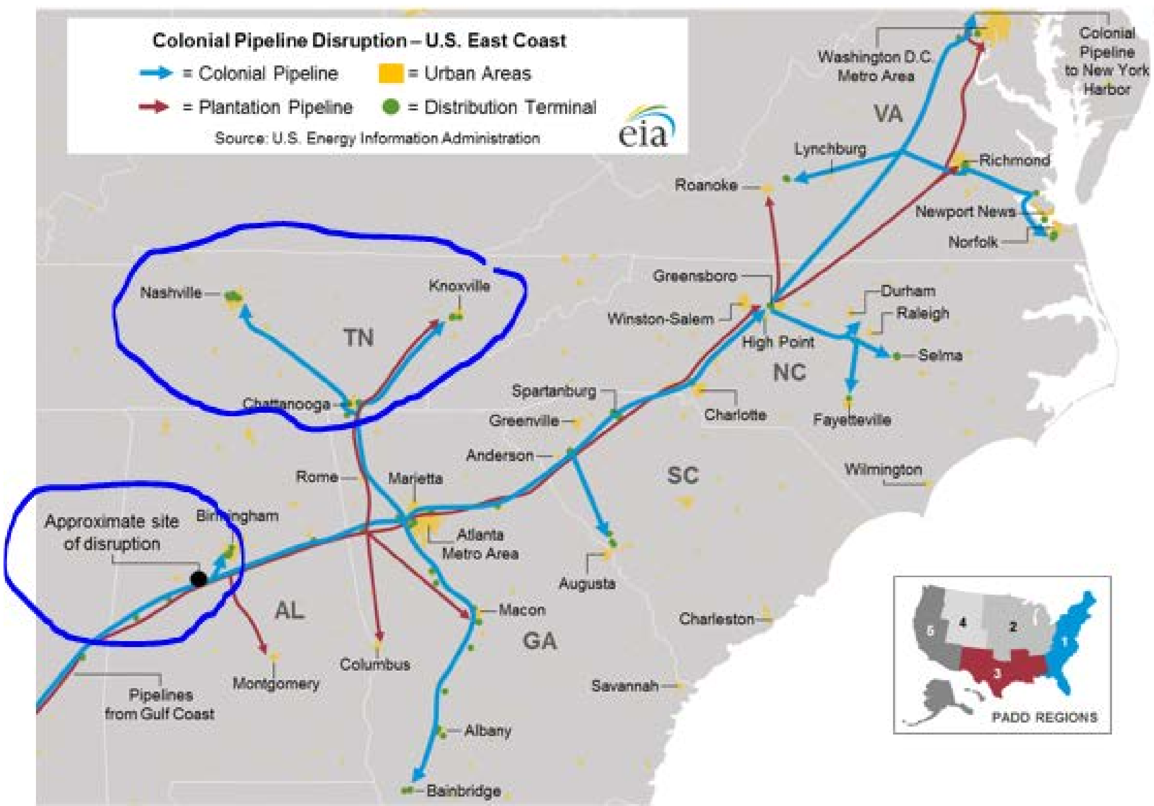
Economic Update, September 23, 2016
Submitted by Reuben Kyle

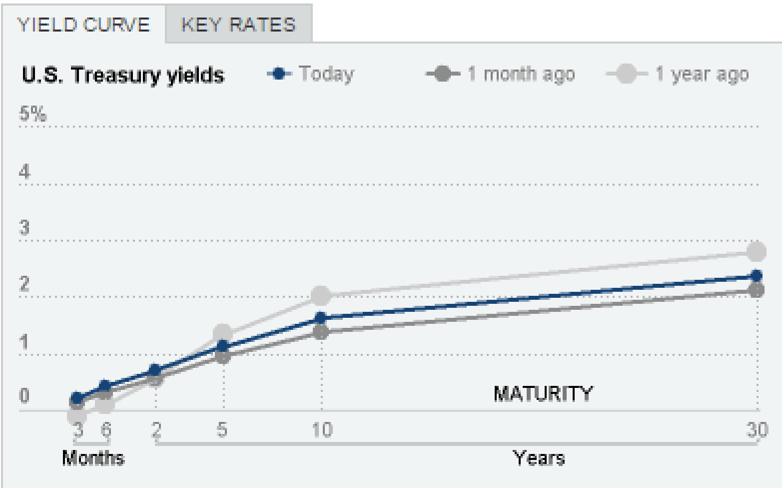
Summary: I want to apologize for not reporting on the pipeline break (see map below) that occurred late last week. I did see the story just about the time I finished the update but failed to mention it. From my Principles of Economics lecture notes, economists would have predicted much of what has happened to gas prices as soon as the information about the leak was released. Both gasoline consumers and gasoline sellers reacted as expected. Sellers fearing a loss of supplies raise their prices immediately. Consumers fearing a shortage of gasoline immediately went to top up their tanks. As a result, both reactions pushed prices up. As for sellers, the last thing any seller wants is to have no product to sell when buyers want it. And buyers, particularly those whose living requires that they drive, do not want to get caught with no gas. So, it is not simply always just a matter of greed that leads to these situations; people are only reacting to protect their own interests. (That concludes my sermon for the week.) This week's news is much the same as last week, more downs than ups. Labor markets continue to be positive but the housing market is still constrained on the supply of new houses.



Dr. Ratajczak's Weekly Commentary

Monday: This week Dr. R gives us a lesson on yield curves, the behavior of yields on bonds of different maturities. (See the yield curve for U.S. Treasury bonds as of 9-20-16.) Typically, the longer the maturity the higher the yield as investors require some premium for the increased risk of holding a 10-year bond compared to a 2-year bond. He discusses changes in the yield curve since the Great Recession. Pointing to a downward revision in the Atlanta Fed's predicted 3rd quarter GDP growth rate he revised his own from 3% to 2.7%. In short, he is a little gloomy this week.

Bonds »



Census Bureau

Tuesday, [New Residential Construction](): In August 2016, the number of building permits issued was 0.4% below the number in July and 2.3% below the level in August 2015. However, permits for single-family houses were up by 3.7% for the month. Housing starts were down by 5.8% from July but up 0.9% above those of August 2015. Single family starts were down 6.0%. Housing completions were also down, by 3.4%, from July but 8.3% higher than in August 2015. Single family completions were 0.3% below those of July.

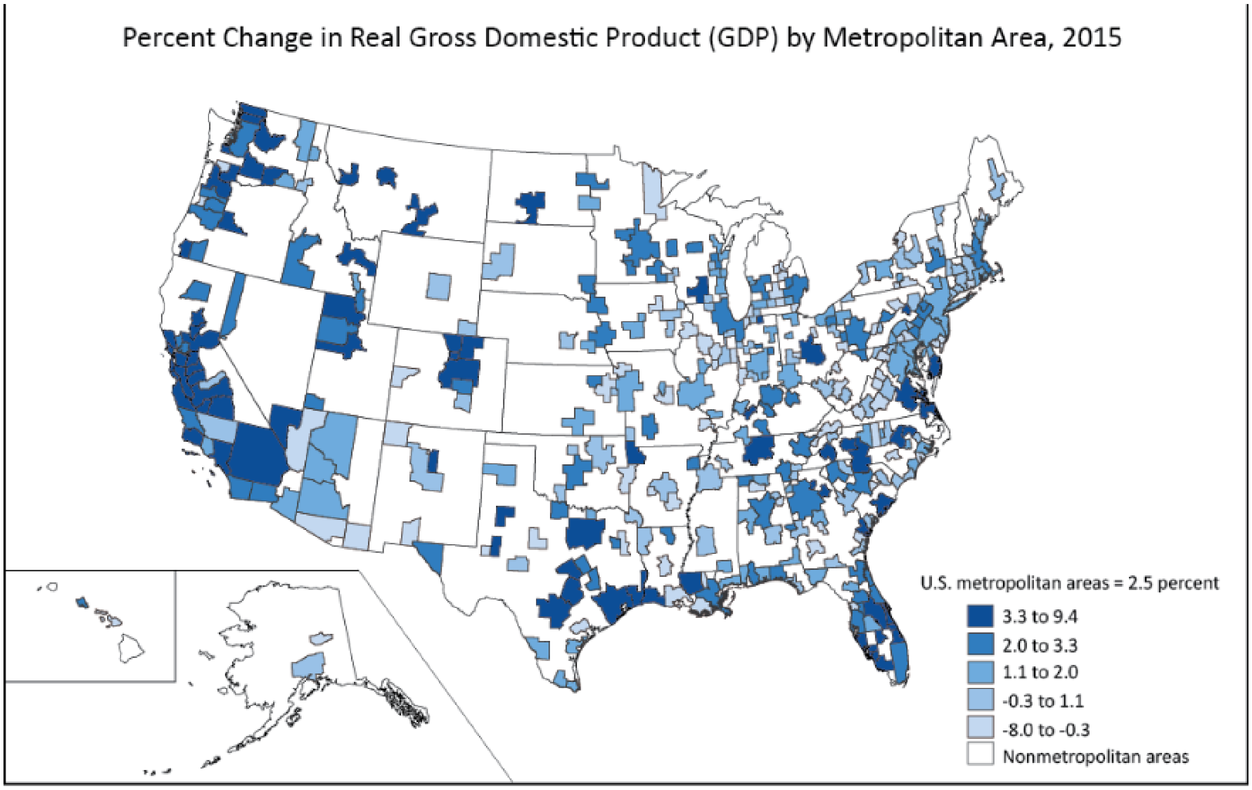
Bureau of Labor Statistics

Tuesday, Regional and State Employment and Unemployment: In August 2016, unemployment rates were (statistically) significantly higher in six states, lower in three, and "stable" in 41 states and the District of Columbia. South Dakota had the lowest unemployment rate at 2.9% and Alaska had the highest rate at 6.8%. Tennessee's unemployment rate was 4.4%, up from 4.3% in July, and significantly lower than the 5.6% in August 2015. Total nonfarm employment increased significantly in four states and the District of Columbia, fell in three states, and was stable in 43 states. In Tennessee employment increased by 7,300 jobs in August and by 64,000 since August 2015. Construction added 1,700 jobs in Tennessee for the month, manufacturing lost 200 jobs, and government lost 3,200 jobs.

Thursday, Employee Tenure: In January 2016, the median number of years that American wage and salary workers had been with their current employer was 4.2 years compared with 4.6 years in January 2014. The report parses the survey results in many different ways: by race and ethnicity, age, occupation, industry, and public versus private sector. The report cautions about reading too much into changes in tenure as there are many factors that influence it as the economy expands and contracts. *The Wall Street Journal* contends that the decline could be a good sign. "Still, there's a strong case that the latest decline is good news about the economy. It came during an especially strong stretch of hiring: Nonfarm payrolls rose by nearly 5.8 million in 2014 and 2015, the strongest two years of job creation since 1998 and 1999, according to Labor Department data…There is no sign of a surge in layoffs that might be forcing workers to find new jobs. Initial jobless claims have declined since early 2014 and lately have been hovering at historically low levels. In fact, increasingly confident workers seem to be voluntarily quitting their jobs in search of new, better positions. The quits rate rose from 1.7% in January 2014 to 2.0% in January 2016, and was 2.1% as of July."

Bureau of Economic Analysis

Tuesday, Gross Domestic Product (GDP) by Metropolitan Area, 2015: Inflation-adjusted GDP increased in 292 metropolitan statistical areas (MSA) in 2015 with business and professional services; wholesale and retail trade; and finance, insurance, real estate, rental and leasing as the leading sectors. "Collectively, real GDP for U. S. metropolitan areas increased 2.5 percent in 2015 after increasing 2.3 percent in 2014." The map below shows the percentage changes in GDP by MSA for 2015.



U.S. Bureau of Economic Analysis

U.S. Department of Labor

Thursday, Initial Claims: For the week ending September 17, 2016, initial claims for unemployment insurance fell by 8,000 to 252,000 and the four-week moving average was 258,500 down 2,250. In the prior week, ending September 10, one state reported an increase of 1,000 or more new claims and six states reported decreases of 1,000 or more. Tennessee reported a decrease of 101 new claims.

Board of Governors of the Federal Reserve System

Wednesday, Federal Open Market Committee (FOMC) Meeting Announcement: The committee decided to "maintain the target range for the federal funds rate at 1/4 to 1/2 percent. The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation." But this time three members voted against this decision and for raising the fed funds rate. Quiz: Do FOMC announcements move financial markets? See below.

Wednesday, FOMC Forecasts: The September 2016 projections for the economy were somewhat lower than in June. The median forecast for the rate of change in GDP in 2016 is 1.8% down from 2% in June. The median unemployment rate forecast for the year is 4.8% up from 4.7% in June. Their preferred inflation measure, the Personal Consumption Expenditure (PCE) index, is predicted to be 1.3% compared with 1.4% in June with the "core" PCE index forecast to be 1.7%. The projected fed funds rate for the year is 0.6% a decline from 0.9% in the previous forecast. Regarding that final projection, it evidently means that quite a few of the forecasters predict no further change in the rate in 2016.

Federal Housing Finance Agency

Thursday, FHFA House Price Index: This index rose by 0.5% in July 2016 from 0.3% in June. From July 2015 through July 2016 the index is up by 5.8%. In the East South Central division, which includes Tennessee, the index is up by 5.4% over that 12-month period.

The Conference Board

Thursday, Leading Economic Indicators (LEI): In August 2016, the LEI declined by 0.2% after increases in both June and July. The index stands at 124.1 (2010 = 100). "While the U.S. LEI declined in August, its trend still points to moderate economic growth in the months ahead," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "Although strengths and weaknesses among the leading indicators are roughly balanced, positive contributions from the financial indicators were more than offset by weakening of nonfinancial indicators, such as leading indicators of labor markets, suggesting some risks to growth persist." The Coincident Economic Index rose by 0.1% in August.

National Association of Home Builders

Monday, Housing Market Index: The September 2016 index of builders' confidence jumped six points to 65 from the August reading. This index is now at its highest level since 2005. NAHB Chief Economist Robert Dietz stated: "With the inventory of new and existing homes remaining tight, builders are confident that if they can build more homes they can sell them, … Though solid job creation and low interest rates are also fueling demand, builders continue to be hampered by supply-side constraints that include shortages of labor and lots."

National Association of Realtors (NAR)

Thursday, Existing Home Sales: In August 2016, the seasonally-adjusted, annual rate of home sales was 5.33 million down 0.9% from the 5.38 million in July but 0.8% higher than in August 2015. Lawrence Yun, Chief NAR Economist, stated: "Healthy labor markets in most the country should be creating a sustained demand for home purchases…However, there's no question that after peaking in

June, sales in a majority of the country have inched backwards because inventory isn't picking up to tame price growth and replace what's being quickly sold."

Markit Economics

Friday, Purchasing Managers' Index (PMI) Manufacturing Flash: The preliminary index for September 2016 is 51.4 down from 52.0 in August. Tim Moore, Senior Markit Economist stated: "September's survey data points to a sustained upturn in manufacturing production, although growth remains subdued overall and only slightly faster than seen through the first half of 2016. However, manufacturers reported firmer job hiring than one month previously and input price inflation nudged upwards, meaning that the weaker headline PMI figure is unlikely to dampen expectations that the Fed will tighten policy at the end of the year."

Bloomberg.com

Thursday, Consumer Comfort Index: The latest index is 41.3 down from 42.2 the previous week. "After reaching a 2016 high just a month ago, the Bloomberg Consumer Comfort Index reached its lowest point of the year this week, continuing its month-long downward trend."

The Wall Street Journal

Monday, Uber's Pricing Formula Has Allowed Economists to Map Out a Real Demand Curve: For those readers who took, or better yet taught, a Principles of Economics course here is a very interesting story. Economists use a model of markets that include a "demand curve," a concept that is useful to understand how markets might work but with the proviso that they are only a theoretical construction. However, the increased use of very large collections of consumer purchases frequently from Internet retailing sites, though also from credit card purchases, economists are beginning to actually derive demand curves that have practical application to businesses. This story relates just how Uber is able to fine tune its pricing so that an actual demand curve can be generated.

The New York Times

Monday, Why Raising Interest Rates Has Been Such a Tough Call for the Fed: If you have been confused about the long discussion over the Federal Reserve's decision about when to raise the so-called fed funds rate this story provides some insight and provides some economic history, something I think is always useful. By the way, the fed funds rate is the interest rate that banks charge for lending to other banks for overnight loans in order to cover their required reserves. The fed funds rate is the only interest rate that the Fed directly influences. That said, many other interest rates are tied to the fed funds rate.

Tuesday, Japan's Negative Interest Rates Explained: Here is a short article explaining the logic of negative interest rates and their impact in Japan, and in Europe as well. Would you be willing to pay your bank to have them hold your money?