

Economic Update, September 30, 2016  
Submitted by Reuben Kyle

Summary: If you just looked at what's up or down, you might get the impression that the U.S. economy was not doing well but taking a longer-run view shows that things are better than they have been in quite a while. For example, home sales were down in the latest reports but much ahead of a year ago or even longer. The same is true for initial claims with the level of new claims on a streak for decades. This week we got three different consumer confidence measures and despite some backing up lately they all point to stronger consumer outlooks. Take a look at the last item on the dramatic fall in the number of Food Stamp recipients, while some is the result of state cutbacks — perhaps due to improved economic conditions in those states — but also due to an improved national economy.

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

Monday: Dr. R begins this week with a discussion of central bank behavior in Japan and the U.S. He is still expecting an increase in the fed funds rate probably in December but maybe November. With expected additions to the world's oil supply he is expecting downward pressure on oil prices until mid-2018. His current forecast for 3<sup>rd</sup> quarter GDP growth is 2.7% and due to last week's drop in initial claims he says that he has raised his forecast for September job growth. Auto sales should rebound in the next report and his forecast for the Leading Economic Indicators is an increase of 0.2%.. However, his table at the top of the report shows a forecast for the Consumer Confidence Index of a negative 1.2% so he missed that one.

Census Bureau

Monday, [New Residential Sales](#): In August 2016, sales of new single-family houses were 7.6% below those of July but 20.6% higher than in August 2015. The median sales price was \$284,000 compared with \$293,100 in July. At the current sales rate there is a 4 to 6-month supply of houses available.

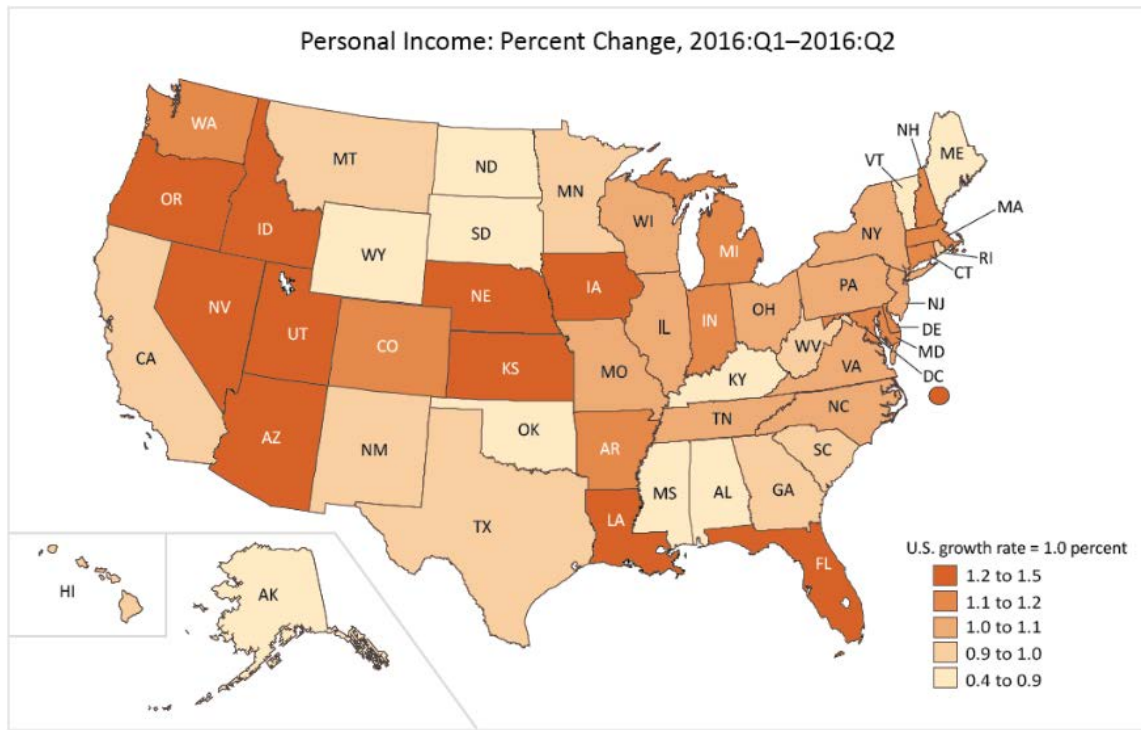
Wednesday, [Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders](#): New orders for manufactured durable goods fell by \$0.1 billion, or less than 0.1%, in August 2016. Shipments were down by 0.4% and unfilled orders also declined by 0.1%. Inventories increased by 0.1%. Nondefense capital goods followed the same pattern with new orders, shipments, and unfilled orders declining and inventories increasing. Defense capital goods saw increased new orders and unfilled orders and declines in shipments and inventories.

Bureau of Labor Statistics

Wednesday, [Metropolitan Area Employment and Unemployment](#): In August 2016, unemployment rates were lower in 242 of 387 Metropolitan Statistical Areas (MSAs) than in August 2015, higher in 123, and unchanged in 22 metro areas. The lowest unemployment rate, 2.1%, was in Sioux Falls, South Dakota and the highest rate was in Yuma, Arizona at 24.6%. Total nonfarm employment increased in 320 MSAs over the August-to-August period, 59 had employment losses, and eight had no change. Among the 10 Tennessee MSAs, five saw no change in their unemployment rate from July to August and five had higher rates. Remembering that these data are not seasonally adjusted, all 10 had lower unemployment rates in August 2016 than in August 2015. Nonfarm employment increased in all 10 Tennessee MSAs from July to August 2016 and from August 2015 to August 2016. Over both periods, the Cleveland MSA had the largest percentage increase, 2.11% for the month and 6.36% for the 12-month period.

Bureau of Economic Analysis

Wednesday, [State Quarterly Personal Income](#): In the 2<sup>nd</sup> quarter of 2016, state personal income increased by 1.0% from the first quarter. The map below shows the changes for Q1 2016 to Q2 2016. In Tennessee the increase was 1.0%, ranking 29<sup>th</sup> among the 50 states.



U.S. Bureau of Economic Analysis

Thursday, [Gross Domestic Product](#), 2<sup>nd</sup> Quarter 2016 (3<sup>rd</sup> estimate): The revised estimate of 2<sup>nd</sup> quarter U.S. GDP growth is 1.4% compared with the advance estimate of 1.2% and the second estimate of 1.1%. “The upward revision to the percent change in real GDP primarily reflected upward revisions to nonresidential fixed investment, private inventory investment, and exports.” The advance estimate for the 3<sup>rd</sup> quarter will be released October 28.

Friday, [Personal Income and Outlay](#), August 2016: Personal Income and Disposable Personal Income (DPI) both increased by 0.2% in August and real DPI increased by 0.1%. Real Personal Consumption Expenditures (PCE) fell by 0.1% as the PCE Price Index rose by 0.1%. Personal Outlays rose by \$6.1 billion and the savings rate was 5.7%.

U.S. Department of Labor

Thursday, [Initial Claims](#): In the latest week, ending September 24, 2016, initial claims for unemployment insurance rose by 3,000 to 254,000 and the four-week moving average fell by 2,250 to 256,000. “This marks 82 consecutive weeks of initial claims below 300,000, the longest streak since 1970.” For the previous week, ending September 17, four states reported increases of 1,000 or more in initial claims and no state reported a decrease of 1,000 or more. Tennessee reported a decrease of 89 new claims.

Markit Economics

Tuesday, [PMI Services Flash](#): The preliminary September 2016 index is 51.9 up from the final August reading of 51.0. “This signalled the fastest monthly rise in activity since April, albeit one that was still relatively modest. Activity has now increased in each of the past seven months. Where higher

activity was recorded, this was widely linked by panellists to ongoing new business growth.” According to Chris Williamson, Chief Market Economist, “A drop in optimism about the year ahead to a near post-crisis low meanwhile cast a shadow over the outlook.”

National Association of Realtors

Thursday, [Pending Home Sales Index](#): In August 2016, the Pending Home Sales Index fell from 111.2 to 108.5, or 2.4%. According to Lawrence Yun, Chief NAR Economist: “Contract activity slackened throughout the country in August except for in the Northeast, where higher inventory totals are giving home shoppers greater options and better success signing a contract, ... In most other areas, an increased number of prospective buyers appear to be either wavering at the steeper home prices pushed up by inventory shortages or disheartened by the competition for the miniscule number of affordable listings.” Yun predicts existing home sales in 2016 will be “around 5.36 million,” which would be 2.1% higher than in 2015 and the highest level since 2006.

Standard & Poor’s

Tuesday, [S&P Case-Shiller House Price Index](#): In July 2016, the National Home Price Index was up by 5.1%, at an annual rate, compared with 5.0% in June. David M. Blitzer, Managing Director and Chairman of the Index Committee at S&P Dow Jones Indices stated: “The S&P CoreLogic Case-Shiller National Index is within 0.6% of the record high set in July 2006. Seven of the 20 cities have already set new record highs. The 10-year, 20-year, and National indices have been rising at about 5% per year over the last 24 months. Eight of the cities are seeing prices up 6% or more in the last year. Given that the overall inflation is a bit below 2%, the pace is probably not sustainable over the long term.”

The Conference Board

Tuesday, [Consumer Confidence Index](#): In September 2016 this index increased from 101.8 in August to 104.1 (1985=100). Lynn Franco, Director of Economic Indicators at The Conference Board is quoted: “Consumer confidence increased in September for a second consecutive month and is now at its highest level since the recession, ... Consumers’ assessment of present-day conditions improved, primarily the result of a more positive view of the labor market. Looking ahead, consumers are more upbeat about the short-term employment outlook, but somewhat neutral about business conditions and income prospects. Overall, consumers continue to rate current conditions favorably and foresee moderate economic expansion in the months ahead.”

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index is 41.6 up slightly from the 41.3 the previous week. “Whatever its current challenges, the CCI’s 2016 average to date is its highest yearly average since pre-recession 2007’s 44.8. And it’s currently 1.6 points higher than its historical average, 41.7, in weekly polls since late 1985.”

University of Michigan

Friday, [Consumer Sentiment Index](#): The final September 2016 index reading is 91.2 up from 89.8 in August and 87.2 in September 2015.

Center of Budget and Policy Priorities

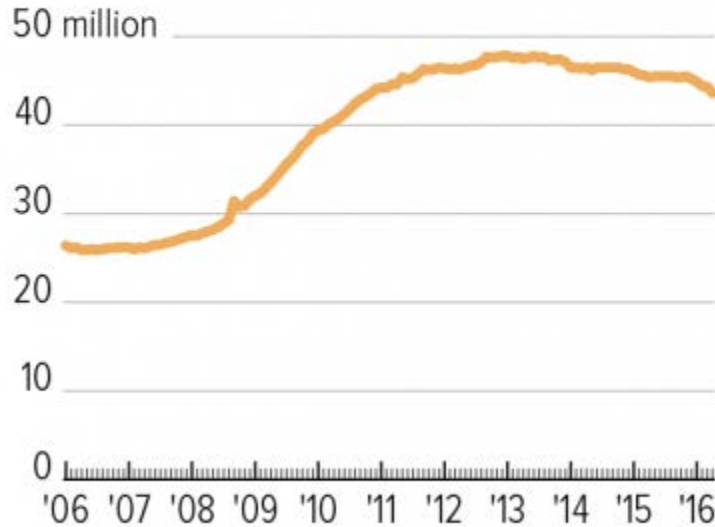
In a [report](#) summarized by the Federal Funds Information for States (sorry I can’t provide you a link) the number of participants in the Supplemental Nutrition Assistance Program (SNAP) has declined significantly over the period April 2013 to April 2016. Tennessee ranked seventh in the percentage decline in the number of SNAP, once known as Food Stamps, participants over that period with a 18.2% drop. The report attributes the decline to both the economic recovery from the Great Recession and a return by many states to a three-month time limit for childless unemployed adults. In Tennessee, 16.5% of the state’s population were SNAP participants in April 2016. On a positive note Tennessee tied with

California for fourth with a 3.7 percentage point decline in its unemployment rate over that three-year period. Participation in the SNAP program rose dramatically during the recession. The figure below shows the numbers since 2006.

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## SNAP Participation Is Falling After Rising During the Recession

Number of SNAP Participants



Source: Department of Agriculture Program Data

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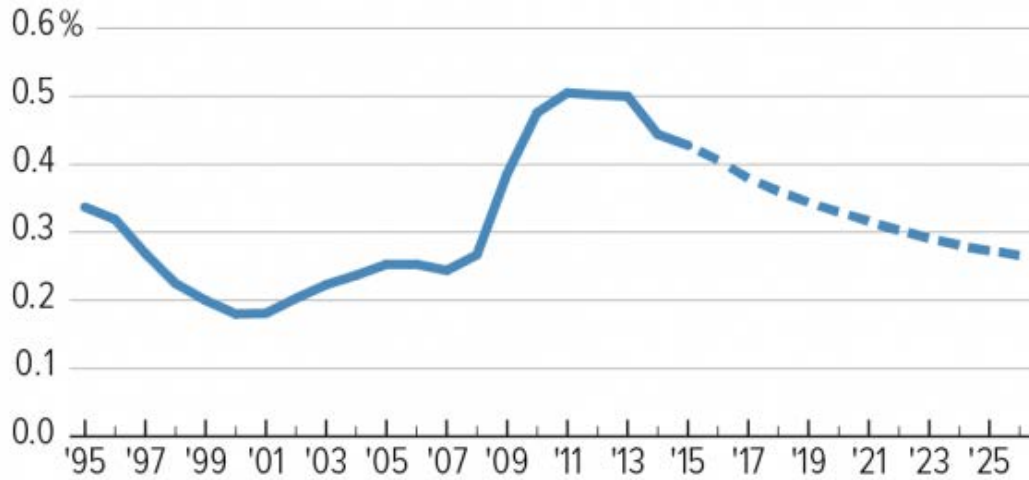
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Along with the decline in the numbers participating the costs of the program have fallen and are expected to continue to do so.

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## SNAP Costs Falling, Projected to Fall Further

Spending as a share of gross domestic product



Note: dotted line indicates CBO projection.

Sources: Office of Management and Budget, Bureau of Economic Analysis, and Congressional Budget Office March 2016 baseline

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