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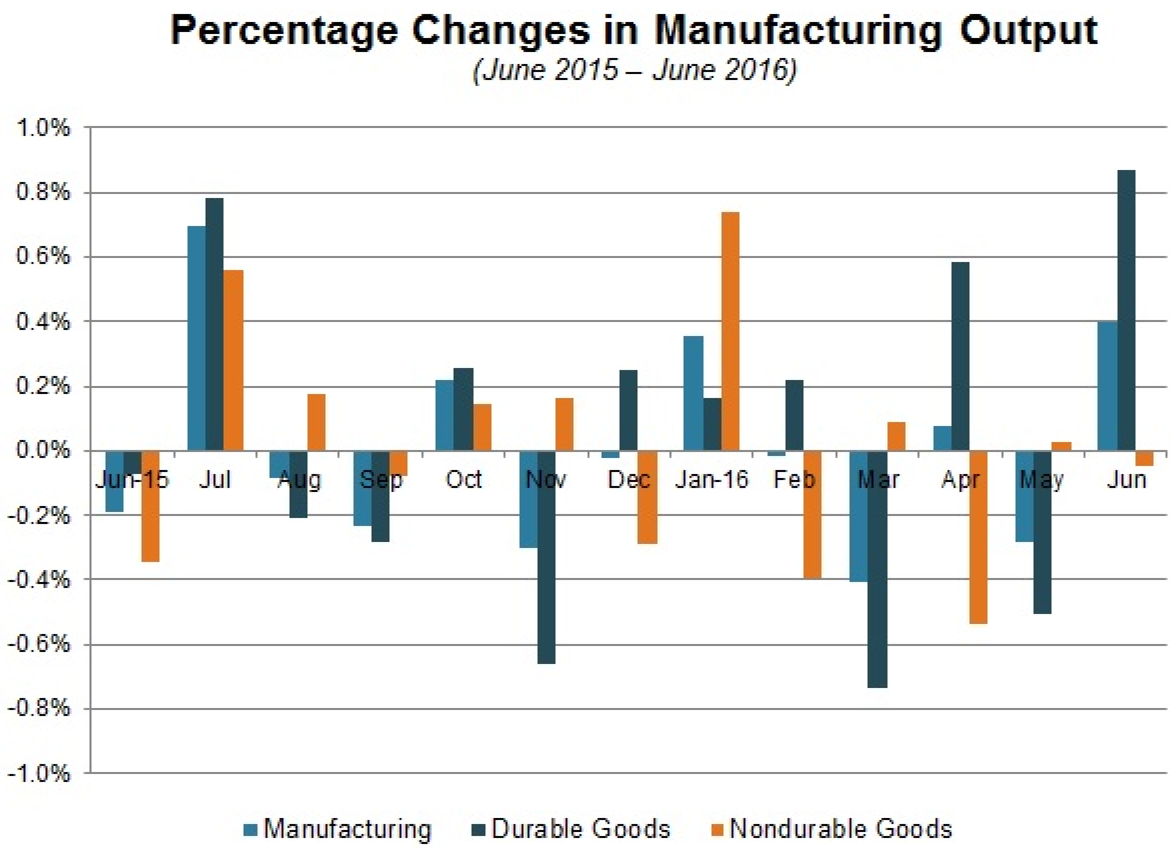

Economic data were mixed last week, but there was encouraging news related to manufacturing production, which rebounded in June after a disappointing May report. Output in the sector rose by 0.4 percent in June, following a decline of 0.3 percent in May. Strong growth in the motor vehicles and parts segment, up 5.9 percent, helped to boost the headline number. Despite some progress in June, it is safe to say that manufacturing activity remains quite challenged. Over the past 12 months, manufacturing production has risen by just 0.4 percent. That is an improvement from the year-year over year decline of 0.2 percent seen in May, but such sluggish growth was indicative of recent struggles that manufacturers have had in light of global headwinds.

There were also signs of lingering weaknesses in the sector in the Empire State Manufacturing Survey. Manufacturing activity in the New York Federal Reserve Bank's district slowed to a crawl in July after rebounding in June, with new orders declining and shipments easing. With that said, respondents to that survey remained cautiously upbeat about growth over the next six months. One exception to this was the labor market data, which continued to be discouraging. Along those lines, manufacturing job openings pulled back in May after achieving an all-time high in April. Still, the April figures appear to be a bit of an outlier, and the current postings data are likely more consistent with recent trends. Moving forward, if demand and production accelerate, we would expect stronger employment growth, but for now, net hiring remains a significant challenge. Net hiring (or hiring minus separations) fell by 14,000 in May, decreasing for the fourth consecutive month.

Meanwhile, there was also mixed news on the consumer front. On the positive side, retail sales picked up in June, increasing by 0.6 percent and rising for the third straight month. Spending rose by 2.0 percent in the second quarter, a nice improvement from being down 0.6 percent in the first quarter. This suggests that Americans were more willing to open their pocketbooks in recent months — progress after a more cautious stance at the end of last year and earlier this year. Retail sales have increased by 2.7 percent over the past 12 months, up from 2.2 percent in the prior report. Nonetheless, there were also signs that Americans remain quite anxious about the economy. The University of Michigan and Thomson Reuters said that consumer confidence unexpectedly fell sharply in July in preliminary figures. Sentiment has been highly volatile year-to-date, shifting from month to month as the public processes mixed reports on growth and global news headlines, including Brexit, the recent UK vote to leave the European Union.

For their part, small business owner optimism edged slightly higher in June to its highest level since December. The National Federation of Independent Business (NFIB) report marked some continued improvement from March's two-year low in optimism, even as small firms continue to be concerned about the overall economic outlook. In other news last week, consumer and producer prices both picked up somewhat, boosted by increased energy prices. Yet, overall core inflation remains modest for now.

Residential construction has been one of the brighter spots in the economy, and this week, we will get another read on how well the sector fared with housing starts and permits data for June. In addition, there will be a number of surveys released on the current state of the manufacturing sector, including reports from the Philadelphia Federal Reserve Bank and from IHS Markit. The Bureau of Economic Analysis will also provide manufacturing's contribution to real GDP in the first quarter, along with other industries. Beyond those releases, other highlights next week include the latest figures on leading economic indicators, the Chicago Federal Reserve Bank's National Activity Index and state employment.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, July 11
None

Tuesday, July 12
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

This Week's Indicators:

Monday, July 18
NAHB Housing Market Index

Tuesday, July 19
Housing Starts and Permits

Wednesday, July 20

Wednesday, July 13
None

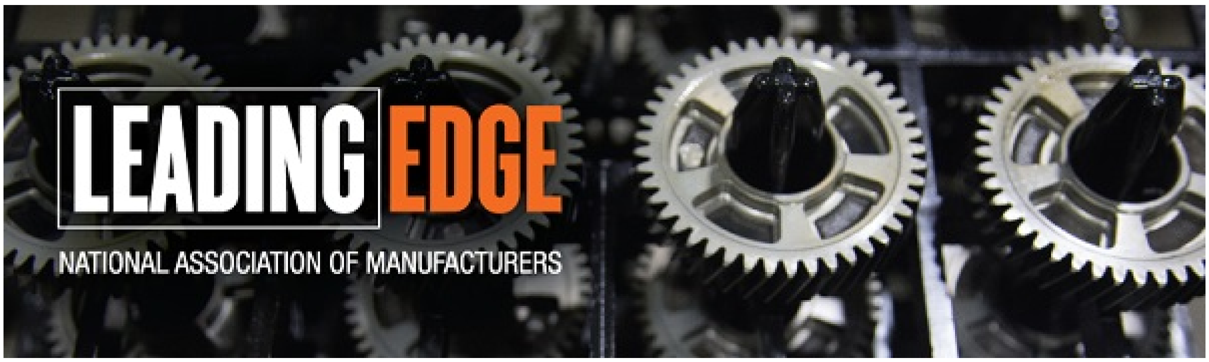
Thursday, July 14
Producer Price Index

Friday, July 15
Consumer Price Index
Industrial Production
New York Fed Manufacturing Survey
Retail Sales
University of Michigan Consumer Sentiment

None

Thursday, July 21
Chicago Fed National Activity Index
Conference Board Leading Indicators
Existing Home Sales
Gross Domestic Product by Industry
Philadelphia Fed Manufacturing Survey

Friday, July 22
Markit Flash Manufacturing PMIs for the United States, Eurozone
State Employment Report



Summaries for Last Week`s Economic Indicators

Consumer Price Index

The Bureau of Labor Statistics said that consumer prices rose 0.2 percent in June, matching the gain seen in May. It marked the fourth straight monthly increase in consumer costs. Higher energy costs have helped to buoy the growth in consumer prices over that time frame, up 1.3 percent in June alone. With that said, energy prices have declined over the past year as a whole, down 9.4 percent, and they have generally helped to keep a lid on larger pricing pressures over that time frame. Food costs have also quite modest over the past year, up just 0.3 percent since June 2015, which has helped. In June, food prices were off by 0.1 percent, with costs lower for meats, dairy and fruits and vegetables. On a year-over-year basis, the consumer price index increased 1.1 percent, unchanged from the pace seen in the prior two releases but accelerating from 0.7 percent six months ago.

Core consumer prices were boosted by strong gains for medical care, shelter and transportation services, but costs were lower for apparel, new and used vehicles and household furnishings. Excluding food and energy costs, consumer prices have risen 2.2 percent since May 2015, exceeding 2.0 percent for the seventh consecutive month. While core inflation has picked up recently, overall pricing pressures remain modest and under control for now, providing the Federal Reserve some flexibility even as it decides when to raise short-term interest rates once more.

Industrial Production

Manufacturing production rebounded in June after a disappointing May report. Output in the sector rose by 0.4 percent in June, following a decline of 0.3 percent in May. Strong growth in the motor vehicles and parts segment, up 5.9 percent, helped to boost the headline number. Yet, despite some progress in June, it is safe to say that manufacturing activity remains quite challenged. Over the past 12 months, manufacturing production has risen by just 0.4 percent. That is an improvement from the year-year over year decline of 0.2 percent seen in May, but such sluggish growth was indicative of recent struggles that manufacturers have had in light of global headwinds. Capacity utilization increased from 74.8 percent to 75.1 percent, but that remained lower than the 75.3 percent utilization rate observed in June 2015. Looking more specifically at the June data, durable goods manufacturing production increased 0.9 percent, with nondurable goods output off by 0.1 percent. Outside of motor vehicles and parts, other sectors with strong growth in June included electrical equipment and appliances (up 1.5 percent), machinery (up 1.1 percent), printing and support (up 1.1 percent), petroleum and coal products (up 0.7 percent) and furniture and related products (up 0.5 percent). In contrast, there was reduced production for the month for miscellaneous durable goods (down 0.8 percent), apparel and leather (down 0.7 percent), chemicals (down 0.6 percent), computer and electronic products (down 0.5 percent) and nonmetallic mineral products (down 0.4 percent).

Meanwhile, total industrial production also recovered, up 0.6 percent in June after falling by 0.3 percent in May. In addition to manufacturing, output was higher for both mining (up 0.2 percent) and utilities (up 2.4 percent). The latter benefited from warmer temperatures. On a year-over-year basis, industrial production decreased by 0.7 percent, led lower by sharp declines in mining output, off 10.5 since June 2015. Capacity utilization rose from 74.9 percent to 75.4 percent.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics said that manufacturing job openings pulled back in May after achieving an all-time high in April. Postings in the sector declined from a revised 397,000 in April to 353,000 in May. That still represented progress from February's pace of 320,000 job openings, and year-to-date in 2016, postings have averaged 349,000, up from 311,000 for 2015 as a whole. Reduced openings from durable (down from 208,000 to 185,000) and nondurable (down from 190,000 to 168,000) goods manufacturers pulled the headline number lower in May. The April data appear to be a bit of an outlier for both durable and durable goods firms, with the May numbers more consistent with recent trends. Still, positive upward movement for job openings over the course of the past year continue to provide some optimism for faster hiring growth moving forward.

With that said, net hiring remains a challenge for now. Manufacturers hired 263,000 workers in May, down from 269,000 in April. Fewer hires from nondurable goods companies (down from 115,000 to 105,000) were enough to offset the slight increase from durable goods businesses (up from 154,000 to 158,000). At the same time, total separations — which include quits, layoffs and retirements — dropped from 279,000 to 277,000, its lowest level since January. As a result, net hiring fell by 14,000 in May, off from a decline of 10,000 in April and representing the fourth straight monthly negative reading. Hopefully, relative strength in the job openings data, even with a decrease in May, will translate into improved (and positive) net hiring moving forward.

In the larger economy, nonfarm job openings were also lower, down from April's all-time high of 5,845,000 to 5,500,000 in May. The May job postings data were mostly lower across-the-board, with the exception of more openings for government, professional and business services and retail trade. Beyond openings, net hiring in the overall economy remained quite soft, rising from 70,000 in April to 84,000 in May.

New York Fed Manufacturing Survey

The Empire State Manufacturing Survey said that manufacturing activity slowed to a crawl in July after rebounding in June. The composite index of general business conditions declined from 6.0 in June to 0.6 percent in July. On the positive side, the headline index had been -9.0 in May, suggesting some progress over the past couple months even if growth remained less than desired. The underlying data were generally weaker in this report, including new orders (down from 10.9 to -1.8) and shipments (down from 9.3 to 0.7). Nearly 29 percent of respondents in this survey said that orders were higher in July, down from 34.2 percent in June; conversely, the percentage stating decreased orders rose from 23.2 percent to 30.8 percent for the month. The labor market data continued to be discouraging. Hiring (down from zero to -4.4) and the average employee workweek (down from -5.1 to -5.5) were both negative.

With that said, manufacturers in the New York Federal Reserve Bank's district remained cautiously upbeat about the next six months. The forward-looking composite index declined from 34.8 to 29.2 but remained elevated. In fact, at least 45 percent of those completing the survey felt that new orders and shipments would increase in the coming months, compared to just over 16 percent who anticipated declines for both. One-quarter of respondents also expected to make increases in capital expenditures and technology spending in the next six months. Yet, employment growth (up from -2.0 to 1.1) is predicted to grow quite softly, with the average employee workweek (down from 2.0 to -6.6) seen narrowing moving ahead.

NFIB Small Business Survey

The National Federation of Independent Business (NFIB) said that sentiment among small business owners edged slightly higher in June. The Small Business Optimism Index increased from 93.8 in May to 94.5 in June, its highest level since December. It marked some continued improvement from March's two-year low in optimism, even as small firms continue to be concerned about the overall economic outlook. As a sign of this caution, the percentage suggesting that the next three months would be a "good time to expand" inched down from 9 percent to 8 percent, with economic conditions and the political climate cited by those saying that it would not be a good time for expansion.

While the headline number suggested ongoing weaknesses, the underlying data were somewhat encouraging nonetheless. For instance, the net percentage of those completing the survey expecting sales to increase over the next six months increased from 1 percent to 2 percent. This suggested very soft demand growth moving forward, but it was still a movement in the right direction. Likewise, capital expenditures were predicted to pick up, with the percentage planning to increase their capital spending over the next three to six months rising from 23 percent to 26 percent. That figure was an eight-month high.

With that said, the labor market data were mixed. Actual employment growth was negative for the fifth time in the past seven months, with the net percentage reporting higher employment in the last three months dropping from -1 percent to -2 percent. Respondents were also slightly less upbeat about the next three months, with the net percentage planning to add workers edging down from 12 percent to 11 percent. This was up from 9 percent in March, however. On the positive side, the percent with job openings that they were not able to fill rose from 27 percent to 29 percent, with that number trending higher over the past year.

The top "single most important problem" was taxes, cited by 23 percent of those taking the survey. This was followed by government regulations (19 percent), the quality of labor (15 percent) and poor sales (11 percent).

Producer Price Index

The Bureau of Labor Statistics said that producer prices for final goods and services rose 0.5 percent in June, its fastest monthly pace in 13 months. At the same time, producer prices for final demand goods jumped 0.8 percent in June, extending the 0.7 percent gain seen in May. Food and energy prices were up 0.9 percent and 4.1 percent, respectively, for the month. Regarding energy, the price of West Texas Intermediate crude oil has risen from an average of $30.32 in February to $48.76 in June, its highest point since July 2015. Meanwhile, the rise in food prices in June for goods producers came largely from higher costs for beef, finfish and shellfish, fruits and melons, grains, shortening and cooking oils, oilseeds and pork. Despite the rises this month, food costs have trended lower over the past 12 months, down 2.3 percent, with energy prices off 11.3 percent year-over-year.

Producer prices for final demand goods and services have increased 0.3 percent since June 2015, up from being unchanged year-over-year in May. Core inflation also inched higher for the month, up from 1.2 percent year-over-year in May to 1.3 percent in June. That was the fastest pace for year-over-year core producer price growth since January 2015, and yet, overall pricing pressures remain under control for now. Indeed, core producer prices have remained below the Federal Reserve's stated goal of 2 percent for 25 straight months. This frees the Federal Open Market Committee to continue pursuing stimulative monetary policies, albeit with a sense that prices are starting to accelerate somewhat.

Retail Sales

The Census Bureau said that retail sales picked up in June, increasing by 0.6 percent and rising for the third straight month. Spending rose by 2.0 percent in the second quarter, a nice improvement from being down 0.6 percent in the first quarter. This suggests that Americans were more willing to open their pocketbooks in recent months — progress after a more cautious stance at the end of last year and earlier this year. Retail sales have increased by 2.7 percent over the past 12 months, up from 2.2 percent in the prior report. Moreover, reduced gasoline prices (down 9.6 percent year-over-year) pulled the headline number lower. Excluding gasoline, retail sales were up 3.9 percent year-over-year, suggesting that consumer purchases have risen at a fairly decent pace over the past year.

Looking specifically at the June data, the largest increases came from the following segments: building material and supplies (up 3.9 percent), gasoline stations (up 1.2 percent), non-store retailers (up 1.1 percent) and miscellaneous store retailers (up 0.9 percent). The gasoline station figure was boosted by higher prices. Sales from motor vehicles and parts dealers, which have been a relative bright spot in past releases, were more muted in June, up just 0.1 percent. In contrast those categories, sales were lower for clothing and accessories (down 1.0 percent) and food services and drinking places (down 0.3 percent).

On a year-over-year basis, the largest gains in retail spending were for non-store retailers (up 14.2 percent), health and personal care stores (up 8.4 percent), building material and supplies (up 7.6 percent), sporting goods and hobby stores (up 6.8 percent) and miscellaneous store retailers (up 6.1 percent).

University of Michigan Consumer Sentiment

The University of Michigan and Thomson Reuters said that consumer confidence unexpectedly fell sharply in July in preliminary figures. The Index of Consumer Sentiment fell from 93.5 in June to 89.5 in July, a three-month low. More than anything, these data show just how volatile public perceptions are right now, with Americans anxious about the economy as they process mixed reports on growth and global news headlines. To illustrate this, the index has ranged year-to-date from a low of 89.0 in April to a high just one month later at 94.7 in May. A number of individuals cited uncertainties related to Brexit in their responses, particularly in the days after the historic vote in the United Kingdom.

In this release, those completing the survey were less optimistic about both current economic conditions (down from 110.8 to 108.7) and in the future (down from 82.1 to 77.1). Still, at least some of this decline could be temporary, according to the survey's chief economist, Richard Curtin. He also noted that these data were consistent with real consumer spending growth of 2.7 percent in 2016 and 2017.

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