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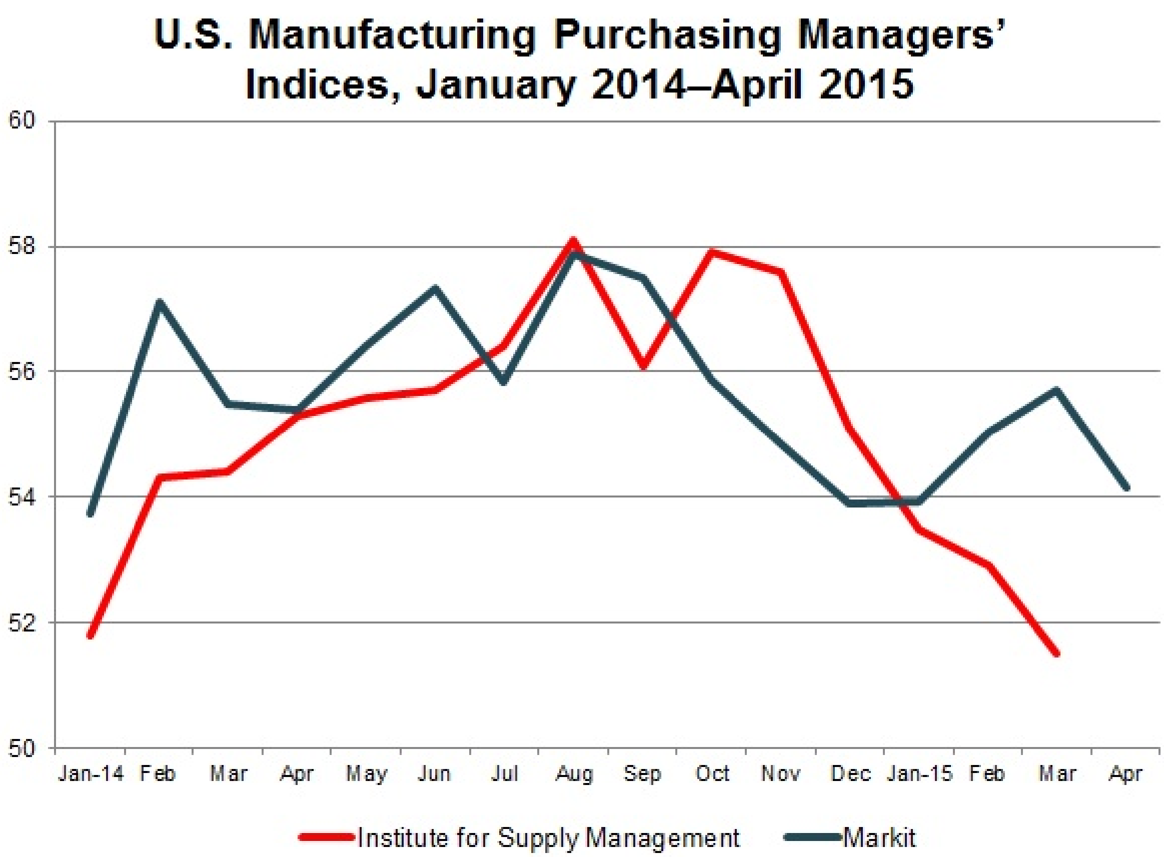

Durable goods orders jumped 4.0 percent in March, which should be a sign that the sector was growing strongly and rebounding from recent softness. Instead, strong aircraft and motor vehicle sales in the month masked broader weaknesses behind the surface. Excluding transportation equipment orders, durable goods sales dropped 0.2 percent for the month and have edged lower across the past six months. Durable goods shipments were somewhat more encouraging on a year-over-year basis, up 3.7 percent, but they have been essentially flat since September.

This finding mirrors weaknesses in other data points, with manufacturing activity easing over the past few months due to a number of significant headwinds in the economy. These include a stronger U.S. dollar, weaknesses abroad, persistent logistical challenges from the West Coast ports slowdown and weather. The

Chicago Federal Reserve Bank's National Activity Index was lower for the third straight month in March largely on these hurdles, particularly from production-related indicators. Similarly, the Kansas City Federal Reserve Bank observed falling activity levels across-the-board, with exports declining for the fourth consecutive month. The reduction in crude oil prices dampened demand and production in the district, hurting producers.

If there is any silver lining, it is that manufacturers in the United States remain positive in their outlook. In fact, 45 percent of respondents to the Kansas City Fed Manufacturing Survey expect orders to increase over the next six months, with 38 percent anticipating greater production. Exports were the one main area where respondents continue to expect challenges. Likewise, the Markit Flash U.S. Manufacturing PMI found that export orders turned negative in April as a stronger dollar and sluggish growth in international markets weakened sales. Nonetheless, even with the above-mentioned headwinds, the Markit analysis continued to indicate decent growth in new orders, output and hiring in April.

Overseas, preliminary manufacturing data for China and Europe were both weaker in April. Chinese manufacturers reported declines for the fourth time in the past five months. The contraction in China stemmed largely from reduced domestic demand, with its economy continuing to decelerate. Production expanded slightly in April, albeit at a slower pace. Meanwhile, manufacturing activity in the Eurozone has improved today from where it was a few months ago; yet, new orders, output and exports were a bit softer in April than in March. The good news was that the data points reflect somewhat modest growth, and we have seen some rebounds in several recent indicators, including industrial production and economic sentiment. Still, even with better numbers, growth in Europe will be slow, which is why the European Central Bank has moved so aggressively toward stimulative measures.

Meanwhile, we received mixed news on the housing front last week. Existing home sales rebounded in March after slowing in recent months, especially in the Midwest and Northeast due to poor weather conditions. This was an encouraging development. However, it remains a seller's market. Supplies of existing home sales remain low, helping to push median prices higher. In contrast, new single-family home sales declined in March to their slowest pace in four months. Looking at a longer time horizon, new home sales have jumped significantly, up 19.4 percent, but the Midwest and Northeast have yet to fully recover from recent slowness in their year-over-year activity levels. In addition, unlike the existing home market, inventories of new homes for sale have increased in March, which should benefit buyers.

This week, we will be looking for improved manufacturing activity in April after easing in recent months, with the Institute for Supply Management releasing new Purchasing Managers' Index data on Friday. In addition, the Dallas and Richmond Federal Reserve Banks will report on activity in their regions on Monday and Tuesday, respectively. The economic highlight will come on Wednesday, with the release of real GDP data for the first quarter. My estimate is for 1.5 percent growth. Other data releases next week include the latest figures on construction spending, consumer confidence, employment costs and personal income and spending.

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Economic Indicators

This Week's Indicators:

Last Week's Indicators:
(Summaries Appear Below)

Monday, April 20
Chicago Fed National Activity Index
NABE Business Conditions Survey

Tuesday, April 21
State Employment Report

Wednesday, April 22
Existing Home Sales

Thursday, April 23
Kansas City Fed Manufacturing Survey
Markit Flash Manufacturing PMIs for the United States, China, and the Eurozone
New Home Sales

Friday, April 24
Durable Goods Orders and Shipments

Monday, April 27
Dallas Fed Manufacturing Survey

Tuesday, April 28
Conference Board Consumer Confidence
Richmond Fed Manufacturing Survey

Wednesday, April 29
Business Employment Dynamics
FOMC Monetary Policy Statement
Gross Domestic Product (First Quarter 2015)

Thursday, April 30
Employment Cost Index
Personal Income and Spending

Friday, May 1
Construction Spending
ISM Purchasing Managers' Index
University of Michigan Consumer Sentiment (Revision)

Summaries for Last Week`s Economic Indicators

Chicago Fed National Activity Index
The Chicago Federal Reserve Bank continued to show weaknesses in the U.S. economy in its latest National Activity Index. The headline index fell from -0.18 in February to -0.42 in March. This was the third consecutive monthly decrease and the lowest level since the weather-induced decline of January 2014. Figures below zero suggest the economy is expanding below its historical average. These figures mirror other indicators that have shown softness in the early months of 2015 as several economic headwinds, including a strong U.S. dollar, sluggish growth abroad and lower crude oil prices, have dampened demand and output for manufacturers.

Indeed, production-related indicators were one of the main drags on growth in March, subtracting 0.27 points from the index. Manufacturing production edged marginally higher, up 0.1 percent in March, but the broader measure of industrial production declined by 0.6 percent. Manufacturing output has been lower than desired for four straight months. In addition, employment, consumer spending and housing were also weaknesses during the month.

Durable Goods Orders and Shipments
The Census Bureau reported that new durable goods orders rose 4.0 percent in March, increasing for just the third time in the past eight months. Strong defense and nondefense aircraft orders helped to push the headline index higher, and motor vehicle sales also rebounded from recent weaknesses. Note that aircraft sales are often bulked together in batches, making them more volatile from month to month. As a whole, transportation equipment orders jumped 13.5 percent in March.

Excluding transportation, the news was less encouraging, with durable goods down 0.2 percent. Indeed, durable goods orders excluding transportation have fallen from their recent peak of $169.2 billion in September to $159.9 billion in March, a drop of 5.5 percent over the past six months. To be fair, the September figure might have been an outlier, with an average of $164.6 billion for 2014 as a whole. Still, that represents a softer sales environment than we would prefer for the broader durable goods sector.

Looking specifically at the March data, computers and related products (up 11.0 percent) was the only major sector outside of transportation equipment to notch a sales gain for the month. The other segments were all negative, including communications equipment (down 5.3 percent), machinery (down 1.5 percent), electrical equipment and appliances (down 1.1 percent), fabricated metal products (down 0.4 percent), other durable goods (down 0.3 percent) and primary metals (down 0.2 percent).

Meanwhile, durable goods shipments increased by 1.1 percent in March, growing for the first time in three months. Similar to new orders, however, shipments fell 0.3 percent when transportation equipment shipments were excluded. On a year-over-year basis, durable goods shipments have risen modestly, up 3.7 percent, but over the past six months, they have been essentially flat (up 0.1 percent). In March, there were increased shipments for transportation equipment (up 4.3 percent, including a 5.4 percent gain for motor vehicles) and computers and electronic products (up 1.6 percent). Other major sectors had declines.

Existing Home Sales

The National Association of Realtors® reported that existing home sales jumped 6.1 percent, rising from an annualized 4.89 million units in February to 5.19 million units in March. This was a welcome increase in demand, with sales rebounding after softness over the past few months. Single-family and multifamily units were both up sharply for the month, and there were increases in each region of the country. Of particular note, existing home sales rose 6.9 percent in the Northeast, the first increase since October, and sales were up 10.1 percent in the Midwest. Poor weather conditions in recent months negatively impacted each region.

Still, supplies of existing homes for sale remain low. There were 4.6 months of supply on the market in March, down from 4.7 months in February and 5.4 months in September. This had helped to lead to stronger growth in prices. The existing median home price in March was $212,100, or 7.8 percent higher than in March 2014.

Kansas City Fed Manufacturing Survey

The Kansas City Federal Reserve Bank reported that manufacturing sentiment fell further in April, contracting for the second straight month. The composite index of general business conditions declined from -4 in March to -7 in April. The sample comments tick off a number of challenges for manufacturers in the district, including the strong U.S. dollar, lower crude oil prices, continuing logistics problems from the West Coast ports slowdown and global competition. The index for new export orders was negative for the fourth consecutive month (down from -9 to -12), reflecting the dollar's strength and weaknesses abroad.

Other measures of current manufacturing activity indicate net declines in activity across-the-board. This included new orders (up from -20 to -12), shipments (down from 0 to -7), production (unchanged at -2), employment (down from -2 to -18) and the average workweek (up from -17 to -10). Overall, these figures were quite discouraging. Many of these subcomponents have now contracted for four straight months, including for new orders, a proxy of future activity. One positive has been lower input costs, helped by reductions in energy expenses.

Kansas City Federal Reserve Bank Vice President and Economist Chad Wilkerson said, "Regional factories had their worst month in quite some time, as exports continued to drop and conditions worsened among producers of oil and gas–related goods."

Looking ahead six months, manufacturers in the district remained positive; however, this optimism has taken a hit in recent months. The expected composite index has fallen from 21 in November to 6 in April. Yet, even with some softening in sentiment, 45 percent predict increased sales, and 38 percent anticipate higher production levels in the coming months. Perhaps more disappointing, hiring (down from 7 to -2) and exports (down from 4 to -6) are expected to remain challenged moving forward.

Markit Flash Manufacturing PMIs for the United States, China and the Eurozone
Manufacturing activity in China contracted for the fourth time in the past five months, according to preliminary data from Markit. The HSBC Flash China Manufacturing PMI dropped from 49.6 in March to 49.2 in April, its lowest level in 12 months. The decline stemmed largely from reduced domestic demand, with the new orders index down from 49.3 to 49.2. The employment index (up from 47.4 to 48.0) has now reflected contracting levels of hiring for 20 straight months. On the positive side, new export orders (up from 49.0 to 50.6) shifted to a slight expansion in April, and output (down from 50.8 to 50.4) also expanded slightly, albeit at a slower pace this month.

In general, the Chinese economy continues to decelerate. Real GDP rose 7.0 percent year-over-year in the first quarter, down from 7.3 percent growth in the fourth quarter. Moreover, industrial production, retail sales and fixed asset investments have each slowed materially in the first quarter. The data points are likely to lead the Chinese government to pursue new stimulative measures.

In Europe, the Markit Flash Eurozone Manufacturing PMI decreased from 52.2 in March to 51.9 in April. As such, there was modest growth reported for manufacturers in April, even with the slight deceleration for the month. Manufacturing activity today remains improved from where it was just a few months ago, however, with the headline index up from 50.1 in November. Still, the underlying data were mostly lower across-the-board in April, including new orders (down from 52.5 to 51.6), output (down from 53.6 to 53.1) and exports (down from 52.7 to 51.8). Hiring (up from 51.6 to 51.7) was one of the few areas with progress in April.

The broader story for Europe reflects recent progress but also persistent challenges. Industrial production rebounded in February in the Eurozone, and economic sentiment marginally improved in its most recent survey. Nonetheless, other data highlight continuing challenges. The unemployment rate ticked up slightly to 11.3 percent. Many observers continue to worry about deflation, and annual inflation declined 0.1 percent in March. As a result, the European Central Bank is spending 1 trillion euros over the next 18 months to spur greater economic growth as part of its quantitative easing program.

Meanwhile, the Markit Flash U.S. Manufacturing PMI declined from 55.7 in March to 54.2 in April. Yet, even with somewhat weaker data for the month, demand, production and employment rates continue to be relatively decent. Indices for new orders (down from 57.2 to 55.4), output (down from 58.8 to 55.4) and hiring (down from 53.8 to 53.6) decelerated for the month, but with growth remaining at a modest pace. At the same time, exports (down from 50.0 to 48.6) turned negative as a stronger dollar and weaknesses abroad dampened manufacturers' ability to grow international sales.

NABE Business Conditions Survey
The National Association for Business Economics (NABE) reported decelerated growth in its latest Business Conditions Survey. The net percentage of respondents saying their profit margins increased over the past three months dropped from 24 percent in January to 10 percent in April, reflecting weaker demand and higher costs. On the positive side, sales continued to expand, just at a slightly eased pace. This is especially true in the goods-producing sectors. Half of respondents said their sales were higher in the quarter. Yet, 56 percent noted that slower growth in China had impacted their businesses negatively, with two-thirds saying a stronger U.S. dollar had a negative "material impact" on them.

There were some bright spots to highlight. Falling energy prices have reduced overall input costs, with 57 percent of goods-producing industry respondents saying their costs were lower during the past three months. Firms were also hiring a bit more, with 43 percent of goods-producing businesses adding workers. Along those lines, 58 percent of goods-producing firms noted challenges in filling open positions. Capital spending was a net positive, with 38 percent noting increases. This was down from 51 percent in January, however, indicating some deceleration in capital investments from just three months ago.

In terms of the economic outlook, 59 percent of industry respondents predict real GDP growth of 2.1 percent to 3.0 percent in 2015, with 29 percent forecasting growth of 3.1 percent to 4.0 percent. My own forecast calls for 2.8 percent growth this year.

New Home Sales

The Census Bureau and the U.S. Department of Housing and Urban Development reported that new residential sales dropped 11.4 percent in March. New single-family home sales were down from an annualized 543,000 in February to 481,000 in March, its slowest pace in four months. Sales were lower in three of the four regions, with only the Midwest notching a small gain for the month. Looking at a longer time horizon, the news was perhaps more encouraging, with new home sales up 19.4 percent. However, the Midwest and Northeast remain weaker on a year-over-year basis, as they have not fully recovered from the poor weather conditions seen in recent winter months.

Unlike the existing home market (see above), inventories of new homes for sale increased in March. There were 5.3 months of supply on the market in March, up from 4.6 months in February. However, this remains below the average of 5.6 months of supply during the second half of 2014. The median home price in March was $273,700.

State Employment Report

California added the most manufacturing jobs in March, with the state increasing employment in the sector by 4,300. This was followed by New Jersey (up 2,800), Florida (up 1,700), Minnesota (up 1,600), Massachusetts (up 1,500) and Virginia (up 1,500). Since the end of 2013, Michigan took the honor of having the largest gains in manufacturing employment, up 25,800. Over that same 15-month time frame, other states with significant job increases include Indiana (up 18,600), Ohio (up 16,300), North Carolina (up 14,900), Wisconsin (up 11,200) and Georgia (up 11,000).

Meanwhile, Nebraska (2.6 percent) has the lowest unemployment rate in the country, supplanting North Dakota (3.1 percent). These two states were closely followed by Utah (3.4 percent), South Dakota (3.5 percent), Minnesota (3.7 percent), Idaho (3.8 percent), Oklahoma (3.9 percent) and New Hampshire (3.9 percent) with unemployment rates well below the national average (5.5 percent). At the other end of the spectrum, the highest unemployment rates in March were in the District of Columbia (7.7 percent), Nevada (7.1 percent) and Mississippi (6.8 percent).

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Questions or comments?

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