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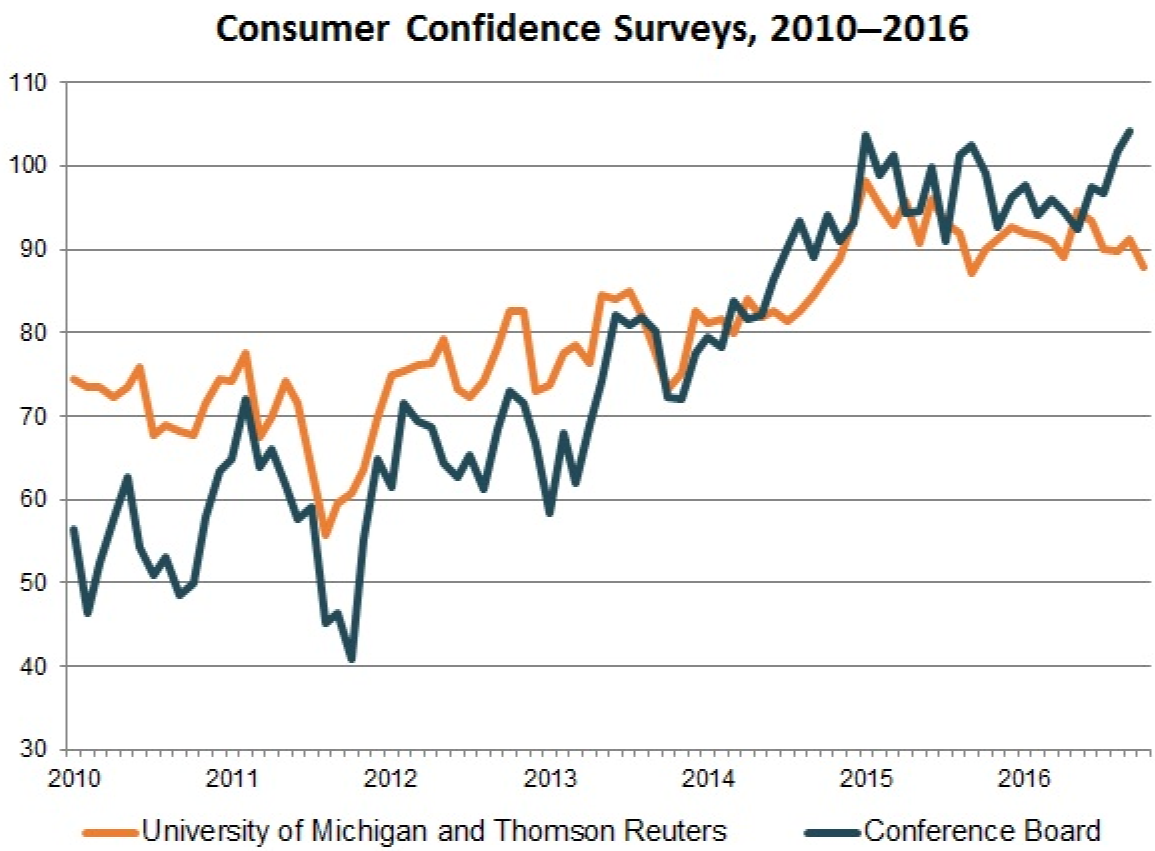

The American consumer has been one of the bright spots in an otherwise sluggish pace of economic growth over the past year. Indeed, if consumer spending were the only element to consider, real GDP growth would have been 2.9 percent in the second quarter, not 1.4 percent, with notable drags coming from nonresidential fixed investment and inventories. With that in mind, it was interesting to see mixed news on the consumer front last week. On the positive side, retail sales rebounded in September, up 0.6 percent, after declining 0.2 percent in August. Overall, Americans seem to be less cautious in their purchases than earlier in the year. Retail spending has risen 2.7 percent over the past 12 months, a nice improvement from the 1.7 percent pace in March. As noted earlier, the saving rate also dropped over that time frame, mirroring the retail spending data.

At the same time, consumer sentiment dropped to its lowest level in 12 months, according to preliminary October data from the University of Michigan and Thomson Reuters. This stood in contrast to the competing survey from the Conference Board, which had consumer confidence jumping to its highest level in nearly eight years in September. That would suggest some progress in terms of the public's perceptions about the overall economy, but the University of Michigan's report tended to stress nagging anxieties that have never truly gone away, with larger doubts seen among households earning below $75,000. In addition, the University of Michigan's respondents cited political uncertainties about the upcoming election as a source of concern. Optimism also edged lower in the latest survey of small business owners from the National Federation of Independent Business (NFIB), which also observed political concerns as a challenge. Still, the data are largely consistent with real personal spending growth of 2.5 percent through mid-2017, according to the University of Michigan.

Labor market worries have often played a role in dampening consumer confidence, and along those lines, manufacturers have been more cautious in their hiring so far this year. Through the first nine months of 2016, the sector has lost 58,000 workers. Even as net hiring has been subpar, manufacturing job openings have remained quite elevated. Nonetheless, postings in the sector pulled back, down from 379,000 in July to 337,000 in August. Year-to-date in 2016, job openings have averaged 352,000 per month, up from 311,000 for 2015 as a whole. We hope growth in job openings translates to more hiring moving forward, particularly when demand and production activity in the sector accelerate.

The other big headlines out last week came from the Federal Reserve. For her part, Federal Reserve Chair Janet Yellen provided a passionate defense of monetary policy actions in the wake of the financial crisis at a Boston Federal Reserve Bank conference seeking to explain "elusive" growth since the Great Recession. This speech came on the heels of the release of the minutes of the September 20–21 Federal Open Market Committee (FOMC) meeting, where participants debated the timing of the next short-term interest rate increase. While FOMC members "generally agreed that the case for an increase in the policy rate had strengthened," the Federal Reserve opted to wait at that meeting, even as it widely perceived that it will act by year's end to raise the federal funds rate by 25 basis points. The FOMC will meet again November 1–2, but it is unlikely that it will act just days before the election. Meanwhile, producer prices accelerated in September, but overall inflationary pressures remain largely in check for now.

This week, we hope to get more data showing a rebound in September following a series of disappointing reports for August. First on this list is industrial production, which declined in August after showing signs of stabilizing in prior releases. Nonetheless, manufacturing output has been essentially stagnant over the past 12 months. Other signs of improvement could come from surveys on manufacturing activity in the New York and Philadelphia Federal Reserve Banks' districts and in new housing starts and permits figures. Beyond those measures, there will also be new data on consumer prices, leading indicators and state employment.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, October 10
COLUMBUS DAY HOLIDAY

Tuesday, October 11
NFIB Small Business Survey

Wednesday, October 12
Job Openings and Labor Turnover Survey

Thursday, October 13
None

This Week's Indicators:

Monday, October 17
Industrial Production
New York Fed Manufacturing Survey

Tuesday, October 18
Consumer Price Index
NAHB Housing Market Index

Wednesday, October 19
Federal Reserve Beige Book
Housing Starts and Permits

Friday, October 14
Producer Price Index
Retail Sales
University of Michigan Consumer Sentiment

Thursday, October 20
Conference Board Leading Indicators
Existing Home Sales
Philadelphia Fed Manufacturing Survey

Friday, October 21
State Employment Report

Summaries for Last Week`s Economic Indicators

Job Openings and Labor Turnover Survey
The Bureau of Labor Statistics reported that manufacturing job openings pulled back in August but remained elevated relative to net hiring. Postings in the sector fell from 379,000 in July to 337,000 in August. Openings have drifted lower since achieving an all-time high of 397,000 in April. Through the first eight months of 2016, job openings have averaged 352,000 per month, up from 311,000 for 2015 as a whole. As such, we have continued to see relatively healthy gains in manufacturing job openings, despite some easing in this report, which gives us optimism for faster hiring growth moving forward. In the August data, both durable (down from 223,000 to 194,000) and nondurable (down from 156,000 to 143,000) goods firms had slower job opening rates, but the July numbers also appear to be a bit of an outlier based on recent trends.

Meanwhile, net hiring has been positive for three consecutive months. This represents an improvement from net declines from February through May. Total hiring edged up from 276,000 to 277,000 in this release, but total separations, which include quits, layoffs and retirements, ticked up from 263,000 to 269,000. Hiring increased for nondurable goods firms (up from 113,000 to 124,000), but this was mostly offset by reduced hiring among durable goods manufacturers (down from 163,000 to 153,000). Overall, net hiring (or hires minus separations) equaled 8,000 in August, off slightly from 13,000 in July. We hope growth in job openings translates to more hiring moving forward, particularly when demand and production activity in the sector accelerate.

In the larger economy, nonfarm job openings declined from 5,831,000 in July, an all-time high, to 5,443,000 in August. Job postings were mostly lower across the board, with the exception of increased openings in the month for finance and insurance and leisure and hospitality. Beyond openings, net hiring in the overall economy was strong but somewhat softer in this report, down from 267,000 in July to 256,000 in August.

NFIB Small Business Survey
The NFIB reported that sentiment among small business owners declined marginally in September. The Small Business Optimism Index edged down from 94.4 in August to 94.1 in September. At the same time, that index has averaged 94.4 over the past four months, which represents some progress after falling to a two-year low in March (92.6). Nonetheless, small firms continue to be cautious in their economic outlook, with the headline number remaining below 100, the threshold suggesting more robust growth in the sector.

The percentage suggesting the next three months would be a good time to expand dropped from 9 percent to 7 percent, a six-month low. Economic conditions and the political climate were the most cited reasons for those saying it would not be a good time for expansion. Beyond those issues, much of the ongoing cautiousness among small businesses stems from soft sales and earnings. With that said, the net percentage of survey respondents expecting higher sales in the next three months rebounded from -1 percent to 4 percent, a possible sign of optimism for the months ahead.

The labor market data were also slightly improved, albeit at still-low rates. The net percentage adding workers in the past three months increased from -3 to 3, its first positive reading since January, and the net percentage expecting to hire new workers in the next three months inched up from 9 percent to 10 percent. Yet, the net percentage for hiring plans has averaged 10.6 percent so far in 2016, off from 11.8 percent in all of 2015 and a sign that anticipated employment growth has slowed. Meanwhile, the percentage planning to increase their capital spending over the next three to six months ticked down from 28 percent—a two-year high—to 27 percent.

The top problem for respondents was taxes, cited by 22 percent, followed by government regulations (17 percent), the quality of labor (17 percent) and poor sales (13 percent).

Producer Price Index

Producer prices ticked higher in September, bouncing back from softness in the prior two months. The Bureau of Labor Statistics reported that producer prices for final demand goods and services rose 0.3 percent in September, the first increase in three months. For final demand goods, food and energy prices were both higher, up 0.5 percent and 2.5 percent, respectively, but both were coming back from notable declines in July and August. The longer-term trend has been negative for both. Food costs have decreased 3.4 percent over the past 12 months, with energy prices off 2.4 percent year-over-year.

Overall, producer prices for final demand goods and services have increased 0.7 percent since September 2015, the highest year-over-year rate in 21 months. Excluding food and energy costs, core inflation also increased 0.3 percent in this report. Core producer prices grew 1.2 percent year-over-year in September, up from 1.0 percent in August, and like the headline number, it was the fastest pace in three months.

Yet, despite the uptick in producer prices in September, inflationary pressures remain mostly in check. Core inflation on a year-over-year basis has remained below the Federal Reserve's stated goal of 2 percent for 28 straight months (since May 2014). Prices should accelerate somewhat moving forward, likely exceeding the 2 percent threshold in the coming months, but the Federal Open Market Committee continues to worry more about sluggish economic growth than prices—at least for now.

Retail Sales

The Census Bureau reported that retail sales rebounded in September, up 0.6 percent, after declining 0.2 percent in August. This suggests the public has begun opening their pocketbooks after pulling back somewhat in the prior two months. In addition, Americans seem to be less cautious in their purchases than earlier in the year. Retail spending has risen 2.7 percent over the past 12 months, a nice improvement from the 1.7 percent pace in March. The data include gasoline station sales, which have fallen 3.4 percent since September 2015. Excluding gasoline, retail sales were up 3.2 percent year-over-year.

The underlying September data were mostly higher. Retail segments with the fastest growth included miscellaneous store retailers (up 1.8 percent), building material and garden supply stores (up 1.4 percent), sporting goods and hobby stores (up 1.4 percent), motor vehicle and parts dealers (up 1.1 percent), furniture and home furnishing stores (up 1.0 percent) and food services and drinking places (up 0.8 percent). In contrast, there were three major categories with reduced sales in September: electronics and appliance stores (down 0.9 percent), department stores (down 0.7 percent) and health and personal care stores (down 0.5 percent).

On a year-over-year basis, the largest gains in retail spending were for nonstore retailers (up 10.6 percent), food services and drinking places (up 6.1 percent), building material and garden supply stores (up 5.6 percent), miscellaneous store retailers (up 5.6 percent) and health and personal care stores (up 5.4 percent).

University of Michigan Consumer Sentiment

The two measures of consumer confidence have diverged recently. The Conference Board's survey jumped strongly in September, rising to its highest level in nearly eight years. Meanwhile, the competing survey from the University of Michigan and Thomson Reuters out last week fell from 91.2 in September to 87.9 in October, its lowest level in 12 months. As noted by Richard Curtin, the survey's chief economist, "The early

October loss was concentrated among households with incomes below $75,000, whose index fell to its lowest level since August of 2014. In contrast, confidence among upper income households remained unchanged in early October from last month." He noted that political uncertainties surrounding the upcoming election have diminished sentiment in October.

Overall, respondents were less upbeat about future expectations (down from 82.7 to 76.6), with that measure falling to a two-year low. However, consumers had a better view of the current economic environment (up from 104.2 to 105.5). Despite the drop in confidence in October, the data are largely consistent with real personal spending growth of 2.5 percent through mid-2017, according to the University of Michigan.

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Questions or comments?

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Center for Manufacturing Research