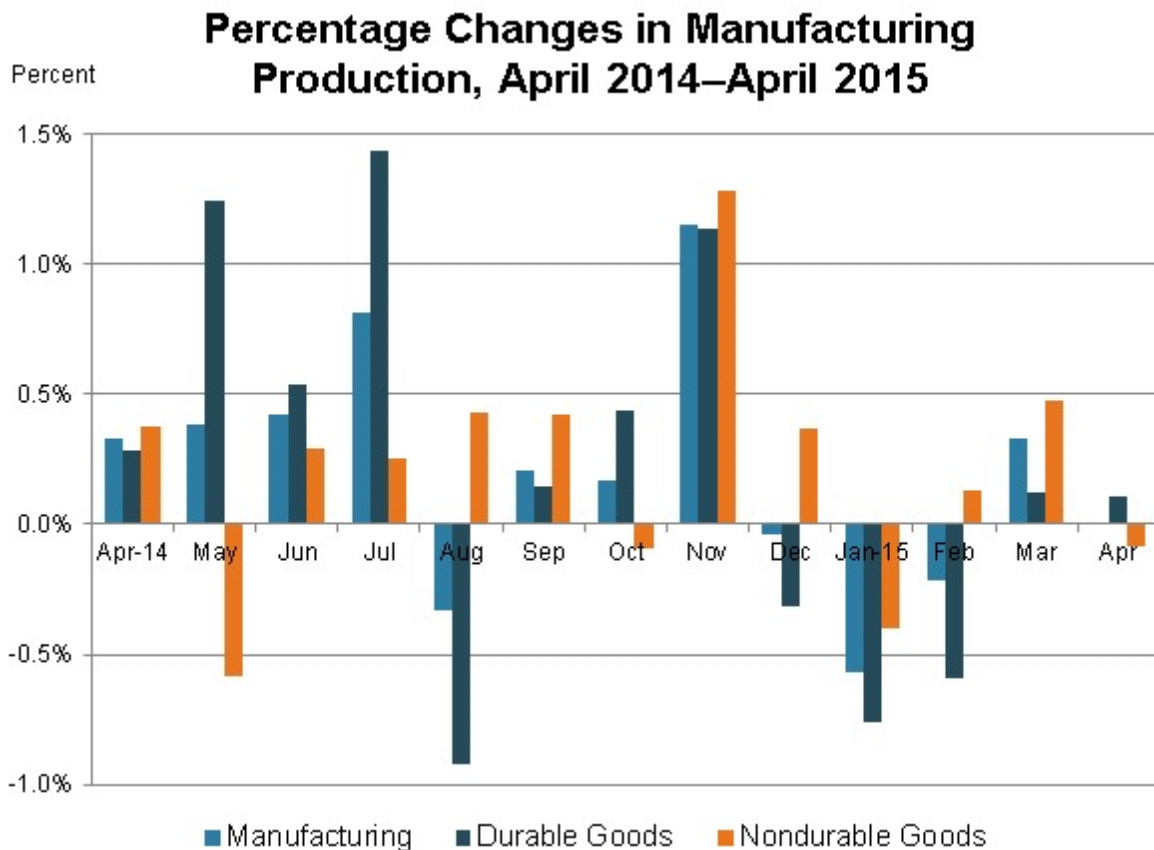


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One of the larger headlines of the past week was the renewed strength of the euro, which closed at \$1.1449 on Friday. To put that exchange rate in perspective, the euro traded for \$1.0582 on April 13, and Friday's close was the highest level for the euro since February 2. To be fair, the U.S. dollar remains strong against the euro, up 17.8 percent since May 6, 2014. Yet, the recent weakness in the dollar (and strength in the euro) has been the result of weaker-than-expected economic data in the United States and [better-than-anticipated numbers](#) coming out of Europe. Many of the underlying long-term fundamentals in these two regions remain the same, but those manufacturers worried about the negative impact of a soaring dollar got some welcome relief last week in the recent easing of the greenback.

Still, overall manufacturing activity remains quite soft. [Production](#) in the sector was unchanged in April, and there have now been five straight months of weakness. Manufacturers have struggled with a number of significant headwinds in the U.S. and global economies, including challenges in growing exports, residual impacts from the West Coast ports slowdown, regional weather challenges and an anxious consumer. As a result, the year-over-year pace has slowed from 4.5 percent in November to 2.3 percent in April. Similarly, capacity utilization in manufacturing has dropped from 79.8 percent five months ago to 78.2 percent today. In the larger economy, total industrial production declined 0.3 percent in April, falling for the fifth consecutive month. At the same time, the [New York Federal Reserve's monthly survey](#) reported activity turning slightly positive in May—perhaps a harbinger of better data to come.

The slow economic start so far in 2015 has weighed heavily on consumers as well. Americans appear to be quite anxious about income and labor market growth. The University of Michigan's [Index of Consumer Sentiment](#) fell from 95.9 in April to 88.6 in May, erasing the gains in perceptions made since November. This indicates that Americans continue to be cautious. Indeed, [retail sales](#) were unchanged in April, softening from the rebound in March. Overall, spending has decelerated significantly over the past few months, down from a year-over-year rate of 4.7 percent in November to just 0.9 percent in April. On a more positive note, however, retail spending data reflect recent declines in gasoline prices. When gasoline station sales are excluded, retail sales have risen 3.6 percent year-over-year.

Meanwhile, [producer prices](#) for final demand goods and services fell 0.4 percent in April, with prices for goods down 0.7 percent. Final demand goods prices have declined in nine of the past 10 months, driven lower largely on reduced energy costs. On a year-over-year basis, producer prices have declined 1.3 percent, remaining in negative territory for the fourth straight month. Meanwhile, core inflation for producers, excluding food and energy costs, has risen 0.7 percent year-over-year, down from 2.0 percent in December and 0.9 percent in March.

As such, we continue to experience decelerating growth in overall core pricing pressures. This provides only mixed comfort, however, to the Federal Reserve. Yes, it allows the Federal Reserve to remain stimulative in terms of monetary policy, but slowing price growth can be troublesome if it persists, prompting growth worries. We would expect some acceleration moving forward, particularly in the year-over-year comparisons and especially given that energy prices appear to have stabilized somewhat.

We will get a number of reports next week on the housing market, which has struggled in the early months of this year, particularly on poor weather conditions in some regions. The highlight will be new residential construction starts and permits data on Tuesday. In addition, several surveys will be released on Thursday discussing the manufacturing sector, including Markit Flash PMIs for the United States, China and the Eurozone and regional activity from the Kansas City and Philadelphia Federal Reserve Banks. Other economic indicators to watch next week include the latest figures on consumer prices and leading economic indicators, among others.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

This Week's Indicators:

Monday, May 11

None

Tuesday, May 12

Job Openings and Labor Turnover Survey
 NFIB Small Business Survey

Wednesday, May 13

Retail Sales

Thursday, May 14

Producer Price Index

Friday, May 15

Industrial Production
 New York Fed Manufacturing Survey
 University of Michigan Consumer Sentiment

Monday, May 18

NAHB Housing Market Index

Tuesday, May 19

Housing Starts and Permits

Wednesday, May 20

None

Thursday, May 21

Chicago Fed National Activity Index
 Conference Board Leading Indicators
 Existing Home Sales
 Kansas City Fed Manufacturing Survey
 Markit Flash PMIs for the United States, Eurozone
 and China
 Philadelphia Fed Manufacturing Survey

Friday, May 22

Consumer Price Index



Summaries for Last Week's Economic Indicators

Industrial Production

[Manufacturing production was unchanged in April, slowing from the 0.3 percent gain in March.](#) Overall, output in the sector has been very soft for five straight months. Manufacturers have struggled with a number of significant headwinds in the U.S. and global economies, including challenges in growing exports, residual impacts from the West Coast ports slowdown, regional weather challenges and an anxious consumer. As a result, the year-over-year pace has slowed from 4.5 percent in November to 2.3 percent in April. Similarly, capacity utilization in manufacturing has dropped from 79.8 percent five months ago to 78.2 percent today.

Durable goods production increased 0.1 percent in April, with output for nondurable goods firms off 0.1 percent. There were strong increases for manufacturing production for nonmetallic mineral products (up 1.4 percent), electrical equipment and appliances (up 1.3 percent), motor vehicles and parts (up 1.3 percent) and wood products (up 1.3 percent). However, these were offset by declining output in machinery (down 0.9 percent), aerospace and miscellaneous transportation equipment (down 0.6 percent) and food, beverage and tobacco products (down 0.6 percent), among other sectors.

In the larger economy, total industrial production declined 0.3 percent in April, falling for the fifth consecutive month. While manufacturing output was flat in April, there were decreased production measures for both mining (down 0.8 percent) and utilities (down 1.3 percent). Industrial production has increased 1.9 percent since April 2014, with the year-over-year rate down from 4.8 percent in November.

Job Openings and Labor Turnover Survey

[The Bureau of Labor Statistics reported negative net hiring in the manufacturing sector in both February and March, according to the latest Job Openings and Labor Turnover Survey release.](#) These mark the first

declines in net hiring for the sector in nearly two years, a reflection of the recent headwinds seen in the economy so far this year.

Manufacturers hired 254,000 workers in April, down from 259,000 in March. At the same time, total separations—including layoffs, quits and retirements—remained unchanged at 264,000. Therefore, net hiring (or hires minus separations) declined from -5,000 to -10,000. This represents a deterioration from the more-robust pace of net hiring growth during the second half of 2014, which averaged nearly 25,000 per month. We hope to see a rebound in net employment growth in the coming months.

Along those lines, job openings remain at decent levels despite some easing over the past two months. The number of job postings in the manufacturing sector declined from 323,000 in February to 320,000 in March. Job openings from manufacturers have averaged 322,000 over the past five months (November to March), a sizable uptick from the 293,000 average in the five months prior to that (June to October). This should give us some encouragement for additional hiring down the line if these postings translate into actual workforce additions moving forward.

In the larger economy, nonfarm job openings decreased from 5,144,000 in February to 4,994,000 in March. In February, postings exceeded 5 million for the first time since January 2001. Nonfarm net hiring also decelerated, down from 218,000 to 84,000. Accommodation and food services, government and retail trade were the only major sectors to experience increased hiring in March.

New York Fed Manufacturing Survey

[The New York Federal Reserve Bank reported that manufacturing activity in its district turned slightly positive in May.](#) The Empire State Manufacturing Survey's composite index rose from -1.2 in April to 3.1 in May. As such, manufacturing expanded slightly for the month, led higher by better new orders data (up from -6.0 to 3.9).

Other measures reflected modest growth for the sector, but with some slight easing from the month before. For instance, the indices for shipments (down from 15.2 to 14.9) and employment (down from 9.6 to 5.2) both reflected decent growth rates despite some slowing in May. Another positive has been the continued deceleration in raw material prices (down from 19.2 to 9.4). Still, the average employee workweek narrowed once more (down from -4.3 to -2.1), albeit at a slower pace of decline in May.

Manufacturers remain cautiously optimistic about the next six months; yet, sentiment has been dampened somewhat by recent headwinds in the economy. The forward-looking composite index decreased from 37.1 to 29.8, but that is still a relatively strong figure. Indeed, 45.3 percent of manufacturing respondents in the district expect new orders to rise over the coming months, with healthy growth also anticipated for shipments, hiring and capital expenditures.

NFIB Small Business Survey

[The National Federation of Independent Business reported that optimism rose somewhat in April, rebounding from a much softer March.](#) The Small Business Optimism Index increased from 95.2 in March to 96.9 in April, but remained below the recent peak observed in December (100.4). The December level marks the highest since October 2006, but sentiment has been weaker since then, as a number of economic headwinds have dampened both activity and the overall outlook to a certain extent. Indeed, this report reflects lingering anxieties about the economy, even as small business owners indicate they are more upbeat today than in past years.

Along those lines, the percentage of respondents suggesting that now was a "good time to expand" held flat at 10 percent, down from 16 percent in December but up from 8 percent one year ago. Respondents who said it was not a good time for expansion cited the economy as their top reason. One of the bigger challenges has been in growing sales. The net percentage of small businesses expecting sales to increase over the next

three months declined from 13 percent in March to 10 percent in April, decelerating for the fourth straight month (and down from 20 percent in December).

The hiring picture was mixed. Hiring was down for the second month, with the net percentage of actual employment changes down from -1 percent in March to -2 percent in April. On the other hand, the net percentage planning to add workers over the next three months edged slightly higher, up from 10 percent to 11 percent. This was up from 8 percent one year ago, but down from 15 percent in December. Capital spending plans were also marginally higher, up from 24 percent in March to 26 percent in April.

The top "single most important problem" was regulatory burdens, cited by 23 percent of those taking the survey. This was followed by taxes (22 percent), the quality of labor (12 percent) and poor sales (11 percent).

Producer Price Index

[The Bureau of Labor Statistics reported that producer prices for final demand goods and services fell 0.4 percent in April, with prices for goods down 0.7 percent.](#) Final demand goods prices have declined in nine of the past 10 months, driven lower largely on reduced energy costs. Final demand energy goods were off 2.9 percent in April, or 24.3 percent since peaking in June. Producer prices for final demand food goods also declined in April, down 0.9 percent. Sharply lower prices for eggs helped push overall food costs down, along with chicken, cooking oils, oilseeds, pork, processed fruits and vegetables and roasted coffee. Through the first four months of 2015, food costs have declined 4.2 percent.

There were also some notable price declines outside of food and energy. These include household appliances, industrial chemicals, passenger cars, transformers and power regulators and women and girls' apparel.

Overall, inflationary pressures have lessened substantially over the past year thanks to falling energy costs. On a year-over-year basis, producer prices have declined 1.3 percent, remaining in negative territory for the fourth straight month. Meanwhile, core inflation for producers, excluding food and energy costs, has risen 0.7 percent year-over-year, down from 2.0 percent in December and 0.9 percent in March.

As such, we continue to experience decelerating growth in overall core pricing pressures. This provides only mixed comfort, however, to the Federal Reserve. Yes, it allows the Federal Reserve to remain stimulative in terms of monetary policy, but slowing price growth can be troublesome if it persists, prompting growth worries. We would expect some acceleration moving forward, particularly in the year-over-year comparisons and especially given that energy prices appear to have stabilized somewhat.

Retail Sales

[Consumers remained cautious in their spending in April, according to the Census Bureau.](#) Retail sales remained unchanged for the month, softening from the rebound in March. Overall, spending has decelerated significantly over the past few months, down from a year-over-year rate of 4.7 percent in November to just 0.9 percent in April.

With that said, the longer-term view is perhaps more encouraging than the headline number might suggest. Total retail spending includes gasoline station sales, which have fallen 22.0 percent since April 2014 on lower prices. Excluding gasoline stations, retail sales grew 3.6 percent year-over-year. This suggests modest growth in the broader retail market over the past 12 months. Still, this figure has also eased recently, down from 5.8 percent year-over-year in November.

The April data were highly mixed. Health and personal care stores (up 0.8 percent), sporting goods and hobby stores (up 0.8 percent), food services and drinking places (up 0.7 percent), building material and garden supply stores (up 0.3 percent) and clothing and accessory stores (up 0.2 percent) were bright spots. In contrast, department stores (down 2.2 percent), furniture and home furnishings (down 0.9 percent),

electronics and appliance stores (down 0.4 percent), motor vehicles and parts (down 0.4 percent) and grocery stores (down 0.3 percent) each had reduced consumer spending levels for the month.

University of Michigan Consumer Sentiment

[Consumer confidence pulled back sharply in May, according to preliminary data from the University of Michigan and Thomson Reuters.](#) The Index of Consumer Sentiment fell from 95.9 in April to 88.6 in May, erasing the gains in perceptions made since November. This indicates that Americans have become more anxious about the economy lately, with reduced sentiment stemming from labor market and income worries on weaker economic data in recent months.

Indeed, the assessments of both current (down from 107.0 to 99.8) and future (down from 88.8 to 81.5) conditions were both lower for the month. To be fair, Americans remain more upbeat today than a year ago, when the headline index measured 81.9. Still, consumers remain more cautious than we might prefer, and this appears to be negatively impacting spending (*see retail sales above*).

We will get final consumer sentiment data from the University of Michigan on May 29, and the Conference Board will release its consumer confidence data on May 26.

Connect with the Manufacturers



Questions or comments?

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