

Economic Update, February 3, 2017
Submitted by Reuben Kyle

Summary: It's the first Friday of the month so the big economic news of the week is 227,000 jobs added in January. Other labor market measures were also positive. The rest of the economic news is upbeat as well, with gains in manufacturing as well as the non-manufacturing sector. Consumer confidence measures remain high. Housing continues to be strong.

Census Bureau

Tuesday, [Housing Vacancies and Homeownership](#): In the 4th quarter of 2016, the homeownership rate was 63.7%, little changed from the 63.5% in Q3 2016 or the 63.8% in Q4 2015. The rental vacancy rate in the 4th quarter was 6.9%, down from 7.0% in Q4 2015 and 9.4% in Q4 2011.

Wednesday, [Construction Spending](#): In December 2016, construction spending was down by 0.2% from November but up by 4.2% from December 2015. For calendar year 2016, total construction spending was \$1,162.4 billion or 4.5% higher than in 2015. Private construction spending in 2016 was 6.4% above that in 2015, with residential spending up by 5.2% and non-residential 7.8% more than in 2015. Public construction spending was 1.0% below the year before while education construction increased by 4.7% over 2015, and highway spending was up by 2.0% for the year.

Friday, [Manufacturers' Shipments, Inventories, and Orders](#): In December 2016, new orders for manufactured goods, shipments, and inventories all increased while unfilled orders declined. While new orders for manufactured durable goods fell by 0.5%, new orders for nondurables increased by 3.1%. Shipments for durables and nondurables increased. Inventories for durables fell while inventories for nondurables increased.

Bureau of Labor Statistics

Tuesday, [Employment Cost Index](#): In the 4th quarter of 2016, employee compensation costs for employers rose by 0.5% from the 3rd quarter. Wages and salaries, about 70% of total compensation, increased by 0.5%, and benefits were 0.4% higher. Over the 12-month calendar year 2016, employee compensation was up by 2.1% for civilian workers and 2.2% for private sector workers. State and local government workers' compensation rose by 2.4% for the year.

Wednesday, [Metropolitan Area Employment and Unemployment](#): In December 2016, unemployment rates fell in 236 of 387 Metropolitan Statistical Areas (MSAs). Rates were higher in 111 and unchanged in 40. The lowest rate of 2.1% was shared by Ames, Iowa and Burlington-South Burlington, Vermont while El Centro, California had the highest rate at 18.8%. Total nonfarm employment increased, year-over-year, in 292 of the 387 MSAs, declined in 87, and was unchanged in eight. Among the 10 Tennessee MSAs, unemployment rates, which are not seasonally adjusted, rose in all 10 from November to December but those rates fell in nine of the 10 between December 2015 and December 2016. Only in the Kingsport-Bristol-Bristol (Virginia) MSA was the rate unchanged year-over-year. Nonfarm employment increased in six of the 10 Tennessee MSAs from November to December and fell in four. December 2015 to December 2016, employment increased in the nine MSAs, leaving only Kingsport-Bristol-Bristol (VA) with a decline for the year.

Thursday, [Productivity and Costs](#): In the 4th quarter of 2016, labor productivity increased by 1.6% as output increased by 2.2% and hours worked increased by 0.9%. From Q4 2015 to Q4 2016, productivity was up by 1.0%. Unit labor costs rose by 1.7% for the quarter and by 1.9% year-over-year. Manufacturing productivity increased by 0.7% in the quarter and by 0.4% from Q2 2015 to Q4 2016.

Friday, [Employment Situation](#): In January 2017, employment increased by 227,000 and the unemployment rate was basically unchanged at 4.8%. From the Household Survey, the number of people in the labor force increased slightly, and the Labor Force Participation Rate edged up to 62.9%

from 62.7%. According to the Establishment Survey, the private sector added 237,000 jobs while government lost 1,000. Motor vehicles and parts gained 3,300 jobs, and construction added 36,000. In the goods producing sector, employment in retail trade increased by 45,900, financial activities added 32,000, health care and social assistance gained 2,100, and leisure and hospitality employment rose by 34,000. Average weekly hours worked was unchanged at 34.4. The diffusion indexes were 58.8% for total private and 48.1% for manufacturing.

ADP.com

Wednesday, [ADP Employment Report](#): In January 2017, private sector employment increased by 246,000. Construction added 25,000 jobs; manufacturing gained 15,000; trade, transportation and utilities increased by 63,000 jobs.

Bureau of Economic Analysis

Monday, [Personal Income and Outlays, December 2016](#): Personal Income and Disposable Personal Income (DPI) both increased by 0.3% in December while real DPI increased by 0.1%. Personal Consumption Expenditures (PCE) rose by 0.5% for the month and by 0.3% when adjusted for inflation. the PCE Price Index was up 0.2% in December. For the calendar year 2016, Personal Income increased by 3.5%, DPI and PCE were both up by 3.8%, and when adjusted for inflation, both rose by 2.7%.

Thursday, [Gross Domestic Product by State, 3rd Quarter 2016](#): Gross Domestic Product, adjusted for inflation, increased in 48 states and the District of Columbia in the 3rd quarter. The highest rate of increase, on an annual basis, was 7.1% in South Dakota while New Mexico's rate was a negative 0.1%. Tennessee's GDP grew by 3.2% in Q3.

U.S. Department of Labor

Thursday, [Initial Claims](#): For the week ending January 28, 2017, new claims for unemployment insurance fell by 14,000 to 246,000 while the four-week moving average rose by 2,250 to 248,000. In the prior week, ending January 21, no state reported an increase of 1,000 or more initial claims, and 20 states reported decreases of 1,000 or more new claims. Tennessee reported a drop of 1,199 in new claims but offered no comment.

Board of Governors of the Federal Reserve

Tuesday, Federal Open Market Committee (FOMC) Meeting

Wednesday, [FOMC Meeting Announcement](#): The committee observed that employment gains remained solid and the unemployment rate was low but their preferred measure of inflation—the Personal Consumption Expenditure Price Index—remains below the 2% target. “Market-based measures of inflation compensation remain low; most survey-based measures of longer-term inflation expectations are little changed, on balance.” As a result, the committee voted unanimously to leave the federal funds rate unchanged at ½% to ¾%.

The Conference Board

Tuesday, [Consumer Confidence Index](#): In January 2017, the Conference Board index fell from 113.3 in December to 111.8 (1985=100). According to Lynn Franco, Director of Economic Indicators at The Conference Board: “Consumer confidence decreased in January, after reaching a 15-year high in December (Aug. 2001, 114.0) ...The decline in confidence was driven solely by a less optimistic outlook for business conditions, jobs, and especially consumers' income prospects. Consumers' assessment of current conditions, on the other hand, improved in January. Despite the retreat in confidence, consumers remain confident that the economy will continue to expand in the coming months.”

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading is 46.6 compared to 45.2 the previous week. “The consumer comfort index is back near its post-election high, at 46.6 in the January

29 week. This is up a very sharp 1.4 points from prior the week and compares with the 46.7 high in late December. Strength in consumer confidence readings ultimately reflects strength in the jobs outlook.”

Institute for Supply Management (ISM)

Wednesday, [January 2017 Manufacturing ISM Report on Business](#): The January index was 56%, 1.5 percentage points above the 54.5% in December. The overall economy expanded for the 92nd consecutive month. Of the 18 manufacturing industry sectors surveyed, 12 reported expanding and five reported contracting. A few of respondents’ comments are below:

- “Demand very steady to start the year.” (Chemical Products)
- “January revenue target slightly lower following a big December shipment month.” (Computer & Electronic Products)
- “Strong start to the new year. Production is increasing and we are adding capacity.” (Plastics & Rubber Products)
- “Business looks stronger moving into the first quarter of 2017.” (Primary Metals)

Friday, [January 2017 Non-Manufacturing ISM Report on Business](#): In January 2017, this index was 56.5%, down 0.1 percentage points from the 56.6% in December. The non-manufacturing sector expanded for the 85th consecutive month. Twelve of the 18 non-manufacturing industry sectors surveyed reported expanding and five reported contracting. The table below shows the details for both surveys.

ISM® NON-MANUFACTURING SURVEY RESULTS AT A GLANCE
COMPARISON OF ISM® NON-MANUFACTURING AND ISM® MANUFACTURING SURVEYS*
JANUARY 2017

Index	Non-Manufacturing						Manufacturing		
	Series Index Jan	Series Index Dec	Percent Point Change	Direction	Rate of Change	Trend** (Months)	Series Index Jan	Series Index Dec	Percent Point Change
NMI®/PMI®	56.5	56.6	-0.1	Growing	Slower	85	56.0	54.5	+1.5
Business Activity/Production	60.3	60.9	-0.6	Growing	Slower	90	61.4	59.4	+2.0
New Orders	58.6	60.7	-2.1	Growing	Slower	90	60.4	60.3	+0.1
Employment	54.7	52.7	+2.0	Growing	Faster	35	56.1	52.8	+3.3
Supplier Deliveries	52.5	52.0	+0.5	Slowing	Faster	13	53.6	53.0	+0.6
Inventories	48.0	52.0	-4.0	Contracting	From Growing	1	48.5	47.0	+1.5
Prices	59.0	56.1	+2.9	Increasing	Faster	10	69.0	65.5	+3.5
Backlog of Orders	50.0	48.0	+2.0	Unchanged	From Contracting	1	49.5	49.0	+0.5
New Export Orders	48.0	53.0	-5.0	Contracting	From Growing	1	54.5	56.0	-1.5
Imports	54.0	50.0	+4.0	Growing	From Unchanged	1	50.0	50.5	-0.5
Inventory Sentiment	62.0	61.5	+0.5	Too High	Faster	236	N/A	N/A	N/A
Customers' Inventories	N/A	N/A	N/A	N/A	N/A	N/A	48.5	49.0	-0.5
Overall Economy				Growing	Slower	90			
Non-Manufacturing Sector				Growing	Slower	85			

* **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.

Markit Economics

Wednesday, [Purchasing Managers' Index \(PMI\) Manufacturing Index](#): This index increased from 54.3 in December to 55.0 in January 2017. Chris Williamson, Chief Markit Economist, wrote: "The US manufacturing sector has started 2017 with strong momentum. Despite exports being subdued by the strong dollar, order books are growing at the fastest pace for over two years on the back of improved domestic demand. With optimism about the year ahead at the highest since last March, the outlook has also brightened."

Friday, [PMI Services Index](#): In contrast to the ISM survey, the Markit survey for January 2017 reported an index of 55.6, up from 53.9 in December. Business activity rose at the fastest rate since November 2015. Chief Economist Williamson stated: "The US economy has started 2017 on the front

foot. Business activity across the economy is growing at the fastest rate for over a year and optimism about the business outlook has risen to the highest for a year and a half.... Even more encouraging is the ongoing impressive rate of job creation, with the January PMI numbers comparable to around 200,000 jobs being added.”

Autodata.com

Wednesday, [Motor Vehicle Sales](#): In January 2017, the seasonally-adjusted annual sales rate of light vehicles in the U.S. was 17.61 million compared with 18.43 million in December and 17.89 million in January 2016. Among the Tennessee assemblers, both General Motors and Nissan’s car sales were lower compared to January 2016. GM’s sales were down 21.1%, and Nissan’s sales were 9.0% below those in January 2016. Volkswagen’s sales were 17.1% higher than a year earlier. For all sales in the U.S. car sales were down by 12.2% while light truck sales rose by 5.7%.

National Association of Realtors

Monday, [Pending Home Sales](#): In December 2016, the Pending Home Sales Index added 1.6% from 107.3 to 109.0. Lawrence Yun, NAR chief economist says “contract activity was mixed throughout the country in December but ultimately ended on a high note to close out 2016. ‘Pending sales rebounded last month as enough buyers fended off rising mortgage rates and alarmingly low inventory levels to sign a contract...The main storyline in the early months of 2017 will be if supply can meaningfully increase to keep price growth at a moderate enough level for households to absorb higher borrowing costs. Sales will struggle to build on last year's strong pace if inventory conditions don't improve.’”

Standard & Poors’

Tuesday, [S&P CoreLogic Case-Shiller House Price Index](#): In November 2016, the National Price Index was up by 5.6%, on an annual average, compared with 5.5% in October. “With the S&P CoreLogic Case-Shiller National Home Price Index rising at about 5.5% annual rate over the last two-and-a-half years and having reached a new all-time high recently, one can argue that housing has recovered from the boom-bust cycle that began a dozen years ago,” says David M. Blitzer, Managing Director and Chairman of the Index Committee at S&P Dow Jones Indices.

Gallup.com

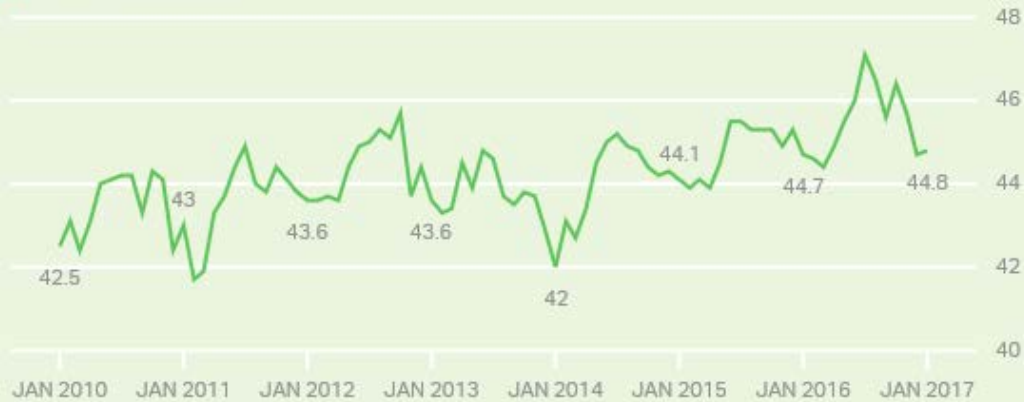
Wednesday, [Job Creation Index](#): In January 2017, this index was +34%, compared with +33% in December and most months since May 2016. The +34 was the highest level for the index in the nine-year history of this Gallup measure. “Workers in the East continue to report less robust hiring conditions than those in the West, Midwest and South. In January, the JCI score in the East was +31 -- significantly below the West (+36), Midwest (+35) and South (+34).”

Thursday, [Good Jobs Rate](#): In January 2017, the Good Jobs Rate was 44.8% compared with 44.7% in December and the highest rate for January since Gallup began tracking this measure in 2010. The chart below shows the monthly rate since January 2010.

U.S. Gallup Good Jobs Rate, Monthly Trend

January 2010-January 2017

■ Gallup Good Jobs Rate



Rates shown are for January of each year

GALLUP DAILY TRACKING

The New York Times

Monday, "[Wanted: Factory Workers, Degree Required:](#)" This article deals with the requirements of modern industrial workers and the options for developing the needed work force. In many reports that have been included in Weekly Updates, there have been complaints by employers that they are unable to find qualified workers. In fact, there is nothing new about this problem and complaint. The article offers some very timely ideas for improving entry-level worker skills as well as high school graduates' preparation for their next step.