Economic Update, June 30, 2017
Submitted by Reuben Kyle

Summary: Some economic news this week might suggest that the U.S. economy has slowed down a bit, but other pieces contradict that. The forecasters seem to be hedging somewhat, but they are not predicting any contraction. Housing markets are a puzzle. Prices are increasing, but sales have slowed. Consumer confidence measures have slipped a bit but remain high.

Census Bureau

Monday, Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders: In May 2017, New Orders declined by 1.1%. Excluding transportation equipment, New Orders increased by 0.1%. Shipments increased by 0.8%, including transportation equipment, which rose by 1.9%. Unfilled orders fell by 0.2%.

Wednesday, Advance Economic Indicator Report (International Trade, Retail and Wholesale): In May 2017, the preliminary report on the U.S. Balance of Trade deficit shows a decline of $1.2 billion as exports increased and imports fell. Both wholesale and retail inventories increased in May, wholesale inventories by 0.3% and retail by 0.6%. Both were higher than in May 2016.

Bureau of Labor Statistics

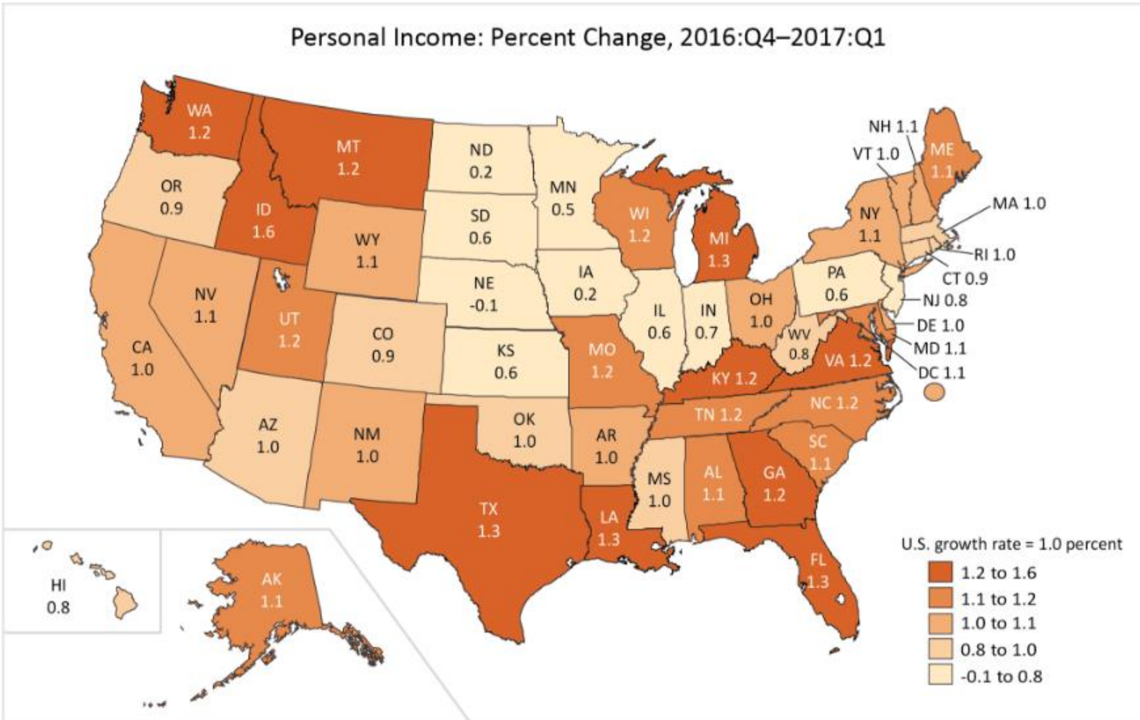
Tuesday, American Time Use Survey: This report is for 2016, and it has lots of information; below are a few samples from several categories.

> "-On the days they worked, 83 percent of employed persons did some or all of their work at their workplace and 22 percent did some or all of their work at home.
> "--On an average day, 85 percent of women and 69 percent of men spent some time doing household activities such as housework, cooking, lawn care, or financial and other household management.
> "--On an average day, nearly everyone age 15 and over (96 percent) engaged in some sort of leisure activity, such as watching TV, socializing, or exercising.
> "--Adults living in households with children under age 6 spent an average of 2.1 hours per day providing primary childcare to household children."

Wednesday, Metropolitan Area Employment and Unemployment: In May 2017, unemployment rates fell in 298 of 388 Metropolitan Statistical Areas (MSAs), rose in 55, and were unchanged in 24 MSAs. The lowest unemployment rate of 1.9% was in Ames, Iowa, Bismarck, North Dakota, and Fargo, North Dakota-Minnesota. El Centro, California had the highest rate at 20.5%. From May 2016, 304 MSAs had higher total nonfarm employment, 77 had lower employment, and six had the same level of employment in May 2017. Among Tennessee's 10 MSAs, all had lower unemployment rates than in April 2017 and in May 2016. All 10 had rates lower than or equal to the state average of 4.0%. The Nashville area had the lowest rate at 2.3% and two others, Cleveland and Knoxville, had unemployment rates of less than 3%. Nonfarm employment increased from April to May in five of the 10 Tennessee metro areas while year-over-year employment was up in nine of the 10. In percentage terms, the Cleveland area had the largest increase, followed by Nashville, and Morristown.

Bureau of Economic Analysis

Tuesday, State Quarterly Personal Income, 1st Quarter 2017: From the 4th quarter of 2016 through Q1 2017, Personal Income in the U.S. increased by 1.0%; in Tennessee, Personal Income was up by 1.2%. Idaho had the highest growth rate at 1.6% while Personal Income declined in Nebraska by 0.1%. The map below gives the changes for all states.



U.S. Bureau of Economic Analysis

Thursday, [Gross Domestic Product, 1st Quarter 2017 (third estimate); Corporate Profits, 1st Quarter]: U.S. Gross Domestic Product increased at an annual rate of 1.4%, revised from 1.2% in the 2nd estimate. This latest estimate compares with the 2.1% in Q4 2016. "The deceleration in real GDP in the first quarter reflected a downturn in private inventory investment, a deceleration in PCE, and a downturn in state and local government spending that were partly offset by an upturn in exports, an acceleration in nonresidential fixed investment, and a deceleration in imports." Corporate profits decreased by $48.4 billion in the 1st quarter compared with the $11.2 billion increase in Q4 2016.

Friday, [Personal Income and Outlays]: In May 2017, Personal Income increased by 0.4%. Real Disposable Personal Income was up 0.6% as the Personal Consumption Expenditure Price Index fell by 0.1%. Real Personal Consumption Expenditures rose by 0.1%. (Quiz: What can you deduce from these figures? The first person to respond—with the answer I'm looking for—gets a Chocolate covered doughnut with sprinkles!)

U.S. Department of Labor

Thursday, [Initial Claims]: New claims for unemployment insurance increased by 2,000 in the week ending June 24, 2017, to 244,000, and the four-week moving average fell by 2,750 to 242,500. The previous week ending June 17, five states reported increases of 1,000 or more new claims and five states plus Puerto Rico reported decreases of 1,000 or more. Tennessee reported a decrease of 623 in initial claims from the prior week.

The Conference Board

Tuesday, [Consumer Confidence Index]: In June 2017, this index increased from 117.6 in May to 118.9 (1985=100). Lynn Franco, Conference Board Director of Economic Indicators, writes: "Consumer confidence increased moderately in June following a small decline in May,… Consumers' assessment of current conditions improved to a nearly 16-year high (July 2001, 151.3). Expectations for the short-term have eased somewhat but are still upbeat. Overall, consumers anticipate the economy will continue expanding in the months ahead, but they do not foresee the pace of growth accelerating."

Standard & Poor's

Tuesday, S&P Corelogic Case-Shiller House Price Index: In April 2017, the U.S. National Home Price Index increased, on a seasonally adjusted, annual basis, at 5.5% compared to 5.6% in March. On a month-to-month bases, this national index was up by 0.9%. David M. Blitzer, Managing Director and Chairman of the Index Committee at S&P Dow Jones Indices, posed the following questions: "As home prices continue rising faster than inflation, two questions are being asked: why? And, could this be a bubble?" His response: "Since demand is exceeding supply and financing is available, there is nothing right now to keep prices from going up. The increase in real, or inflation-adjusted, home prices in the last three years shows that demand is rising. At the same time, the supply of homes for sale has barely kept pace with demand and the inventory of new or existing homes for sale shrunk down to only a four-month supply. Adding to price pressures, mortgage rates remain close to 4% and affordability is not a significant issue." He adds that if housing supply increases, that should ease the price increases and avoid a crash.

National Association of Realtors

Wednesday, Pending Home Sales Index: This index fell by 0.8% in May 2017 from 109.4 in April to 108.5. After three consecutive months of decline the index is now 1.7% below the May 2016 level. Chief NAR Economist Lawrence Yun stated: "Monthly closings have recently been oscillating back and forth, but this third consecutive decline in contract activity implies a possible topping off in sales…Buyer interest is solid, but there is just not enough supply to satisfy demand. Prospective buyers are being sidelined by both limited choices and home prices that are climbing too fast."

Bloomberg.com

Thursday, Consumer Comfort Index: The latest index reading is 48.6 compared with 49.4 the previous week. "This is the lowest reading since February but still points to solid consumer optimism."

The University of Michigan

Friday, Consumer Sentiment Index: The final index reading for June 2017 is 95.1 compared with 97.1 in May, a year earlier it was 93.5. Despite the drop, consumer confidence remains high.

International Monetary Fund

Tuesday, IMF Outlook for U.S. Economy: Here is an interesting perspective on the U.S. economy that we have not looked at recently. "The U.S. economy is in its third longest expansion since 1850." Real GDP is 12% higher than the peak before the last recession. "However, the outlook is clouded by important medium-term imbalances." The outlook depends, in part, on policy decisions yet to "emerge." The report forecasts GDP growth for both 2017 and 2018 at 2.1%, falling to 1.9% and 1.8% in 2019 and 2020, respectively.

The Wall Street Journal

Thursday, Economic Forecasting Survey: The June 2017 report includes responses from 60 of 76 forecasters surveyed. What follows are the "average" forecasts for each measure. First quarter 2017 GDP growth is forecast to be 1.2%, and as you see above, the BEA's estimate is 1.4%, revised up from its earlier figure of 1.2%. The forecast for Q2 is 3.0% and 2.3% for calendar 2017. The projected Consumer Price Index as of June 2017 is 2.1%, with the same forecast as of December of this year rising to 2.3% in 2018. The forecast price of oil as of June 2017 was $49.43 while as I write the price is $44.93. The unemployment rate as of this month was forecast at 4.4%, falling to 4.3% by December 2017. The latest BLS figure for May was 4.3%. The average monthly change in nonfarm employment was forecast to be

161,143 jobs. The projected rate of increase in housing prices for 2017 is 5.1%, falling to 4.2% in 2018. Housing starts are forecasted to be 1.27 million in 2017, rising to 1.34 million the next year. The estimated probability of a recession in the next 12 months is less than one chance in six (15.8%). Slightly more than half of those surveyed expect the Fed to raise the fed funds rate again in September 2017 and more than 90% expect another increase by December. Roughly half of the forecasters indicate there is a downside risk to their forecast for GDP growth.