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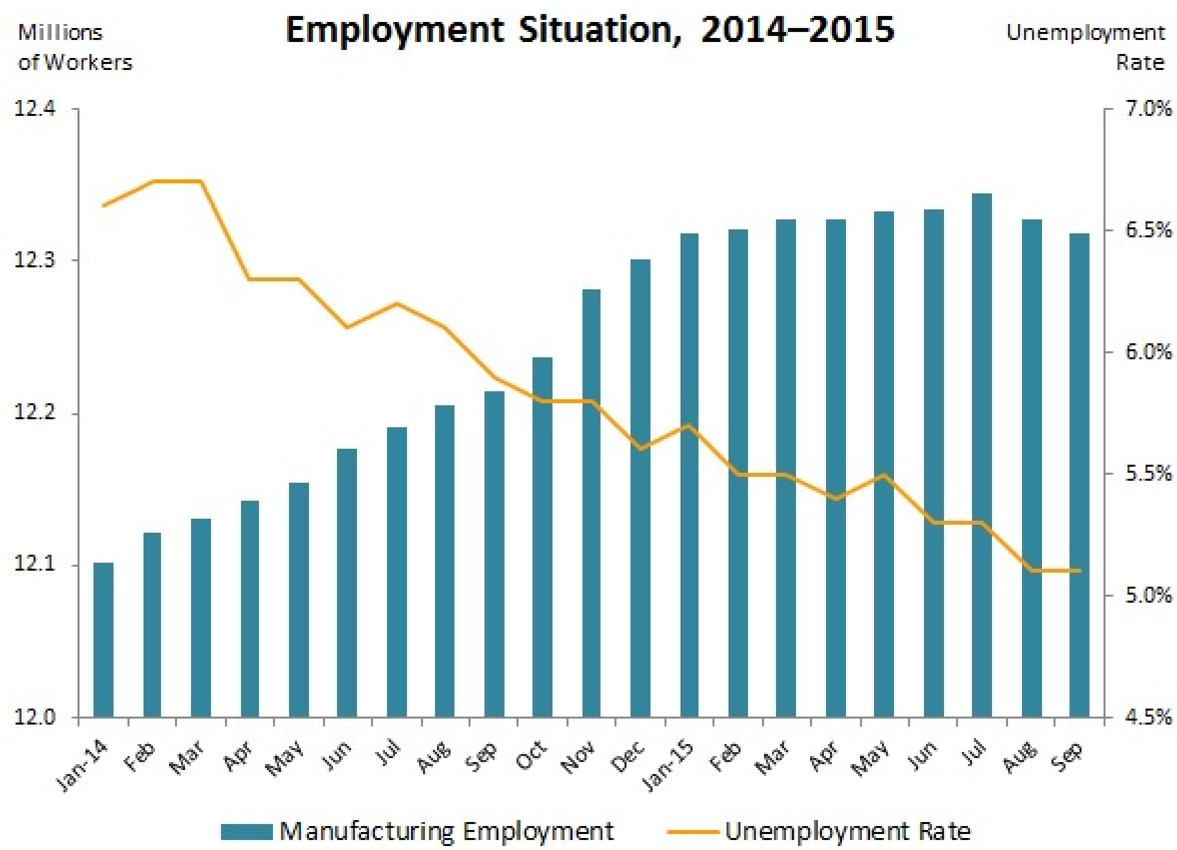

We received two disappointing reports last week about the current health of the manufacturing sector. First, the Institute for Supply Management reported essentially stagnant levels of new orders and employment growth in September, with the Manufacturing Purchasing Managers' Index at its lowest level since May 2013. Exports also contracted for the seventh time so far this year. This illustrates the struggles that manufacturers continue to face in light of economic headwinds from the stronger dollar, lower crude oil prices and sluggishness abroad. Such weakness was also seen in the latest survey results from the Dallas Federal Reserve Bank and in the most recent factory orders release. The Dallas report has reflected negative growth for nine straight months, and yet, on the bright side, the outlook for the next six months continued to be marginally positive.

The second discouraging report came on Friday with the release of lower-than-predicted labor market growth. Nonfarm payrolls increased by 142,000 workers in September, which was well below the consensus estimate of 200,000. Moreover, data for the prior two months were also revised downward, shedding another 59,000 nonfarm employees in total from the original estimates for July and August. At the same time, manufacturers lost 9,000 workers in September, extending the 18,000 decline in August. Since January (or over the past eight months), the manufacturing sector has netted zero net new jobs, with 27,000 workers lost in just the past two months. In the second half of 2014, manufacturers were hiring 20,667 workers per month on average, illustrating a significant pullback in employment growth year-to-date.

Overall, the weakness of these reports will likely diminish whatever chances there were for a short-term interest rate increase from the Federal Reserve at its October 27–28 meeting. Conventional wisdom still holds that the Federal Open Market Committee will begin the process of raising rates at its December 15–16 meeting, particularly given the Federal Reserve's desire to act by year's end. However, that decision will also hinge on seeing better data than what we have observed lately, including in this report. Perhaps we will get some additional insights on Thursday with the release of the minutes of the September 16–17 Federal Open Market Committee meeting.

To be fair, there were some bright spots to note in the economic data out last week. Consumer confidence rebounded strongly in September, according to the Conference Board, on improved perceptions about income and employment growth. Along those lines, personal spending increased by 0.4 percent in August, rising for the sixth consecutive month, with decent auto sales growth helping to buoy overall goods purchases during the past two months. On a year-over-year basis, personal spending has increased by 3.5 percent. In general, this suggests that Americans are increasing their spending modestly, but it also indicates a slower rate of purchasing than the more robust pace in late 2014. For instance, the year-over-year rate peaked at 5.0 percent in 2014 in August. Personal income was also up modestly in August, with total manufacturing wages and salaries rising from $794.4 billion in July to $796.3 billion in August.

Meanwhile, manufacturing construction spending rose by 1.5 percent in August, extending the 5.2 percent gain in July. This latest reading was another all-time high for the series, with the value of construction put in place for the manufacturing sector rising to $92.0 billion. Moreover, manufacturing construction totaled $58.1 billion in August 2014, representing a substantial increase of 58.4 percent year-over-year. Much of that gain stemmed from investments made in the chemical sector, which continues to benefit from cost advantages in the energy sector, as noted in my most recent column.

After a busy economic calendar this week, there are just a handful of reports being released next week. Manufacturers will closely watch the August trade data, which will come out on Tuesday, for signs of relief internationally. Manufactured goods exports have declined by more than 4 percent so far year-to-date, with significant headwinds for global demand due to a strong dollar and economic weaknesses overseas. Other releases of note include the latest data on consumer credit and wholesale trade.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

This Week's Indicators:

Monday, September 28
Dallas Fed Manufacturing Survey
Personal Income and Spending

Tuesday, September 29
Conference Board Consumer Confidence

Wednesday, September 30
ADP National Employment Report

Thursday, October 1
Construction Spending
ISM Purchasing Managers' Index

Friday, October 2
BLS National Employment Report
Factory Orders and Shipments

Monday, October 5
None

Tuesday, October 6
International Trade

Wednesday, October 7
Consumer Credit

Thursday, October 8
FOMC September 16–17 Minutes

Friday, October 9
Wholesale Trade

Summaries for Last Week`s Economic Indicators

ADP National Employment Report
ADP reported that manufacturing employment fell by 15,000 in September, declining for the fifth time year-to-date. Indeed, the sector has shed 7,000 workers through the first nine months of 2015, according to ADP, reflecting the significant challenges businesses face right now. Several headwinds have hampered demand, production and hiring growth, ranging from the strong dollar, to economic softness abroad, to lower crude oil prices. To illustrate how much has changed in the labor market so far this year, manufacturers hired roughly 19,000 new workers per month on average in the second half of 2014, when activity was growing more robustly.

In the larger economy, nonfarm private businesses added 200,000 workers in September, improving upon the readings of 169,000 in July and 186,000 in August. Year-to-date, the U.S. economy has added 195,000 nonfarm private-sector workers each month on average, down from 248,000 in the second half of last year. Still, labor market growth remains decent overall despite continued sluggishness in the manufacturing sector.

In September, the largest job gains were in trade, transportation and utilities (up 39,000); construction (up 35,000); professional and business services (up 29,000) and financial activities (up 15,000). The construction gains mirror recent strength in the housing market. In contrast to past months where small and medium-sized businesses (i.e., those with fewer than 500 employees) were the primary job creators, large businesses accounted for just more than half (53 percent) of all net new workers in September.

BLS National Employment Report
The Bureau of Labor Statistics reported that manufacturers lost 9,000 workers in September, extending the 18,000 decline in August. These numbers are disappointing, as they show just how sluggish growth has become in the manufacturing sector over the past few months. Since January (or over the past eight months), the manufacturing sector has netted zero net new jobs, with 27,000 workers lost in just the past two months. In the second half of 2014, manufacturers were hiring 20,667 workers per month on average, illustrating a significant pullback in employment growth year-to-date. Indeed, manufacturers have grappled for much of this year with headwinds from abroad, a strong U.S. dollar, gridlock in Washington on critical market-opening policies and lower crude oil prices—all of which have combined to dampen demand, production and hiring.

Employment for durable and nondurable goods was lower in September, down 5,000 and 4,000, respectively. Some of the larger declines included primary metals (down 4,500), machinery (down 3,500), computer and electronic products (down 2,800), miscellaneous durable goods (down 2,300), chemicals (down 1,200), plastics and rubber products (down 1,200) and paper and paper products (down 1,100). In contrast, furniture and related products (up 3,300), transportation equipment (up 2,900) and wood products (up 2,700) added workers for the month.

In addition to reduced hiring, compensation was also lower. Average weekly earnings declined from $1,098.60 in August to $1,088.95 in September, and average weekly hours dropped from 40.8 to 40.6. Average overtime hours also fell, down from 3.3 to 3.1.

Looking at the larger economy, nonfarm payrolls increased by 142,000 workers in September, which was well below the consensus estimate of 200,000. Moreover, data for the prior two months were also revised downward, shedding another 59,000 nonfarm employees in total from the original estimates for July and August. Nonfarm payrolls have averaged just shy of 200,000 workers per month year-to-date, down from 280,833 per month in the second half of last year. Beyond those figures, the participation rate fell from 62.6 percent in August to 62.4 percent in September. This was the lowest figure for that measure since October 1977. One positive was the fact that the unemployment rate remained at 5.1 percent.

Conference Board Consumer Confidence

The Conference Board reported that consumer sentiment rebounded to its highest level since January. The Consumer Confidence Index increased from 101.3 in August to 103.0 in September, just shy of the 103.8 reading at the beginning of the year. The January figure had been the strongest since August 2007, suggesting that consumers are near a pre-recessionary high in terms of current confidence levels. However, Americans' attitudes about the economy have been highly volatile so far this year, ranging from a low of 91.0 in July to its January peak. Much of the weakness that we have seen year-to-date has stemmed from worries about labor and income growth. This is true despite progress over the longer term, with the index up from 80.2 in September 2013 and 89.0 in September 2014.

Respondents to the current survey were somewhat more upbeat about employment prospects. The percentage saying that jobs were plentiful rose from 19.9 percent in July, to 22.1 percent in August, to 25.1 percent in September. Of course, you must also compare that to the figure saying that jobs were hard to get, which rose from 21.7 percent in August to 24.3 percent in September. The good news on that front is that the differential between the two categories is positive for just the second time in seven years. Along those lines, 19.1 percent of respondents anticipate higher incomes moving forward, up from 16.2 percent last month. At the same time, 10.1 percent predict lower incomes in the months ahead.

Buying plans were somewhat mixed. Consumers were more likely to purchase an automobile (up from 10.8 percent to 12.7 percent) or a home (up from 4.4 percent to 6.3 percent). Home-buying intentions improved to the fastest pace of the year so far. In contrast, the public was less likely to purchase an appliance (down from 49.5 percent to 48.0 percent). Yet, if confidence does continue to rise, this should boost overall consumer spending moving forward.

Construction Spending

The Census Bureau reported that manufacturing construction spending rose by 1.5 percent in August, extending the 5.2 percent gain in July. This latest reading was another all-time high for the series, with the value of construction put in place for the manufacturing sector rising to $92.0 billion. Moreover, manufacturing construction totaled $58.1 billion in August 2014, representing a substantial increase of 58.4 percent year-over-year. Much of that gain stemmed from investments made in the chemical sector, which continues to benefit from cost advantages in the energy sector, as noted in my most recent column.

Private, nonresidential spending grew more slowly than manufacturing in August, up just 0.2 percent, but on a year-over-year basis, that segment has increased at a fairly healthy pace, up 16.9 percent since August

2014. The underlying data for nonresidential construction spending were mixed in this latest report. The largest increases were in lodging (up 3.2 percent), health care (up 2.1 percent), amusement and recreation (up 1.6 percent), manufacturing (up 1.5 percent) and transportation (up 1.2 percent). Yet, these gains were largely offset by declines from religious (down 9.6 percent), educational (down 2.1 percent), commercial (down 1.5 percent), office (down 0.3 percent) and power (down 0.1 percent) entities.

Meanwhile, total construction spending increased 0.7 percent in August, its fastest pace of growth in three months. Private, residential construction was up at a relatively healthy pace of 1.3 percent for the month, led by a huge jump in multifamily housing activity, up 4.8 percent. Meanwhile, public-sector construction rebounded, up 0.5 percent in August after declining 1.3 percent in July, primarily from strong growth in power (up 10.0 percent) and commercial (up 7.5 percent) projects, among others.

Dallas Fed Manufacturing Survey

The Dallas Federal Reserve Bank has reported contracting levels of manufacturing activity every month so far in 2015. The composite index of general business conditions improved from -15.8 in August to -9.5 in September; yet, it reflects continuing negative sentiment overall in Texas, largely due to reduced crude oil prices and a strong dollar. However, there were some signs of slight progress, with indices for production (up from -0.8 to 0.9), capacity utilization (up from -0.2 to 4.9) and shipments (up from -3.0 to 0.9) stabilizing somewhat. Just more than one-quarter of respondents said that output had increased for them during the past month, with 24.2 percent noting declines. Still, slightly more than half of the respondents noted no change in production levels in September, highlighting the precariousness of such progress.

Indeed, new orders (up from -12.5 to -4.6) remained in negative territory, albeit with a slower rate of decline than the month before. Demand has contracted every month in 2015 except for one (July's 0.7 reading). The labor market and investment data were also less encouraging, including hiring (down from -1.4 to -6.1), hours worked (down from 0.6 to -11.1) and capital expenditures (down from 4.0 to -8.0). Almost 18 percent of respondents cited fewer employees in September, relative to 11.5 percent adding to their workforces and 70.9 percent with no changes. The numbers on capital spending were similar.

Nonetheless, the outlook for the next six months continued to be marginally positive. The forward-looking composite index rose from 3.4 to 4.8. However, that figure reflects a significant easing in confidence from just two months ago, when this measure was 18.8. On the other hand, even with softer growth expected, many of the measures continue to suggest decent expansions ahead, including new orders (down from 25.8 to 24.1), production (down from 28.0 to 24.7), shipments (down from 28.4 to 21.2) and hiring (down from 11.4 to 6.1). Nearly 38 percent of respondents anticipate increased demand and output over the next six months, with roughly one-fifth planning for more workers and one-quarter planning for increased capital investments. While not as strong as we might prefer, these numbers indicate cautious optimism even in the midst of the current challenges.

Factory Orders and Shipments

The Census Bureau reported that new factory orders declined by 1.7 percent in August, falling again after rising 0.2 percent in July. There were $473.0 billion manufactured goods sales in August, the lowest level in six months, and on a year-over-year basis, factory orders have decreased 6.5 percent. A fair share of the most recent decline stemmed from aircraft sales, which are often volatile. Indeed, nondefense aircraft sales reached $17.6 billion in June around the time of the Paris Air Show, and at least part of the 5.9 percent decrease in August can be explained by this figure pulling back to a more normal pace. Nondefense aircraft orders totaled $15.1 billion in August. Excluding transportation equipment, factory orders fell more modestly, down 0.7 percent. Yet, the data remained quite soft overall, down 7.8 percent year-over-year, reflecting challenges from global and domestic headwinds in the sector across the past 12 months.

Durable and nondurable goods were both lower, down 2.3 percent and 1.1 percent, respectively. Declines in new orders for durable goods included nondefense aircraft and parts (down 5.9 percent), fabricated metal products (down 1.8 percent), computer and electronic products (down 0.5 percent), electrical equipment and appliances (down 0.4 percent), motor vehicles and parts (down 0.4 percent) and primary metals (down 0.1 percent). In contrast, there were increased sales for furniture and related products (up 2.4 percent) and machinery (up 0.8 percent).

Meanwhile, shipments of manufactured goods were down 0.7 percent in August, extending the 0.2 percent decline in July. Durable and nondurable goods shipments declined 0.2 percent and 1.1 percent, respectively, in August. Yet, much like the new orders data discussed above, shipments have been sluggish over the past year, down from $505.1 billion in August 2014 to $480.1 billion today.

ISM Purchasing Managers' Index

The Institute for Supply Management's Manufacturing Purchasing Managers' Index reflected stagnant activity in the sector, falling from 51.1 in August to 50.2 in September. This was the lowest level since May 2013, illustrating the struggles that manufacturers continue to face in light of economic headwinds from the stronger dollar and sluggishness abroad. The sample comments echoed these challenges, specifically noting exchange rates, crude oil, China and skittish consumers. While activity remains ever-so-slightly expansionary (in that the index value remains above the key threshold of 50), new orders (down from 51.7 to 50.1) shifted from modest growth in August to being essentially flat in September, and exports (unchanged at 46.5) contracted for the seventh time so far this year.

Other measures also eased from faster paces in prior months. For instance, the production index, down from 53.6 to 51.8, continued to expand slightly. However, it is hard to not compare that figure to what it was 12 months ago, when the output component measured a more robust 62.4, and it has decelerated over the past two months, down from 56.0 in July. Along those lines, employment growth (down from 51.2 to 50.5) has also slowed, with hiring being only marginally positive in September and reflecting considerable easing since June's 55.5 reading.

There were two other findings from the survey to note. First, falling energy prices have helped to push down raw material costs, with the index for prices remaining below 50 for the 11th straight month (down from 39.0 to 38.0). The August figure for prices was the lowest since February. Second, inventories (unchanged at 48.5) shrunk for the third consecutive month. On the positive side, reduced inventory stocks would necessitate a pickup in production if demand accelerates—something that we hope will begin to rebound moving forward.

For now, however, this report reflects continued slow growth for manufacturers, as global headwinds present a persistent challenge for the sector. Manufacturing leaders express cautious optimism for the coming months, but it is clear that the strong dollar, reduced crude oil prices and soft global demand have taken their toll on production and overall sentiment.

Personal Income and Spending

The Bureau of Economic Analysis reported that personal spending grew by 0.4 percent in August, mirroring the gain in July. Durable and nondurable goods spending both increased for the month, up 1.2 percent and 0.6 percent, respectively. Motor vehicles and parts helped to buoy the durable goods purchasing numbers in each of the past two months, up 1.6 percent and 2.1 percent in July and August, respectively, and rebounding from the 3.4 percent decline in June. On a year-over-year basis, personal spending has increased by 3.5 percent, down from 3.7 percent in the prior report. In general, this suggests that Americans are increasing their spending modestly, but it also indicates a slower rate of purchasing than the more robust pace during late 2014. For instance, the year-over-year rate peaked at 5.0 percent in August 2014.

Meanwhile, personal income grew by 0.3 percent in August, down from 0.5 percent in July and the slowest increase in five months. Still, personal income growth has remained at fairly decent levels, up 4.2 percent year-over-year but down from 5.2 percent in December. Total manufacturing wages and salaries increased from $794.4 billion in July to $796.3 billion in August. This continues an upward trend for the sector, with manufacturing wages and salaries totaling $746.8 billion and $780.9 billion on average in 2013 and 2014, respectively.

With spending growth slightly outpacing personal income, the savings rate edged a bit lower, down from 4.7 percent to 4.6 percent. It has averaged 4.9 percent year-to-date, up marginally from the 4.8 percent average in all of 2014. The larger story, however, has been the increase in the savings rate, from 4.5 percent in October 2014 to 5.4 percent in February, with the rate declining since then.

In other news, the personal consumption expenditure (PCE) deflator was unchanged in August, decelerating largely due to declining energy costs. Along those lines, energy prices fell 2.3 percent in August, and year-to-date, costs for energy goods have declined 16.2 percent. Across the past 12 months, the PCE deflator has risen just 0.3 percent, with core inflation, which excludes food and energy prices, up 1.3 percent. Each suggests that overall pricing pressures remain quite minimal, continuing to give the Federal Reserve flexibility in terms of monetary policy—at least for now.

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Questions or comments?

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