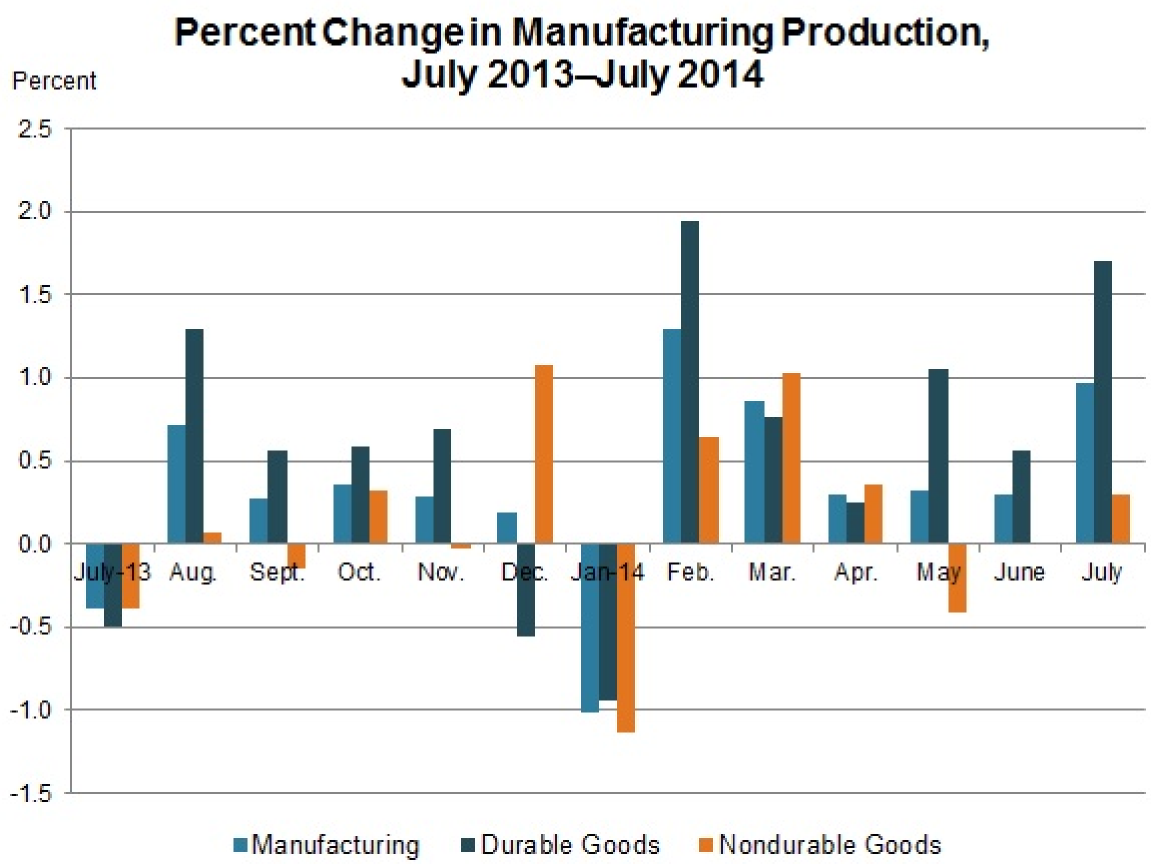
|

A Publication of the National Association of Manufacturers

|

Monday Economic Report

August 18, 2014



While geopolitical events continue to provide significant downside risks to the economy, recent data suggest that manufacturers in the United States are faring better this summer. Manufacturing production increased 1.0 percent in July, helping to lift the year-over-year pace of manufacturing output to 4.9 percent, its fastest annual pace since June 2012. Last month's gain stemmed largely from increased motor vehicle production, with all but three of the major manufacturing sectors notching higher output levels for the month. At the same time, the utilization rate for manufacturers increased to 77.8 percent, nearly reaching pre-recessionary capacity levels.

Similarly, the Empire State Manufacturing Survey reflected strong growth in August, albeit less so than the robust levels observed in July. More importantly, respondents to the New York Fed's survey were significantly more upbeat, with roughly 60 percent anticipating higher sales and output over the next six months. This study also reported that approximately 30 percent of manufacturers in its district planned to hire more workers and invest in additional capital expenditures in the coming months. This is welcome news, and it was largely consistent with the recent pickup in the labor market. Manufacturing job openings increased in June to their highest level in two years, with net hiring also accelerating. Of course, we already knew that to some extent. The most recent employment data found that manufacturers hired an additional 22,000 workers on average from May to July.

Meanwhile, the European economy has shown signs of backtracking, with real GDP in the Eurozone remaining unchanged in the second quarter. Germany's economy contracted by 0.2 percent, helping to push the continent's growth figure lower, but Italy (also down 0.2 percent) and France (flat for the second straight quarter) were also weak. In addition, industrial production has decreased in three of the past four months, with output unchanged year-over-year. We will get our first look at August purchasing managers' index (PMI) data this week. The Markit Eurozone Manufacturing PMI report in July provided mixed news, with activity expanding for 13 straight months but growth continuing to ease over the course of this year. The latest data suggest that Europe's economic challenges are still not behind them.

To some extent, that is true in the United States as well. We have seen improvements in a number of economic indicators, and yet, there are also persistent worries about future growth. Some of this could stem from global anxieties, but it could also be a function of disappointment with the lack of growth in the first half of the year. Preliminary consumer sentiment data from the University of Michigan and Thomson Reuters appears to pick up on this nuance, with Americans less confident once again in their forward-looking expectations. Indeed, retail sales data also reflect cautiousness on the part of the consumer, with spending unchanged in June.

This week, we will get additional insights about the health of the manufacturing sector worldwide. In addition to new PMI data for Europe, Markit will also release flash reports for China, Japan and the United States. While China's economy had begun to stabilize in July, last week we learned that Japan's real GDP contracted by 1.7 percent in the second quarter, or 6.8 percent year-over-year. Closer to home, the Federal Reserve will release the minutes of its July 29–30 Federal Open Market Committee meeting. Analysts will be looking for clues about when the Fed plans to start normalizing short-term rates. The Fed received good news last week with an easing in producer prices in July from recent highs, and this should help to alleviate some of the immediate pressure from inflation hawks, at least for now. Other highlights this week include the latest data on consumer prices, housing starts and permits, leading indicators and Philadelphia Fed manufacturing sentiment.

Chad Moutray
Chief Economist
National Association of Manufacturers

P.S.—If you have not already done so, please take a moment to complete the latest ***NAM/IndustryWeek Survey of Manufacturers.*** *This 20-question survey helps us to gauge how manufacturing sentiment might have changed since June's survey. It also includes some special questions on labor regulations and health insurance coverage. To complete the survey, click here. Responses are due by* ***Friday, August 29.*** *As always, all responses are anonymous.*

Share The Monday Economic Report with your social network:

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, August 11
None

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

Wednesday, August 13
Retail Sales

Thursday, August 14
Eurozone Real GDP

Friday, August 15
Industrial Production
NY Fed Empire State Manufacturing Survey
Producer Price Index
University of Michigan Consumer Sentiment

This Week's Indicators:

Monday, August 18
NAHB Housing Market Index
State Employment Report

Tuesday, August 19
Consumer Price Index
Housing Starts and Permits

Wednesday, August 20
FOMC Minutes (July 29–30 Meeting)

Thursday, August 21
Conference Board Leading Indicators
Existing Home Sales
Markit Flash PMIs for China, Japan, Eurozone, U.S.
Philadelphia Fed Manufacturing Survey

Friday, August 22
None

Summaries for Last Week`s Economic Indicators

Eurozone Real GDP

Eurostat reported flat real GDP growth in the second quarter for the Eurozone, the slowest pace since the first quarter of 2013. Since emerging from a deep recession in mid-2013, Europe has grown slowly, prompting deflationary worries and dampening what would otherwise have been a psychological boost. In the 18-member Eurozone, real GDP has expanded 0.7 percent over the past 12 months. Germany (down 0.2 percent) and Italy (down 0.2 percent) were among the countries in the second quarter with declining economic growth, with French growth holding steady for the second consecutive quarter. In contrast, the United Kingdom has been one of the bright spots, with 0.8 percent growth in the second quarter and 3.1 percent growth year-over-year.

Given the sluggishness of recent income and economic activity growth in the Eurozone, we have also seen prices increase very slowly, up just 0.4 percent in July and down from 0.5 percent in June. This has prompted the European Central Bank to be more aggressive, and the latest data suggest even more monetary stimulus in the months ahead.

In the manufacturing sector, industrial production declined by 0.3 percent in the Eurozone in June. It has decreased in three of the past four months. On a year-over-year basis, industrial output remained unchanged since June 2013 in the 18-member Eurozone. This represents a significant deceleration in the past two months, down from 1.8 percent in April. We will get our first look at August purchasing managers' index (PMI) data on the 21st, but this data suggest weaknesses for the month. The Markit Eurozone Manufacturing PMI report in July provided mixed news, with activity expanding for 13 straight months but growth continuing to ease over the course of this year.

Overall, these data show that Europe's economic challenges are still not behind them, with activity slowing over much of this year. For manufacturers, this has meant cautious consumption and slowing production for both durable and nondurable goods. Energy production has declined by the largest amount year-over-year (down 3.4 percent), and tensions with Russia could present even greater downside risks for the continent as temperatures start to cool in the fall and winter months.

Industrial Production

Manufacturing production increased 1.0 percent in July, its fastest pace since February's post-weather rebound earlier in the year. The jump in output helped to lift the year-over-year pace of manufacturing production to 4.9 percent, its fastest annual rate since June 2012. As such, it illustrates the sector's recovery in output since the winter months, with the year-over-year pace up from 1.5 percent in January.

Meanwhile, manufacturing capacity utilization increased from 77.2 percent in June (and just 75.5 percent in January) to 77.8 percent in July. This suggests that utilization rates for manufacturers have nearly reached their pre-recessionary levels, with July's rate the highest level since February 2008.

Looking at sectoral performance, durable and nondurable goods output were both higher, up 1.7 percent and 0.3 percent, respectively. The increase stemmed largely from motor vehicle production, which increased by a whopping 10.1 percent in July, recovering from flatness seen in June. On a year-over-year basis, motor vehicles and parts output has risen 21.9 percent. This reflected the sizable gain in 2014, but it was also a function of softness in 2013 due to the sector gearing up for a new model year.

Other sectors with notable increases in July included apparel and leather (up 1.8 percent), textile and product mills (up 1.7 percent), furniture and related products (up 1.4 percent), petroleum and coal products (up 1.3 percent), nonmetallic mineral products (up 1.0 percent), primary metals (up 1.0 percent), machinery (up 0.9 percent) and computer and electronic products (up 0.8 percent). In contrast, just 3 of the 19 major sectors had declining production for the month: miscellaneous durable goods (down 0.8 percent); food, beverage and tobacco products (down 0.3 percent); and plastics and rubber products (down 0.3 percent).

On a year-over-year basis, durable goods production has risen by a healthy 8.2 percent since July 2013, with nondurable goods output up 2.1 percent. The five sectors with the fastest growth over the past 12 months include: motor vehicles and parts (up 21.9 percent), furniture and related products (up 9.2 percent), machinery (up 8.3 percent), plastics and rubber products (up 7.4 percent) and nonmetallic mineral products (up 7.3 percent).

Meanwhile, overall industrial production rose 0.4 percent in July, equaling the increase seen in June. It was the sixth straight monthly gain in production following January's weather-induced decline. Since January, industrial output has risen 3.0 percent, with 5.0 percent growth year-over-year. Mining production increased 0.3 percent, but utility output continues to soften, down 3.4 percent for the month. Total capacity utilization increased from 79.1 percent in June to 79.2 percent in July, its highest rate since June 2008.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics said that manufacturing job openings increased for the fourth straight month in June, rising to its highest level since June 2012. After bottoming out at 203,000 job postings in June 2013, the pace has edged upward over the past 12 months, now reaching a two-year high (up from 292,000 in May to 303,000 in June). That is a positive development. With that said, the increase in June stemmed entirely from the durable goods sector (up from 175,000 to 186,000). Job openings in the nondurable goods sector remained unchanged for the month at 117,000. Each figure reflected progress from earlier in the year.

The Job Openings and Labor Turnover Survey (JOLTS) data also show an increase in net hiring in June, rising to its fastest pace since November. The number of manufacturing hires grew from 240,000 to 259,000. At the same time, manufacturing separations—including layoffs, quits and retirements—expanded from

228,000 to 238,000. Overall, net hiring (or hires minus separations) in the manufacturing sector increased from 12,000 in May to 21,000 in June.

Meanwhile, job postings accelerated strongly in June for the larger economy, as well. Total job openings have risen from 4,577,000 in May to 4,671,000 in June. This marks a slight uptick from the 3,874,000 pace observed in January, reaching its highest level since February 2001. Similarly, net hiring in the overall economy rose from 208,000 in May to 283,000 in June. In June, employers posted more openings for construction, government, manufacturing, professional and business services and retail trade.

NFIB Small Business Survey

The National Federation of Independent Business (NFIB) said that small business confidence edged higher in July, bouncing back after dropping slightly in June. The Small Business Optimism Index increased from 95.0 in June to 95.7 in July. While the index remains below the 96.6 reading observed in May (its highest level since September 2007), it has averaged 95.6 over the past four months (April to July). This represents an upward trend, with the first quarter (January to March) averaging 93.0. As such, it suggests that small business owners have become somewhat more positive over the past few months.

Much of the data supports this finding. The percentage of respondents saying that the next three months are a “good time to expand” increased from 7 percent to 10 percent, matching the level observed in May. Net sales expectations dropped marginally, from 11 percent to 10 percent. However, these data also suggest that the sales outlook has improved so far in 2014 with a year-to-date average of 10.9 percent, up from an average of 3.8 percent for all of 2013. In July, capital expenditure plans (up from 24 percent to 25 percent) also increased.

Nonetheless, the Small Business Optimism Index remains below 100, indicating that the sector continues to experience subpar growth and sentiment. Survey respondents suggest that economic conditions and the political climate discourage expansion. Along those lines, small business owners cited taxes and government regulations as the top problems they face, with each garnering 22 percent. These are followed by poor sales (13 percent) and the inability to attract workers (10 percent).

NY Fed Empire State Manufacturing Survey

The Empire State Manufacturing Survey from the New York Federal Reserve Bank said that businesses expanded strongly for the sixth straight month in August. Yet, while growth rates remain at decent levels, the pace of expansion eased somewhat for the month. The composite index of general business conditions declined from 25.6 in July, which was a four-year high, to 14.7 in August. Given the loftiness of July’s figure, it should probably not be much of a surprise that the index came back down to earth. The good news was that much of July’s increases were sustained, with 31.4 percent saying that conditions were better and 51.9 percent suggesting that they remained the same in August.

The underlying data were mixed. On the positive side, the growth rate for shipments (up from 23.6 to 24.6) and the average employee workweek (up from 2.3 to 8.0) both picked up, reflecting increased activity levels. At the same time, new orders (down from 18.8 to 14.1) and hiring (down from 17.1 to 13.6) decelerated slightly, even as they remained at decent growth levels. Pricing pressures remained elevated (up from 25.0 to 27.3), with nearly 30 percent of survey respondents suggesting that input costs were higher in August.

Meanwhile, manufacturers in the New York Fed’s district were significantly more optimistic about the next six months. The forward-looking composite index jumped from 28.5 to 46.8, its highest level since January 2012. Roughly 60 percent of those taking the survey said they anticipate higher sales and output levels in the months ahead, with approximately 30 percent planning to hire more workers and invest in additional capital expenditures. Still, the average workweek is predicted to be unchanged six months from now, and 46.6 percent feel that raw material prices should increase.

Producer Price Index

The Bureau of Labor Statistics reported that producer prices for final demand goods and services increased 0.1 percent in July, slowing from the 0.4 percent gain seen in June. Specifically, producer prices for final demand goods held steady for the month, with food prices up 0.4 percent but energy costs down 0.6 percent. The increase in food costs stemmed largely from higher prices for meats and shellfish; however, there was some relief from recent price gains for produce. On the energy side, producers have benefited from lower prices for natural gas and petroleum of late. For instance, the cost of West Texas intermediate crude oil declined from a recent peak of $107.95 per barrel on June 20 to $98.23 on July 31.

Beyond food and energy, core prices for final demand goods rose 0.2 percent in July. Apparel for women, girls and infants; commercial furniture; industrial chemicals; light motor trucks; pharmaceuticals; and transformers and power regulators saw the largest increases. However, declines in prices for floor coverings, gold and platinum jewelry, pet food, sanitary paper products, tires and x-ray equipment offset these somewhat.

On an annual basis, producer prices for final demand goods and services rose 1.7 percent over the past 12 months. This fell for the third straight month, off from the 2.1 percent pace observed in April. Likewise, core inflation—which excludes food and energy costs—increased 1.6 percent over the past 12 months, down from 2.0 percent in May.

Overall, this suggests that inflationary pressures have eased slightly over the past couple months. While we have seen some acceleration in producer prices since the beginning of the year, costs remain below the Federal Reserve's stated threshold of 2 percent. This indicates the inflation remains in check, at least for now, and the recent deceleration should ease the pressure on the Federal Open Market Committee to expedite its plans to normalize rates. Of course, the final decision to raise short-term rates will hinge on economic data in the months to come.

Retail Sales

The Census Bureau reported that retail sales leveled off in July. Since declining due to winter weather in December and January, retail spending had rebounded in the spring months, but it has since slowed significantly. Over the course of the past 12 months, retail sales have risen 3.7 percent, down from a 4.7 percent pace experienced in April. As such, it appears that consumers have become more cautious in their spending this summer even as we have continued to see relatively modest gains so far in 2014.

Motor vehicle sales (down 0.2 percent) declined for the second month in a row. Excluding auto sales, retail spending was up just 0.1 percent, indicating broader weaknesses. Bright spots included miscellaneous store retailers (up 0.9 percent), clothing and accessory stores (up 0.4 percent), health and personal care stores (up 0.4 percent), food and beverage stores (up 0.3 percent), food services and drinking places (up 0.2 percent) and sporting goods and hobby stores (up 0.2 percent).

Yet, these gains were largely offset by spending declines for department stores (down 0.7 percent), motor vehicle and parts dealers (down 0.2 percent), electronics and appliance stores (down 0.1 percent), furniture and home furnishings stores (down 0.1 percent) and nonstore retailers (down 0.1 percent).

On a year-over-year basis, segments with the fastest retail sales growth were health and personal care stores (up 7.3 percent), food services and drinking places (up 6.2 percent), motor vehicle and parts dealers (up 6.0 percent), nonstore retailers (up 5.9 percent) and building material and garden supply stores (up 5.1 percent).

University of Michigan Consumer Sentiment

The University of Michigan and Thomson Reuters released preliminary data showing that consumer confidence slipped again in August. The Consumer Sentiment Index decreased from 81.3 in July to 79.2 in

August, its lowest level in nine months and off significantly from the recent high of 84.1 in April. The average reading year-to-date in 2014 is 81.5, up marginally from the 79.2 average of 2013 as a whole.

Interestingly, as the University of Michigan's data has reflected less optimism on the part of consumers of late, a similar report from the Conference Board had its consumer confidence measure reaching a pre-recession high in July. As such, these competing data points show the complex thinking of the American consumer right now, with economic data showing rebounding activity from earlier in the year but also with nagging worries about future growth.

Indeed, the August University of Michigan data reflect this nuance. The index for present conditions improved (up from 97.1 to 99.6), but the forward-looking expectations measure dropped significantly (down from 71.1 to 66.2). The latter measure hit its lowest level since the government shutdown last fall. It is possible that Americans are reacting to geopolitical events in this survey.

We will get final data on August consumer sentiment from the University of Michigan on August 29. The Conference Board will also release its survey data on consumer confidence on August 26.