

Economic Update, April 28, 2017
Submitted by Reuben Kyle

Summary: It was another week of mixed economic news, though even the down reports are not bad. Housing markets continue to look strong, although the problem of a lack of supply persists. My own casual observation in middle Tennessee is that there is a great deal of construction in progress. GDP growth was pretty lame in the 1st quarter but there will be a revised report at the end of May, so that may change. Consumer confidence remains very high. Inflationary expectations seemed to have peaked.

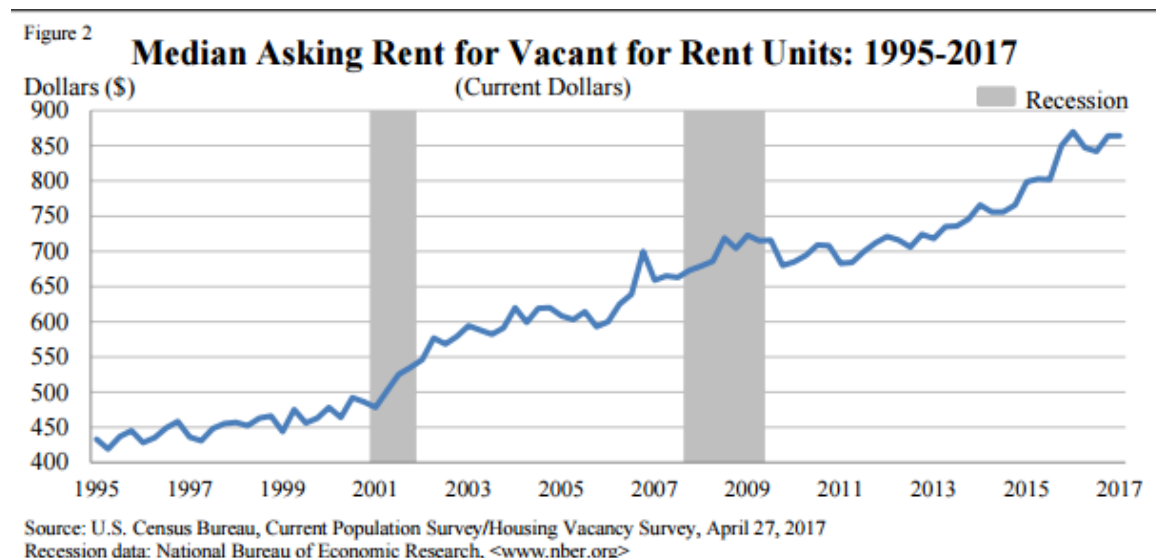
Census Bureau

Tuesday, [New Residential Sales](#): In March 2017, the seasonally adjusted, annual rate of new single-family houses was 621,000, up 5.8% from February and 15.6% from March 2016. The median sales price was \$315,100 compared with \$293,300 the prior month. There are 268,000 new homes available for sale at the end of March, a 5.2 month supply at the current sales rate.

Thursday, [Advance Economic Indicator Report International Trade, Retail and Wholesale](#): In March 2017, U.S. exports were down by \$2.2 billion from February while imports fell by \$1.4 billion, resulting in an increase in the U.S. Balance of Trade deficit of \$0.9 billion. Wholesale trade inventories dropped by 0.1% from February to March but were 2.7% higher than in March 2016. Retail inventories rose by 0.4% in March and by 3.5% over March 2016.

Thursday, [Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders](#): The preliminary report for March 2017 is that new orders for manufactured durable goods increased by 0.7% from February while shipments rose by 0.2% and unfilled orders increased by 0.2%. Inventories for manufactured durables added 0.1%. In the case of nondefense capital durables, new orders, shipments, unfilled orders, and inventories all increased. For defense capital goods, new orders increased but shipments, unfilled orders, and inventories all fell from February.

Thursday, [Housing Vacancies and Homeownership](#): In the 1st quarter of 2017, the national vacancy rate was 7.0% for rental housing and 1.7% for homeowner housing. The homeownership rate was 63.6%, virtually unchanged from either Q4 or Q1 2016. The chart below shows the median asking rent for vacant rent units from 1995-2017, and that figure for Q1 2017 was \$864.



Bureau of Labor Statistics

Wednesday, [Business Employment Dynamics](#): “From June 2016 to September 2016, gross job gains from opening and expanding private-sector establishments were 7.7 million, an increase of 187,000 jobs over the quarter, the U.S. Bureau of Labor Statistics reported today. Over this period, gross job losses from closing and contracting private-sector establishments were 7.0 million, a decrease of 194,000 jobs from the previous quarter. The difference between the number of gross job gains and the number of gross job losses yielded a net employment gain of 688,000 jobs in the private-sector during the third quarter of 2016.” During the 3rd quarter, 238,000 new establishments were started, employing 866,000 people, and 208,000 establishments closed, eliminating 733,000 jobs.

Thursday, [College Enrollment and Work Activity of High School Graduates](#): Between January and October 2016, 3.1 million people between 16 and 24 graduated from high school, and of those, 69.7%, about 2.2 million, were enrolled in college or universities by October. Among those enrolled in higher education, about 90% were full-time students. About two-thirds of those in college were attending 4-year institutions. The unemployment rate among those not enrolled in college was 19.3% while the rate among those enrolled in college was 8.0%. Of course, the labor participation rate among those not in college was 72.3% compared with 38.4% for those enrolled.

Friday, [Employment Cost Index](#): In the 1st quarter of 2017, wages and salaries of civilian workers increased by 0.8%, and benefits added 0.7%, resulting in a 0.8% rise in employee compensation costs. Over the 12-month period March 2016 to March 2017, compensation costs increased by 2.4%. For private sector workers, the increase in compensation cost was 2.3%, while for state and local government workers, the increase was 2.6%. Between private sector employees and state and local government employees, the difference is that for the latter, benefits increase at a faster rate, 3.1% versus 1.9%.

Bureau of Economic Analysis

Friday, [Gross Domestic Product, 1st Quarter 2017 \(Advance Estimate\)](#): The initial estimate of the 1st quarter 2017 GDP growth rate was 0.7%. “The increase in real GDP in the first quarter reflected positive contributions from nonresidential fixed investment, exports, residential fixed investment, and personal consumption expenditures (PCE), that were offset by negative contributions from private inventory investment, state and local government spending, and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.” The chart below is from the [Wall Street Journal](#) and shows the quarterly growth rates since 2010. Typically, though not always, the 1st quarter rate is low relative to the rest of the year.

GDP, annualized quarterly change



Note: Adjusted for inflation and seasonality.

Source: Commerce Department

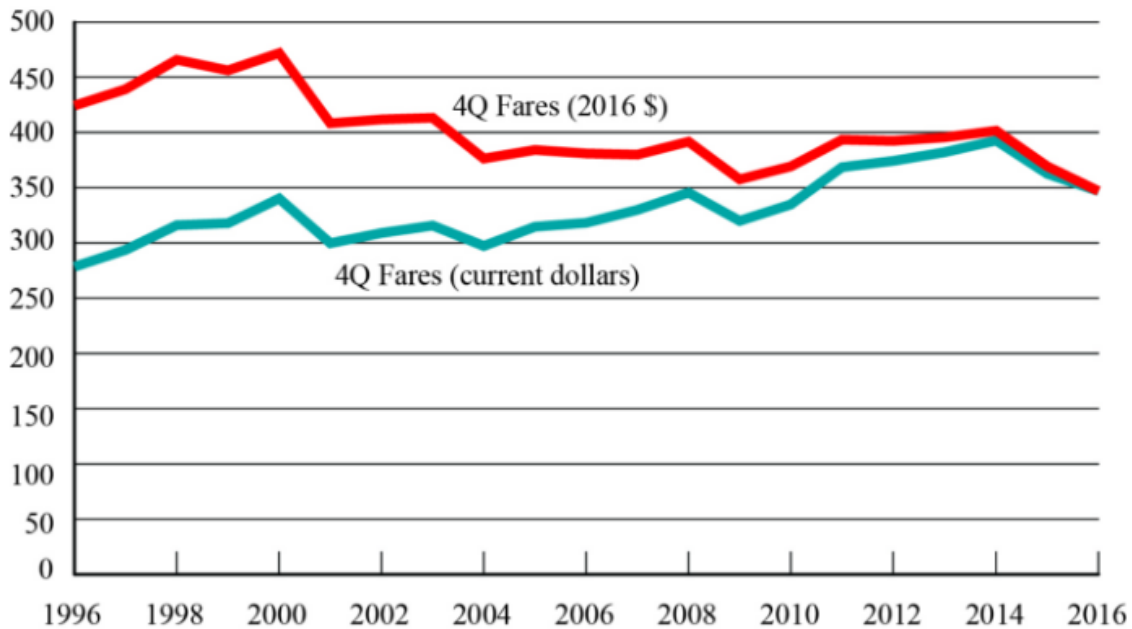
U.S. Department of Labor

Thursday, [Initial Claims](#) for unemployment insurance in the week ending April 22, 2017, was 257,000, an increase of 14,000 from the previous week, and the four-week moving average was 242,250, down by 500. In the previous week ending April 15, four states reported increases of 1,000 or more in new claims, and eight states plus Puerto Rico reported decreases of 1,000 or more. Tennessee reported a decrease of 286 initial claims.

U.S. Department of Transportation

Tuesday, [4th Quarter 2016 Air Fare Data](#): Here is a very interesting graphic.

Figure 1. U.S. Average Domestic Fares, 4th Quarter 1995-2016



Source: Bureau of Transportation Statistics, [BTS Air Fares_Origin and Destination Survey](#)

Thursday, [February 2017 North American Freight Numbers](#): The value of U.S.-NAFTA freight totaled \$86.5 billion, up by 2.6% year-over-year, the fourth consecutive month of increases. Only Air and Trucking showed declines in the percentage of freight value carried between February 2016 and February 2017. That said, tracks carried 6.2% of U.S.-NAFTA freight by value.

Federal Housing Finance Agency

Tuesday, [FHFA House Price Index](#): In February 2017, the price index was up by 0.8% for the month and by 6.4% since February 2016. The highest rate of increase in prices over the 12-month period February 2016 to February 2017 was in the mountain West at 9.5%, followed by the Pacific Region at 7.5%, and then the East South Central, which includes Tennessee, at 6.7%.

Standard & Poor's

Tuesday, [S&P Corelogic Case-Shiller House Price Index](#): This index is also through February 2017, and the 12-month annual rate for the National Home Price Index was up by 5.8%, compared with 5.6% in January. This latest rate of increase was the highest in 32 months. David Blitzer, Managing Director and Chairman of the Index Committee at S&P Dow Jones Indices stated: "The S&P Corelogic Case-Shiller National Home Price Index and the two composite indices accelerated since the national index set a new high four months ago. Other housing indicators are also advancing, but not accelerating the way prices are."

National Association of Realtors

Thursday, [Pending Home Sales](#): In March 2017 the Pending Home Sales Index was 111.4 a decline of 0.8% from 112.3 in February but 0.8% higher than in March 2016. "Lawrence Yun, NAR chief economist, says sparse inventory levels caused a pullback in pending sales in March, but activity was still strong enough to be the third best in the past year. 'Home shoppers are coming out in droves this spring and competing with each other for the meager amount of listings in the affordable price range...In

most areas, the lower the price of a home for sale, the more competition there is for it. That's the reason why first-time buyers have yet to make up a larger share of the market this year, despite there being more sales overall.”

The Conference Board

Tuesday, [Consumer Confidence Index](#): In April 2017, this Conference Board index dropped from 124.9 in March to 120.3. “Consumer confidence declined in April after increasing sharply over the past two months, but still remains at strong levels,” said Lynn Franco, Director of Economic Indicators at The Conference Board. “Consumers assessed current business conditions and, to a lesser extent, the labor market less favorably than in March. Looking ahead, consumers were somewhat less optimistic about the short-term outlook for business conditions, employment and income prospects. Despite April’s decline, consumers remain confident that the economy will continue to expand in the months ahead.” Current dollar GDP grew by 3.0%, and the price index for gross domestic purchases was up by 2.6%. The second estimate with more complete data will be released on May 26.

Bloomberg.com

Thursday, [Consumer Comfort Index](#): The latest index reading is 50.8 compared with 49.9 the previous week.

University of Michigan

Friday, [Consumer Sentiment Index](#): The final April 2017 index is 97.0, up slightly from 96.9 in March. “Consumer sentiment continued to travel along the high plateau established following Trump’s election, with only minor deviations from its five month average of 97.4. There was widespread agreement among consumers on their very positive assessments of the current state of the economy as well as widespread disagreement on future economic prospects.”

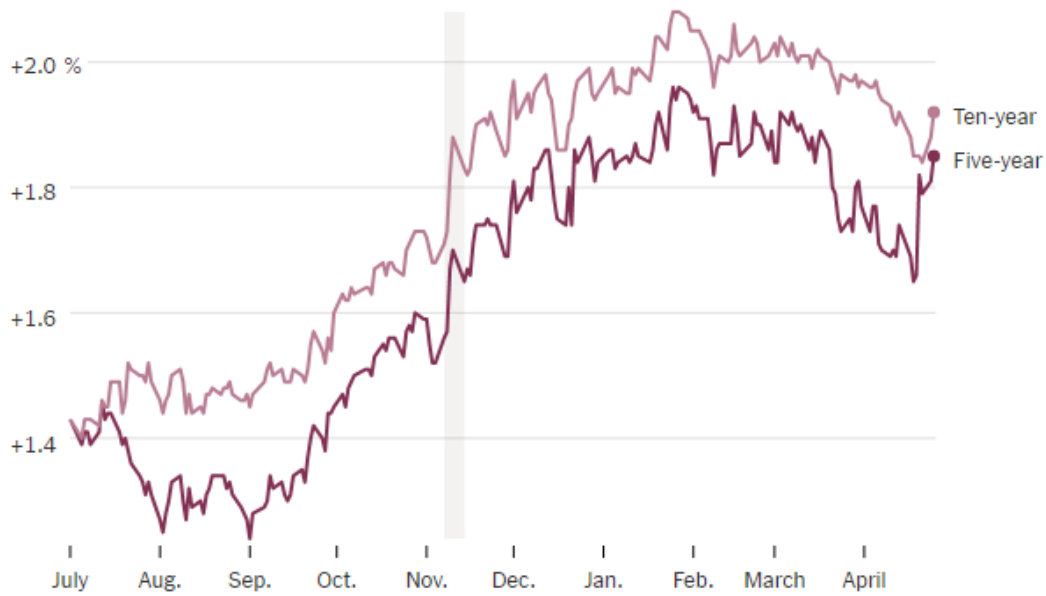
The New York Times

Wednesday, [The Low-Inflation World May Be Sticking Around Longer Than Expected](#): This article discusses the decline in inflationary expectations that were widespread just a few months ago. Here is another interesting graphic. Note that these expectations are based on yields of U.S. Treasury bonds not the forecasts of any economists. This morning the yield on a 30-year Treasury bond is under 3.0%—amazing! —and remember that yields reflect what investors are willing accept, not the coupon-rate.

Inflation Expectations Surged, Then Receded

Bond investors' expectations of future inflation rose last year, but have fallen since February

Expected future inflation implied by bond prices



Rate indicates spread between yield on inflation-protected Treasury bonds and regular Treasuries. Gray area indicates election week.

Source: Federal Reserve
