

Economic Update, February 19, 2016
Submitted by Reuben Kyle

Summary: The week's economic news was mixed. On the down side, housing markets slowed somewhat, the Leading Economic Indicators fell, and there was a glimmer of inflation omitting the continuing fall in gasoline prices. On the positive side, industrial production picked up and real average hourly earnings increased. You might check out the story about the one-handed economist at the end of this report. As for the prospect of a recession see Dr. Ratajczak's comments below.

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

Tuesday: Dr. R doesn't like for people to copy his comments but I thought his lead off this week was too important to miss so I took a "Snip" of it.

COMMENTARY - If a recession is looming, someone should tell the Atlanta Fed, the Census Bureau, and the Labor Department. Atlanta has actually been raising its estimates of first quarter growth and now projects 2.7% gains. My estimates are lower, but I also am raising my projections. The Census continues to report robust consumer spending. Excluding gasoline sales, which mostly reflect a drop in price, retail growth jumped 0.5% in January. Because of falling gasoline prices, this strong contribution to first quarter growth is being accomplished while the household sector is adding to its savings. In short, the same strong consumer contribution to growth, more than 2 percentage points, is likely to persist if not improve in the spring.

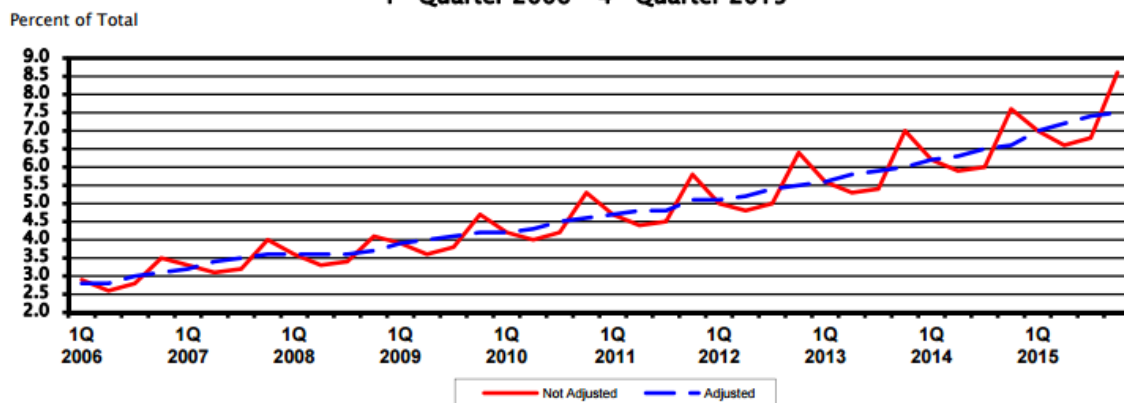
He also gives his reasons for improvements in international economies—not necessarily financial markets—though he allows that Europe could still have a recession. He points out that the Atlanta Fed is forecasting a 2.7% GDP growth rate for the 1st quarter of this year. His own forecast, not offered yet, he says is slightly lower but in the ball park. As last week he gives his own assessment of U.S. stock prices but I leave that to the interested reader.

Census Bureau

Wednesday, [New Residential Construction](#): In January 2016, the number of building permits issued and the number of housing starts both fell from the previous month. Permits were down 0.2% and starts declined by 3.8%. In both cases the numbers for single-family houses fell. Housing completions did increase in January, by 2.0% for the month and by 8.4% from a year earlier.

Wednesday, [Quarterly Retail E-Commerce Sales](#): Fourth quarter retail E-Commerce sales were \$89.1 billion, up by 2.1% from the third quarter and 14.7% from Q4 2014. By comparison, total retail sales in Q4 2015 amounted to \$1,184.8 billion, unchanged from Q3 2015. E-Commerce as a percentage of total retail sales is rising steadily but only from 6.6% to 7.5% in 2015.

**Estimated Quarterly U.S. Retail E-commerce Sales as a Percent of Total Quarterly Retail Sales:
1st Quarter 2006 – 4th Quarter 2015**



Bureau of Labor Statistics

Wednesday, [Producer Price Index](#) (PPI): In January 2016, the PPI for final demand increased by 0.1% and over the previous 12 months the index fell by 0.2%. Excluding food, energy, and trade services, the index increased by 0.2% for the second consecutive month. “(Trade indexes measure changes in margins received by wholesalers and retailers.)” That latter index increased by 0.9% in January.

Friday, [Consumer Price Index](#) (CPI): The January 2016 CPI was unchanged from December though excluding food and energy the index rose by 0.3%. Since January 2015, the total index has risen by 1.4%. It is energy prices that have been driving the index for more than a year. In January alone the total energy index was down by 2.8% and the gasoline index was 4.8% lower. Over the prior 12-month period the total energy index is down by 6.5%.

Friday, [Real Earnings](#): In January 2016, average hourly earnings rose by 0.5% and combined with no change in the CPI inflation-adjusted average hourly earnings were up by 0.4%. From January 2015 to January 2016, real average hourly earnings have risen by 1.1%. For production and non-supervisory workers the increase in real average hourly earnings was 0.3% for the month and 1.3% for the previous 12 months.

U.S. Department of Labor

Thursday, [Initial Claims](#): New claims for unemployment insurance for the week ending February 13, 2016 were 262,000 down by 7,000 from the previous week and the four-week moving average was 273,250 down 8,000. For the prior week, ending February 6, one state, Texas, reported an increase of 1,000 or more initial claims and nine states, including Tennessee, reported decreases of 1,000 or more. Tennessee reported 3,067 fewer new claims but offered no comment.

Board of Governors of Federal Reserve

Wednesday, [Industrial Production](#): After declining for much of 2015, in January 2016 industrial production increased by 0.9%, that in spite of the negative impact of a winter storm late in the month. In construction, production fell by 0.3% for the month but manufacturing increased by 0.5%. “Manufacturing output rose 0.5 percent in January, with increases of about 1/2 percent both for nondurables and durables and a small decrease for other manufacturing (publishing and logging). Within nondurables, the largest gains, about 1 percent, were posted by food, beverage, and tobacco products and by chemicals, while the largest decreases, about 2 percent, were recorded by apparel and leather and by printing and support. Results for the major durable goods industries were spread between a drop of 1.3 percent for electrical equipment, appliances, and components and a gain of 2.8 percent for motor vehicles and parts.” Capacity utilization increased by 0.7 percentage points to 77.1% in January but it is still well below the average of 80.0% for 1972-2015.

Wednesday, [Federal Open Market Committee \(FOMC\) Minutes of Meeting](#): These minutes are from the meeting held January 26-27, 2016. They begin with a number of procedural matters for the operation of the committee. If you are interested in how the committee is organized and what functions it performs you may find this informative. Evidently there was a lively debate over interpreting the slowing of economic activity in the U.S. economy as well as the dramatic decline in international financial markets. In the end the committee decided to NOT change its existing policies. “Given the economic outlook, the Committee decided to maintain the target range for the federal funds rate at ¼ to ½ percent. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.” The vote was unanimous.

The Conference Board

Thursday, [Leading Economic Indicators](#) (LEI): In January 2016, the LEI was 123.2, 0.2% lower than in December. The Coincident Index increased by 0.3%. “The U.S. LEI fell slightly in January, driven

primarily by large declines in stock prices and further weakness in initial claims for unemployment insurance,” said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. “Despite back-to-back monthly declines, the index doesn’t signal a significant increase in the risk of recession, and its six-month growth rate remains consistent with a modest economic expansion through early 2016.” The leading index is a composite of 10 measures of economic activity. They currently include the following but they do change when a measure no longer predicts future changes:

- Average weekly hours, manufacturing
- Average weekly initial claims for unemployment insurance
- Manufacturers’ new orders, consumer goods and materials
- ISM® Index of New Orders
- Manufacturers' new orders, nondefense capital goods excluding aircraft orders
- Building permits, new private housing units
- Stock prices, 500 common stocks
- Leading Credit Index™
- Interest rate spread, 10-year Treasury bonds less federal funds
- Average consumer expectations for business conditions

National Association of Home Builders

Tuesday, [Housing Market Index](#): In February 2016, the index, a measure of builders’ confidence, fell from 61 to 58. While the index declined any number above 50 indicates that more builders see good conditions than poor. “Builders are reflecting consumers’ concerns about recent negative economic trends,” said NAHB Chief Economist David Crowe. “However, the fundamentals are in place for continued growth of the housing market. Historically low mortgage rates, steady job gains, improved household formations and significant pent up demand all point to a gradual upward trend for housing in the year ahead.”

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading is 44.3, down from 44.5 the previous week. “Retreating from a surge of post-New Year’s optimism, Americans’ expectations for the national economy now look much like they did late last year – even as overall consumer sentiment remains remarkably steady.”

Tennessee Department of Finance and Administration

Wednesday, [January 2016 Revenues \(for the state of Tennessee\)](#): State revenues, of \$1.3 billion, exceeded the budget forecast by \$45.6 million. F& A Commissioner Larry Martin stated: “January sales taxes, which included the holiday buying season, posted the largest monthly growth rate so far this fiscal year, and in fact, it’s been our strongest second quarter growth since 2006...”

MTSU/Business & Economic Research Center

Last Friday, Global Commerce, [Tennessee Trade Before and After the Global Crash](#): “The global economic crisis of 2008 was a disaster for world trade. In Tennessee, exports dropped by 12 percent (almost \$3 billion) between 2008 and 2009, the largest decline on record. Fortunately, exports again picked up. By 2014 Tennessee exports were 60 percent higher than the 2009 bottom...” This article tells the story of the shifts in the destinations of Tennessee exports as well as the origins of Tennessee imports. The biggest gainer in exports was in automobiles and parts, mainly cars and the biggest loser has been cotton. China has become one of the state’s largest trade partners at the expense of southeast Asia. The story includes an excellent interactive graphic of all dimensions of Tennessee’s foreign trade. In the 3rd quarter of 2015, the latest available data, Tennessee’s exports suffered along with the rest of the country. The sources of the slowdown can be traced to China’s economic slowdown so that there was a direct impact on Tennessee exporters. But, there was a secondary effect as slowing

Chinese growth impacted economic growth in Latin America which hurt U.S exports there. Then, the drop in commodity prices, namely oil, hurt the Canadian economy and Canada is Tennessee's largest export market.

MTSU/Office of Consumer Research

[Tennessee Business Barometer](#): Here is a relative newcomer to Tennessee economic news. The report is from only the third survey of 115 business leaders from around the state. Respondents are asked 17 questions about their recent experience. The latest survey was "conducted between January 12 and January 19. With a sample of 115 people, we can say with 95% confidence that the amount of survey error due to taking a random sample instead of surveying all members of the population is $\pm 9.1\%$. Other factors such as problems with question wording and question interpretation can also introduce additional bias or error into the results." We will try to follow this report but at this point it is extremely volatile.

The Wall Street Journal

Wednesday, [The One-Handed Economist Blues](#): Turn the volume up on your computer. This is great!! BB King would be proud.