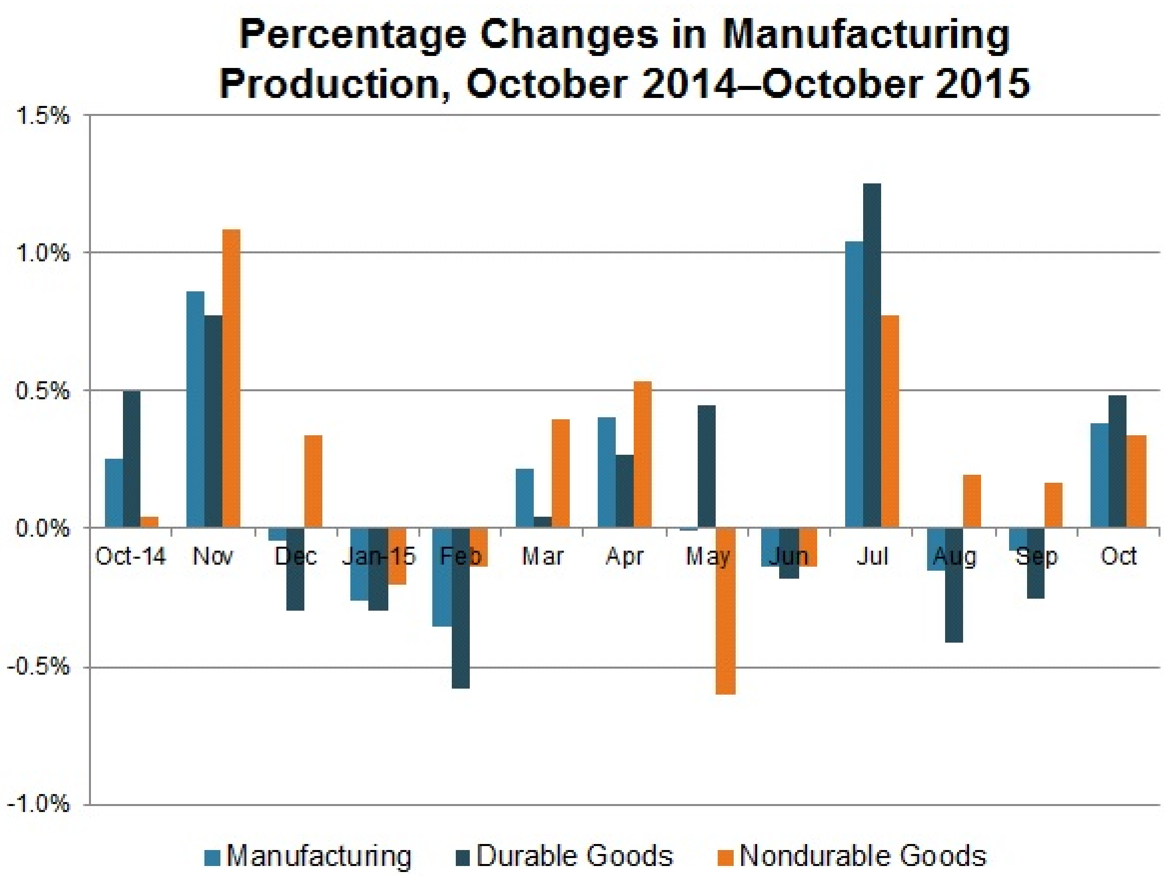
A Publication of the National Association of Manufacturers

Monday Economic Report

November 23, 2015



There were some modest signs of progress to note in recent data, including a rebound in manufacturing production in October. This followed declines in both August and September. Despite slightly better performance, however, demand and output have been softer than desired for much of this year, with the year-over-year pace of manufacturing production declining from 4.3 percent in January to 1.9 percent in October. This easing has reflected headwinds from a strong dollar, weaknesses abroad and lower commodity prices, among other challenges. At the same time, total industrial production fell for the second straight month on weaker activity in mining and utilities.

The manufacturing improvements in the national measure were also seen in regional surveys from the Kansas City and Philadelphia Federal Reserve Banks. The composite indices of general business conditions both reflected positive growth on net in their districts after contracting in prior months. The Kansas City report indicated some stabilization in activity after several months of challenges from lower crude oil prices and the strong U.S. dollar. On the latter point, exports are expected to remain a struggle over the next six months in that survey. Meanwhile, the progress noted in the Philadelphia region was incremental, with the pace of decline easing in most measures. As such, manufacturers in that district were not completely out of the woods yet from recent softness. That could be said of those completing the New York Federal Reserve's survey as well, with activity contracting for the fourth straight month in November. Fortunately, all of these reports found that manufacturing leaders were cautiously optimistic about demand, production and hiring over the next six months, which is encouraging.

In other news, residential construction data released last week were mixed. New housing starts declined 11.0 percent for the month, down from an annualized 1,191,000 units in September to 1,060,000 units in October, its slowest pace since May. However, much of that decline stemmed from the highly volatile multifamily segment. Single-family housing starts have generally trended higher in recent months, despite a slight decline in this most recent report, up from an average of nearly 675,000 in the first half of 2015 to 738,750 since then from July through October. In addition, new housing permits were higher for both single-family and multifamily construction units in October, which should bode well for better construction activity in the coming months. Homebuilders also remain mostly upbeat about single-family sales moving forward.

A number of releases are due this week before the Thanksgiving holiday, each of which will give us another impression of the current state of the economy. On Tuesday, we will receive an update on real GDP growth in the third quarter, which is likely to be slightly higher than the 1.5 percent estimate reported earlier. Regarding manufacturing activity, there will be new surveys showing the health of the sector in the United States and Eurozone from Markit, the latest results from the Richmond Federal Reserve Bank and preliminary data on October durable goods orders and shipments. In addition, the Census Bureau will release early estimates for goods exports, which have been challenged this year by global weaknesses and the strong dollar. Beyond these measures, other indicators to watch for include the latest figures on consumer confidence, existing and new home sales and personal income and spending.

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P.S.: If you have not already done so, please take a moment to complete the latest ***Manufacturers' Outlook Survey from the National Association of Manufacturers.*** *This 21-question survey helps us to gauge how manufacturing sentiment has changed since September's survey. It also includes special questions on monetary policy, international issues, crude oil exports and get-out-the-vote efforts. In addition, there is a bonus question on which presidential candidate you would like to have a beer with.*

To complete the survey, click here. Responses are due by ***Friday, November 27.*** *As always, all responses are anonymous.*

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, November 16
New York Fed Manufacturing Survey

Tuesday, November 17
Consumer Price Index
Industrial Production
NAHB Housing Market Index

Wednesday, November 18
New Housing Starts and Permits

Thursday, November 19
Conference Board Leading Indicators
Philadelphia Fed Manufacturing Survey

Friday, November 20
Kansas City Fed Manufacturing Survey
State Employment Report

This Week's Indicators:

Monday, November 23
Chicago Fed National Activity Index
Existing Home Sales
Markit Flash U.S. and Eurozone Manufacturing PMIs

Tuesday, November 24
Conference Board Consumer Confidence
Gross Domestic Product (Revision)
International Trade in Goods (Advance Report)
Richmond Fed Manufacturing Survey

Wednesday, November 25
Durable Goods Orders and Shipments
New Home Sales
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)

Thursday, November 26
THANKSGIVING HOLIDAY

Friday, November 27
None

Summaries for Last Week`s Economic Indicators

Conference Board Leading Indicators

The Conference Board reported that the Leading Economic Index (LEI) rose 0.6 percent in October, the largest monthly gain in six months. The largest increases came from building permits, the interest rate spread, lending conditions and the stock market. Over the past six months, the LEI has risen 1.6 percent, edging up from the 1.5 percent pace in the prior release. This indicates modest, but not robust, growth for the U.S. economy moving forward. In this latest update, manufacturing new orders and the average workweek for production workers provided a small, positive contribution to the LEI in October, but with the various sector-related measures mixed for the month.

Meanwhile, the Coincident Economic Index (CEI), which measures current conditions, rose 0.2 percent in October, equaling its increase in the prior month. Industrial production subtracted from the CEI this month. At the same time, the other three components of the CEI—nonfarm payrolls, personal income and manufacturing and trade sales—were each positive contributors in October.

Consumer Price Index

The Bureau of Labor Statistics reported that the consumer price index rose 0.2 percent in October, partially offsetting the declines in August and September. Food and energy costs increased 0.1 percent and 0.3 percent, respectively. That was the slowest increase in food prices in six months, whereas the slightly higher energy costs in October followed sharp declines in the prior two months. Food prices have risen 1.6 percent over the past 12 months, a fairly modest pace, with gasoline prices down by a whopping 27.8 percent year-over-year. Moreover, the average weekly price of regular conventional gasoline was $2.283 per gallon on October 12, but the price has drifted lower since then, down to $2.110 a gallon on November 16.

Excluding food and energy, core consumer prices increased 0.2 percent in October, rebounding somewhat after falling 0.4 percent in September. The rise was mostly attributable to higher costs for medical care, shelter and transportation services, with declining costs for apparel, household furnishings and new and used vehicles. On a year-over-year basis, core inflation was 1.9 percent, the same rate as the month before. Overall, the core consumer price index has remained below 2 percent now for 32 straight months, with pricing pressures remaining quite low.

Industrial Production

Manufacturing production rose 0.4 percent in October, rebounding from declines in both August and September. Capacity utilization for manufacturers also increased, up from 76.2 percent to 76.4 percent, the highest rate since July. Overall, these findings were welcome news for a sector that has seen softer-than-desired demand and output for much of this year. Production has increased 1.9 percent since October 2014, with the year-over-year rate down from 1.7 percent in September. Yet, manufacturing output has slowed considerably since the more robust year-over-year pace of 4.3 percent in January. This easing has reflected headwinds from a strong dollar, weaknesses abroad and lower commodity prices, among other challenges.

Durable and nondurable goods increased 0.5 percent and 0.3 percent, respectively, in October. The largest monthly gains were in nonmetallic mineral products (up 2.2 percent), textile and product mills (up 1.9 percent), wood products (up 1.9 percent), electrical equipment and appliances (up 1.8 percent) and primary metals (up 1.6 percent). In contrast, there were five manufacturing sectors with declining production for the month: apparel and leather (down 2.6 percent), food, beverage and tobacco products (down 0.4 percent), aerospace and miscellaneous transportation equipment (down 0.3 percent), fabricated metal products (down 0.3 percent) and printing and support (down 0.1 percent).

Meanwhile, total industrial production fell 0.2 percent in October, mirroring its decrease in September. The decline stemmed from weaker output in mining (down 1.5 percent) and utilities (down 2.5 percent). On a year-over-year basis, industrial production has declined for the second straight month, down from 78.0 percent in August to 77.7 percent in September to 77.5 percent in October.

Kansas City Fed Manufacturing Survey

The Kansas City Federal Reserve Bank noted some stabilization in manufacturing activity in its district in November. The composite index of general business conditions improved from -1 in October to 1 in November, its first positive reading since February. It was also a notable sign of progress from the sharp declines in activity earlier in the year, with the headline index falling to -13 in May. Much of this softness has stemmed from lower crude oil prices and a strong dollar. The sample comments also note the challenging business environment, including tax rates, regulatory burdens, health care costs and workforce development difficulties.

Many of the key measures of activity in November reflected slight expansions for the month, including rebounds for shipments (up from -2 to 5), the average workweek (up from -5 to 2) and exports (up from -10 to 7). Growth in new orders (down from 7 to 5) and production (down from 4 to 3) both eased in November but remained positive. On the other hand, hiring (down from -3 to -8) saw a stronger decline.

NAHB Housing Market Index

The National Association of Home Builders and Wells Fargo reported that the Housing Market Index (HMI) declined from 65 in October to 62 in November. Index values greater than 50 suggest that homebuilders are more confident than not in their economic outlook. The October HMI reading had been the highest level of homebuilder confidence in 10 years, and even with the easing in November, sentiment has now exceeded 60 for six consecutive months. Indeed, this measure has trended in the right direction over the past 12 months, up from a low of 52 as recently as March.

Regionally, builder confidence ebbed slightly in the Midwest and South, but edged marginally higher in the West. Moving forward, respondents were mostly optimistic about single-family sales over the next six months, even as the measure of sales activity (down from 75 to 70) eased somewhat in this report.

New Housing Starts and Permits

The Census Bureau and the U.S. Department of Housing and Urban Development provided mixed news on residential construction activity for October. New housing starts declined 11.0 percent for the month, down from an annualized 1,191,000 units in September to 1,060,000 units in October, its slowest pace since May. However, much of that decline stemmed from the highly volatile multifamily segment, which fell from 451,000 to 338,000. Single-family housing starts decreased more modestly, down from 740,000 to 722,000. In general, single-family construction has trended higher in recent months, up from an average of nearly 675,000 in the first half of 2015 to 738,750 since then from July through October.

On a positive note, new housing permits were higher for both single-family (up from 694,000 to 711,000) and multifamily (up from 411,000 to 439,000) construction units in October. As a result, total housing permits rose from 1,105,000 to 1,150,000. This should bode well for better construction activity in the coming months, which we hope indicates that the decline in October housing starts will be temporary.

New York Fed Manufacturing Survey

The Empire State Manufacturing Survey reflected contracting activity for the fourth straight month in November. The composite index of general business conditions improved slightly from -11.4 in October to -10.7 in November. This measure has been in solid negative territory since July. The underlying data were also negative across-the-board, even as there was some easing in the pace of decline for most of them. This included new orders (up from -18.9 to -11.8), with one-third of respondents saying their sales had declined for the month, down from 37.2 percent who said the same thing in the prior report. At the same time, 21.4 percent cited increased new orders in November, up from 18.3 percent in October. Data for shipments (up from -13.6 to -4.1) were similar.

The labor market figures remained weak. The number of employees (up from -8.5 to -7.3) declined at a slower rate, with 72.7 percent suggesting that hiring did not change for the month. Meanwhile, the average workweek (down from -7.6 to -14.6) and spending on inventories (down from -7.6 to -17.3) both narrowed further. On a somewhat more positive note, pricing pressures (up from 0.9 to 4.6) continue to be quite minimal, with nearly 83 percent of respondents indicating that input prices were unchanged in November.

Moving forward, manufacturers in the region continue to be mostly upbeat about the next six months, albeit with less optimism than prior months. The composite measure for expected activity six months from now declined from 23.4 to 20.3, but it continued to suggest relatively decent growth. Roughly 40 percent of manufacturing leaders in the district anticipate increased orders and shipments in the months ahead, with more than one-quarter predicting additional hiring and capital spending. That should provide some cautious encouragement for the future, even as the data on the current economic environment were less than ideal.

Philadelphia Fed Manufacturing Survey

The Federal Reserve Bank of Philadelphia reported that manufacturing activity rebounded in November after contracting in the prior two months. The composite index of general business activity improved from -4.5 in October to 1.9 in November. However, manufacturers in the district were not fully out of the woods yet, with several key indicators continuing to decrease on net, including new orders (up from -10.6 to -3.7), shipments (up from -6.1 to -2.5) and the average workweek (down from -7.3 to -16.2). The good news was that the pace of decline for new orders and shipments eased for the month—a fact trumpeted by the bank’s press release noting “slight improvement” in November. Hiring (up from -1.7 to 2.6) also picked up slightly, even as three-quarters of respondents noted no change in employment.

Inventories and the prices paid for raw materials declined for the month on average. Inventories (up from -17.4 to -7.9) contracted for the fifth time so far this year, with November's decline bouncing back somewhat from October's significant fall, which had been the sharpest rate since April 2013. At the same time, input prices (down from -0.1 to -4.9) continued to be negative, reflecting recent declines in energy prices and minimal inflationary pressures overall. In a special question, respondents noted that they expect 2.0 percent growth in prices over the next year.

Despite the current headwinds, manufacturers in the district remain mostly upbeat about the next six months. The future-oriented composite index rose from 36.7 to 43.4, with more than half of business leaders anticipating higher new orders and shipments and at least one-third expecting additional hiring and capital spending in the coming months.

State Employment Report

Ohio created the most net new manufacturing jobs in October, according to the Bureau of Labor Statistics. Ohio manufacturers added 5,800 workers for the month. Other states with significant growth in October included Indiana (up 5,400), New York (up 3,200), Georgia (up 3,100) and Wisconsin (up 2,500). The sector produced 80,000 more employees on net over the past 12 months, a pace that has been less than ideal. With that said, there were decent job gains year-over-year in the following states: Michigan (up 22,400), Ohio (up 15,200), Indiana (up 12,000), North Carolina (up 8,800) and Kentucky (up 7,500).

The national unemployment rate fell to 5.0 percent in October, with the lowest rate in North Dakota (2.8 percent). A number of states were not far behind, with each observing super low unemployment rates. Those were Nebraska (2.9 percent), South Dakota (3.2 percent), Hawaii (3.3 percent), New Hampshire (3.3 percent) and Iowa (3.5 percent). The highest unemployment rates in the country were in West Virginia (6.9 percent), New Mexico (6.8 percent), the District of Columbia (6.6 percent) and Nevada (6.6 percent).

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Questions or comments?

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