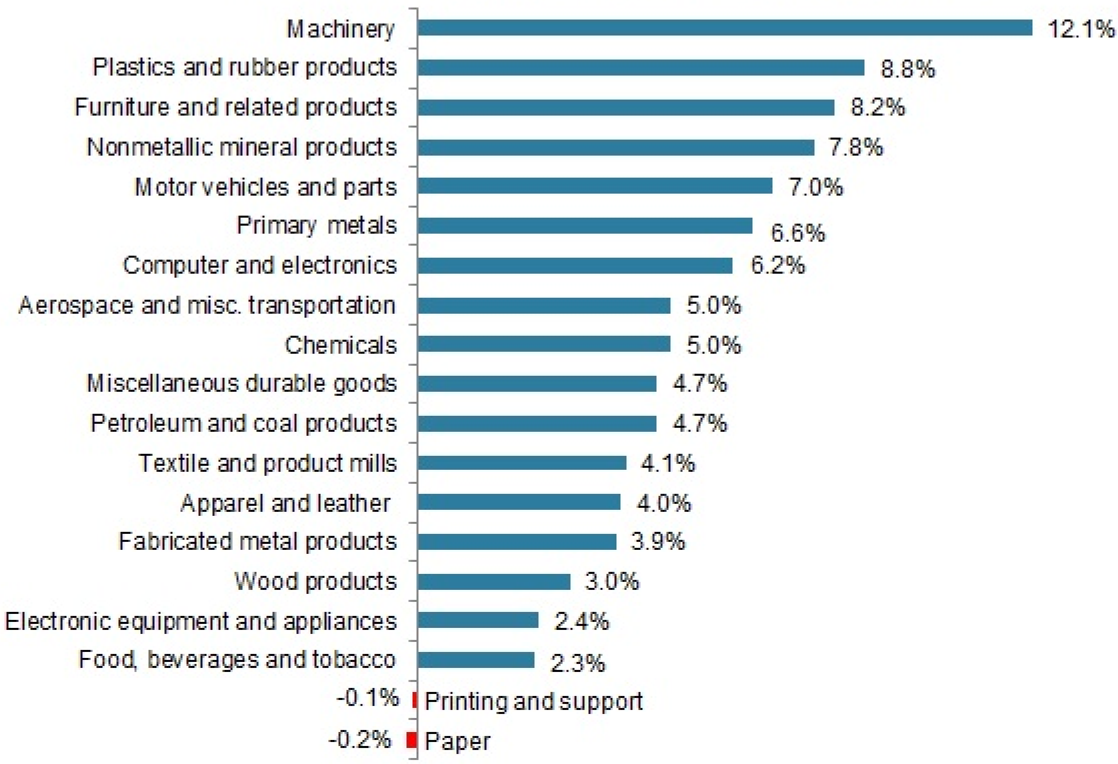
A Publication of the National Association of Manufacturers

January 20, 2015

Year-over-Year Manufacturing Production Growth by Sector, December 2013 to December 2014



Financial markets around the world continue to react to the softening global economic environment. In particular, foreign exchange markets were rocked by news that Switzerland would no longer support its cap on the Swiss franc, where that currency has been seen as a safe haven, particularly against the euro. Almost immediately, the Swiss franc appreciated sharply against the euro and other currencies. For its part, the euro has continued to depreciate against the U.S. dollar, with one euro selling for $1.1581 on Friday. This was down from $1.3927 on March 17, the high point of 2014, representing an appreciation of more than 17 percent for the U.S. dollar against the euro. These developments could hurt the ability of manufacturers in the United States to grow exports.

The other element that continues to move markets is the price of crude oil, which closed at $48.49 per barrel on Friday. The impact of the significant drop in gasoline prices can be seen in several reports out last week. Both the consumer and producer price indices declined in December, with falling energy prices bringing the headline numbers into negative territory. Consumer gasoline prices, for instance, fell 22.4 percent in the second half of 2014. This mirrored data from the Energy Information Administration, which reported that the average price of regular conventional gasoline last week was $2.07 per gallon, down from $3.64 a gallon seven months ago. On a year-over-year basis, core inflation has decelerated in recent months, down to 1.6 percent for consumers and 1.7 percent for producers.

Better economic news and lower gasoline prices have helped to lift consumer confidence. The University of Michigan and Thomson Reuters reported that consumer sentiment rose to its highest level since January 2004. While this did not translate into higher retail sales for December, it does indicate that Americans are more upbeat in their outlook. Likewise, small business owners responding to the National Federation of Independent Business's (NFIB) monthly survey were the most optimistic that they have been since October 2006. In fact, small firms were more positive about sales, hiring and capital spending in this latest survey. These respondents, however, were still worried about taxes and regulation, citing each as a significant challenge.

Manufacturers are also optimistic about the coming months. The latest NAM/*IndustryWeek* survey observed this, with 91.2 percent of manufacturers positive in their outlook in December. Surveys from the New York and Philadelphia Federal Reserve banks and the Manufacturers Alliance for Productivity and Innovation (MAPI) noted positive expectations as well. For instance, more than half of the respondents to the regional Federal Reserve surveys anticipate increased orders and shipments over the next six months, with hiring and capital spending plans also relatively healthy.

Still, there was some easing in a few of these surveys in terms of the rate of growth. Along those lines, manufacturing production grew 0.3 percent in December, down from the strong gain of 1.3 percent in November. Yet, even with a softer-than-desired output figure to end the year, the data show that manufacturers had a good year overall. Manufacturing output increased 4.9 percent in 2014, more than doubling the 2.3 percent year-over-year pace of 2013.

This week, there will be two economic data points of note. First, on Wednesday, the Census Bureau will release the latest figures on housing starts and permits. Then, we will learn more about the current health of the global manufacturing sector with Flash Purchasing Managers' Index data from Markit for the United States, China, Eurozone and Japan on Friday. Other highlights include the Kansas City Federal Reserve Bank's manufacturing survey on Thursday and the Conference Board's leading economic indicators and the National Association of Realtors' existing home sales figures on Friday.

Chad Moutray
Chief Economist
National Association of Manufacturers

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

This Week's Indicators:

Monday, January 12
None

Tuesday, January 13
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, January 14
Beige Book
Retail Sales

Thursday, January 15
MAPI Manufacturing Survey
New York Fed Empire State Manufacturing Survey
Philadelphia Fed Manufacturing Survey
Producer Price Index

Friday, January 16
Consumer Price Index
Industrial Production
University of Michigan Consumer Sentiment

Monday, January 19
MLK HOLIDAY

Tuesday, January 20
NAHB Housing Market Index

Wednesday, January 21
Housing Starts and Permits

Thursday, January 22
Kansas City Fed Manufacturing Survey

Friday, January 23
Chicago Fed National Activity Index
Conference Board Leading Indicators
Existing Home Sales
Markit Flash PMIs for China, Japan, Eurozone and the United States

Summaries for Last Week`s Economic Indicators

Consumer Price Index

The consumer price index fell for the second straight month in December, down 0.4 percent, according to the Bureau of Labor Statistics. This drop was widely anticipated, particularly given the sharp decline in gasoline prices, which fell 9.4 percent for the month. Indeed, the index for gasoline fell 22.4 percent in the second half of 2014. This mirrored data from the Energy Information Administration, which reported that the average price of regular conventional gasoline last week was $2.07 per gallon, down from $3.64 a gallon seven months ago. This has helped to bring headline inflation down significantly, with consumer prices up just 0.7 percent year-over-year, off from 2.1 percent six months ago.

Meanwhile, food prices were up 0.3 percent, continuing the steady rise that we have seen for much of the past year. Since December 2013, food costs have risen 3.4 percent, with a 1.6 percent gain in the second half of 2014. The largest increases were seen in cereals and baking products, dairy products, eggs and fruits and vegetables. Nonalcoholic beverages were the one major category with declining prices in December.

Outside of food and energy, data were mixed. Higher prices for medical care and shelter expenses were somewhat offset by decreased prices for apparel, new and used vehicles and transportation costs. On a year-over-year basis, core consumer inflation, which excludes food and energy, has increased 1.6 percent since December 2013. This was down from 1.9 percent six months ago, and overall, it suggests very modest price growth.

Industrial Production

The Federal Reserve Board reported that manufacturing production increased 0.3 percent in December, a slower pace than the 1.3 percent growth rate observed in November. As such, it was a softer-than-desired end to the year in terms of output. On the positive side, it was the fourth straight monthly expansion for manufacturing production, and the sector has experienced a healthy 4.9 percent increase in output in 2014. That is more than double the year-over-year pace observed in December 2013 of 2.3 percent, illustrating the significant gains in production and outlook over the past year. Manufacturers continue to be mostly upbeat about 2015, even as they are keenly aware of possible risks, especially in global markets.

Capacity utilization for manufacturers was unchanged at 78.4 percent. This continues to be the highest utilization rate since December 2007, the first month of the Great Recession.

Looking specifically at December's manufacturing data, durable and nondurable goods production increased 0.3 percent and 0.4 percent, respectively. Sectors with the largest output growth in December included apparel and leather (up 3.2 percent), primary metals (up 2.2 percent), computers and electronics (up 1.2 percent), petroleum and coal products (up 0.9 percent) and printing and support (up 0.8 percent). In contrast, nonmetallic mineral products (down 1.2 percent), motor vehicles and parts (down 0.9 percent), plastics and rubber products (down 0.8 percent), electrical equipment and appliances (down 0.4 percent), aerospace and other transportation equipment (down 0.3 percent) and machinery (down 0.2 percent) had lower output for the month.

In 2014, the manufacturing sectors with the greatest production gains were machinery (up 12.1 percent), plastics and rubber products (up 8.8 percent), furniture and related products (up 8.2 percent), nonmetallic mineral products (up 7.8 percent) and motor vehicles and parts (up 7.0 percent).

Total industrial production declined by 0.1 percent in December, its first decrease since August. Utility output was off sharply, down 7.3 percent, pushing the headline number lower. Both manufacturing (up 0.3 percent) and mining (up 2.2 percent) output were higher. Industrial production was up 4.9 percent over the past 12 months, which represented progress over the 3.3 percent year-over-year pace observed in December 2013. Overall capacity utilization edged a bit lower as a result, down from 80.0 percent in November to 79.7 percent in December.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics reported that manufacturing job openings increased sharply, up from 287,000 in October to 318,000 in November. This was the fastest pace since August 2007, four months before the start of the Great Recession. The number of postings in the sector has risen over the course of this year, increasing from its February low of 258,000 manufacturing job openings. In November, job postings were higher for both durable (up from 182,000 to 191,000) and nondurable (up from 105,000 to 127,000) goods industries.

Net hiring in manufacturing was also higher; however, overall hiring was down for the month. Manufacturers hired 259,000 workers in November, down from 276,000 in October. At the same time, total separations—including layoffs, quits and retirements—were also lower, down from 260,000 to 223,000. Nonetheless, net hiring (or hires minus separations) rose from 16,000 in October to 36,000 in November. Since May, the manufacturing sector has averaged 21,500 in net hiring per month, which is a relatively healthy pace.

In the larger economy, nonfarm job openings rose from 4,830,000 in October to 4,972,000 in November. The U.S. economy has not generated nonfarm job openings exceeding 5 million since January 2001. In November, there were increased job postings in every sector except for education and health services and leisure and hospitality. In addition, net hiring jumped significantly higher for the month, up from 238,000 in October to 367,000 in November. The data suggest that the overall labor market continues to see notable improvements.

MAPI Manufacturing Survey

Manufacturers expanded at a slightly slower pace in January, according to the latest Business Outlook Survey from MAPI. The composite index was marginally lower, down from 67 in October 2014 to 66 in January. Figures above 50 indicate expansion, so this survey suggests that the sector continues to grow at decent rates, albeit with some easing from the last quarter. Many of the underlying data points decelerated a bit this time, including current orders (down from 78 to 71), exports (down from 65 to 59), prospective U.S. shipments (down from 83 to 77) and prospective non-U.S. shipments (down from 72 to 58). This last data point reflects softness abroad, but it remains expansionary nonetheless.

The percentage of manufacturers indicating that they were operating above 85 percent capacity rose from 26.7 percent in the last survey to 42.3 percent this time. That is a significant jump, mirroring better capacity data in recent industrial production data from the Federal Reserve (see above). There was also an increased willingness to make new investments, both domestically (up from 52 to 58) and abroad (up from 48 to 62). Research and development spending plans (down from 70 to 67) slowed slightly, but remained relatively strong overall.

New York Fed Empire State Manufacturing Survey
The Empire State Manufacturing Survey found that activity expanded again in January after contracting slightly in December. The New York Federal Reserve Bank's composite index rose from -1.2 in December to 10.0 in January. (Note that historical data were revised this month to incorporate new seasonal adjustments.)

This was good news and a positive way to begin 2015, with increased sales (up from 0.4 to 6.1), shipments (up from 2.6 to 9.6) and employment (up from 8.3 to 13.7). Indeed, one-third of those responding to the survey said there were more new orders in January, up from 26.0 percent in December. Still, the average employee workweek (up from -11.5 to -8.4) continues to narrow, despite some progress for the month. The workweek should begin to improve, however, with increased activity.

Manufacturers in the district were also more upbeat about the next six months. The forward-looking composite index rose from 39.3 to 48.4. More than half of those surveyed expect new orders and shipments to rise in the coming months, with 37.9 percent and 30.5 percent planning more hiring and/or more capital spending, respectively. On the downside, roughly 45 percent also anticipate a rise in raw material costs in the months ahead.

NFIB Small Business Survey
According to the NFIB, optimism soared in December. The Small Business Optimism Index rose from 98.1 in November to 100.4 in December, its highest level since October 2006. Moreover, sentiment has increased significantly since earlier in the year, when the index bottomed out at 91.4 in February. Historically, the small business sector has expanded strongly when the index exceeds 100, so this is an important threshold. As such, the findings were similar to the latest NAM/*IndustryWeek* survey, which reported that 91.2 percent of manufacturers were positive in their outlook in December.

The percentage of respondents to the NFIB survey suggesting that now was a "good time to expand" increased from 11 percent to 16 percent, the most since July 2007. Indeed, those small businesses taking the survey were also more upbeat about sales, hiring and capital spending, which was encouraging. For instance, the net percentage expecting sales to rise over the next three months has grown from 5 percent in September to 20 percent in December.

One-quarter of small business owners said that they had a least one "hard to fill" job opening. Moreover, despite the better outlook, the economy and political environment were still cited as the main reasons for those opting not to expand. The "single most important challenge" was taxes, cited by 27 percent of those taking the survey. This was followed by government regulations and red tape (22 percent).

Philadelphia Fed Manufacturing Survey
Manufacturers in the Philadelphia Federal Reserve Bank district reported somewhat slower growth in January. The composite index of general business conditions fell from 24.3 in December to 6.3 in January, starting 2015 off on a slightly weaker note. Yet, it was the 11th straight monthly expansion, and the composite index averaged a sky-high 25.1 in the second half of 2014. Some moderation in growth might have been expected at some point.

There were some red flags in the current data, with declining numbers mirroring the headline index. New orders (down from 13.6 to 8.5) remained positive, but with some deceleration in the rate of growth. More troubling perhaps, other measures shifted into contraction for the month, including shipments (down from 15.1 to -6.9), employment (down from 8.4 to -2.0) and the average workweek (down from 4.1 to -6.7).

Still, manufacturers in the region remain optimistic about the next six months, which would seem to indicate that any negatives in the current environment might be transitory. The future-oriented composite index increased from 50.4 to 50.9, a strong number, and more than half of the respondents see orders and shipments rising over the next six months. Hiring and capital spending plans are also relatively healthy, albeit with the latter slowing somewhat in January.

Producer Price Index

The Bureau of Labor Statistics reported that producer prices for final demand goods and services decreased 0.3 percent in December. Looking just at goods, producer prices for final demand items have now fallen for six consecutive months, down 3.0 percent over that time frame. A large part of that decline, of course, stemmed from sharply lower petroleum prices. Producer prices for energy goods were off 6.6 percent in December, with a 14.8 percent decline since June. This has generally helped to push inflationary pressures lower.

While food costs have stabilized somewhat since rising significantly earlier in the year, food inflation was meaningful in 2014. Prices for final demand food goods decreased 0.4 percent in December, and they were down in six of the past eight months. Still, even with some easing in costs in recent months, food prices for producers were 4.2 percent higher in December 2014 than they were in December 2013. This was largely due to higher prices for meats, eggs, fruits and vegetables.

Outside of food and energy, core inflation rose 0.2 percent in December, its first increase in three months. Areas with higher costs for the month included communications equipment, light motor trucks, mobile homes, pharmaceutical preparations, pumps and compressors, railroad equipment and soaps and detergents. In contrast, electrical computers and equipment, floor coverings, industrial chemicals, jewelry and medical devices had lower producer prices in December.

Overall, pricing pressures have continued to lessen, mainly due to reduced energy costs. Since December 2013, producer prices for final demand goods and services have risen 1.1 percent, down from 2.0 percent in July. At the same time, core inflation, which excludes food and energy costs, increased 2.1 percent year-over-year in December, up from 1.7 percent in November. This seems to indicate modest growth in core inflation, close to the Federal Reserve’s target range. For now at least, inflation appears to be in check.

Retail Sales

The Census Bureau reported that retail sales decreased 0.9 percent in December, which was much weaker than expected. Gasoline station sales were down 6.5 percent, falling for the sixth time in the past seven months and declining 25.4 percent since July. Of course, gasoline station sales reflect lower prices. The Energy Information Administration reported that the average price of regular conventional gasoline last week was $2.07 per gallon, down from $3.64 a gallon seven months ago.

Another area of softness was motor vehicle sales, which declined 0.7 percent in December. Still, purchases of new automobiles remained a bright spot overall, with year-over-year growth of 8.6 percent.

Excluding motor vehicles and gasoline stations, retail sales for December were down 0.3 percent. This suggests that consumer spending was much softer than it seemed, particularly with lower gasoline prices putting more money in everyone’s wallets. On the positive side, retail sales have increased modestly over the course of the past year, up 3.2 percent. While this was down from the 4.7 percent pace in November, it remains decent overall. Excluding autos and gasoline, the year-over-year pace was 4.3 percent, down from 5.0 percent the month before.

Looking at other sectors, the data were largely negative for December. Monthly spending was lower in the following areas: building materials and garden supplies (down 1.9 percent), miscellaneous store retailers (down 1.9 percent), electronics and appliances (down 1.6 percent), general merchandise stores (down 0.9 percent) and nonstore retailers (down 0.3 percent). In contrast, December sales were higher for restaurants and bars (up 0.8 percent), furniture and home furnishings (up 0.8 percent), health and personal care (up 0.5 percent) and food and beverages (up 0.3 percent).

In 2014, the following retailers experienced the greatest sales growth: motor vehicles and parts dealers (up 8.6 percent), food services and drinking places (up 8.2 percent), electronics and appliance stores (up 6.8 percent), health and personal care stores (up 6.1 percent) and furniture and home furnishings stores (up 5.8 percent).

University of Michigan Consumer Sentiment

The University of Michigan and Thomson Reuters reported that consumer confidence rose to its highest level since January 2004. The Consumer Sentiment Index increased from 93.6 in December to 98.2 in January, according to preliminary data. As such, it suggests that Americans are more optimistic as we begin 2015. The headline index averaged 84.1 in 2014. Better economic data and lower gasoline prices have more than likely helped to lift spirits, as this survey moves largely on pocketbook issues.

Indeed, the index for the current economic environment jumped from 104.8 to 108.3, a level last seen in mid-2007. Consumers were also more upbeat about the future, with that component up from 86.4 to 91.6. We will get final data on these figures on January 30.

Connect with the Manufacturers

Questions or comments?

Contact Chief Economist Chad Moutray at cmoutray@nam.org.