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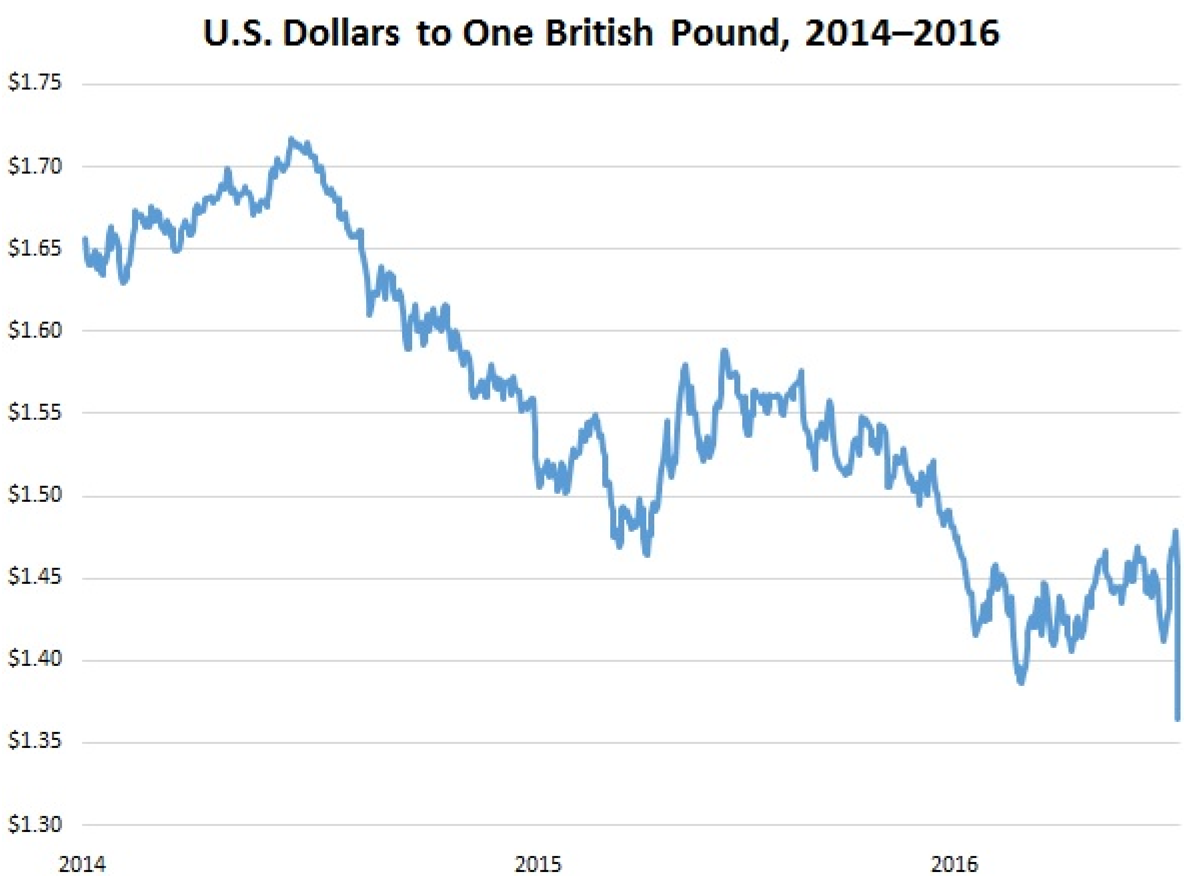

The vote for the United Kingdom to leave the European Union—the so-called "Brexit"—dominated headlines on Friday. For many, this was a surprising result, with many analysts expecting pragmatism to win at the end of the day. For their part, financial markets had already priced-in keeping the United Kingdom in the Eurozone, with the British pound soaring early last week to its highest point year-to-date and the Dow Jones Industrial Average crossing 18,000 for the first time since April 27. With Brexit succeeding instead, the markets gave back some of those equity gains, with the largest declines seen in the United Kingdom itself—at least for now. For instance, one British pound exchanged for $1.3667 on June 22, and it closed at $1.3660 on June 24, falling to a level not seen since 1985. For more on the Brexit decision from an economic perspective, click here, and for an analysis of how it will impact trade policy, click here.

The British vote was also on the minds of monetary policymakers at the last Federal Open Market Committee (FOMC) meeting. Federal Reserve Chair Janet Yellen said that it was one of the factors contributing to the decision not to raise short-term rates, with weak jobs numbers also a notable factor. In her testimony to Congress last week, she cited the soft labor market and indicated that "our cautious approach to adjusting monetary policy remains appropriate." While the FOMC could hike the federal funds rate at its upcoming July 26–27 meeting, especially if employment numbers rebound in the June data, all eyes will likely begin shifting to the September 20–21 meeting, which might be more likely. Of course, the Federal Reserve remains data-dependent, making any move this year contingent on better economic conditions in the United States and abroad. This is particularly true in light of Thursday's vote in the United Kingdom.

On Thursday, coincidently the day of the "Brexit" vote, Markit reported that Eurozone manufacturing activity rose to its highest level so far in 2016. Much of this improvement came from stronger demand and production in Germany, which expanded at its fastest rate since February 2014. Yet, there were also signs that "Brexit" uncertainties and global headwinds had weighed on sentiment. Along those lines, the Markit Flash Eurozone Composite PMI, which includes services, declined to its lowest point since January 2015. In addition, growth in Europe has not been uniform, with France contracting for the fourth straight month.

Closer to home, the Markit Flash U.S. Manufacturing Purchasing Managers' Index (PMI) increased from 50.7 in May, its lowest level since September 2009, to 51.4 in June. Output and exports rebounded for the month despite a still strong U.S. dollar and continuing economic challenges abroad. At the same time, new orders and employment picked up slightly. Data from the Kansas City Federal Reserve Bank were also encouraging, with manufacturing activity expanding slightly for the first time since January 2015. New orders and production accelerated strongly, even as hiring and exports continued to reflect lingering challenges. In the report, it was also clear that respondents remained quite cautious—but positive—in their outlook.

In contrast to those releases, new durable goods orders decreased 2.2 percent in May, largely from weaker transportation equipment sales. Excluding transportation, new durable goods orders were off 0.3 percent in May and were down 0.4 percent over the past 12 months. Moreover, recent declines in manufacturing production and other indicators contributed to weaknesses in the two measures tracking the current health of the U.S. economy—the Chicago Federal Reserve Bank's National Activity Index and the Conference Board's Leading Economic Index. Consumer sentiment, according to the University of Michigan and Thomson Reuters, also ebbed slightly in June. Nonetheless, while indicating consumer cautiousness about the economy overall, the data continued to be consistent with modest growth in spending for 2016.

Meanwhile, housing data out last week were mixed. On the positive side, existing home sales rose 1.8 percent, growing for the third straight month. Sales grew to 5.53 million units at the annual rate in May, up 4.5 percent over the past 12 months. Yet, new home sales declined 6.0 percent in May to 551,000 units. However, the data for the past two months were both stronger than March's 522,000 sales pace, suggesting that demand for new homes has picked up overall, even with some easing in this report. Indeed, new home sales have risen 8.7 percent year-over-year, up from 507,000 in May 2015.

This week, we will look for signs of progress in the Institute for Supply Management's Manufacturing PMI data. The May survey noted three consecutive months of expansion for the sector, serving as a positive indicator of improving demand and output for manufacturers, which have grappled with a number of challenges over the past year or so. The June report could extend that progress, or it could focus more on the ongoing challenges, much like the recent industrial production release. Regional sentiment surveys from the Dallas and Richmond Federal Reserve Banks will also provide some context on this issue. Other indicators of note out this week include the latest data on construction spending, consumer confidence, gross domestic product, the international trade of goods and personal income and spending.

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P.S.: If you have not already done so, please take a moment to complete a survey that we are conducting on *regulatory compliance. It will be part of a new project we hope to release this fall. This report will provide a narrative discussion about the slew of rules that impact businesses on a daily basis, essentially walking the reader through "a day in the life of an average regulated manufacturer."*

To complete the survey, click here, or if you could, please forward to an individual in your company who might be better able to respond to how your company complies with regulations. Responses are due by ***Thursday, June 30.*** *As always, all responses are anonymous.*

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, June 20
None

Tuesday, June 21
None

Wednesday, June 22
Existing Home Sales

Thursday, June 23
Chicago Fed National Activity Index
Conference Board Leading Indicators
Kansas City Fed Manufacturing Survey
Markit Flash Manufacturing PMIs for the United States and Eurozone
New Home Sales

Friday, June 24
Durable Goods Orders and Shipments
University of Michigan Consumer Sentiment (Revised)

This Week's Indicators:

Monday, June 27
Dallas Fed Manufacturing Survey
International Trade in Goods (Preliminary)

Tuesday, June 28
Conference Board Consumer Confidence
Gross Domestic Product (Second Revision)
Richmond Fed Manufacturing Survey

Wednesday, June 29
Personal Income and Spending

Thursday, June 30
None

Friday, July 1
Construction Spending
ISM Manufacturing Purchasing Managers' Index

Summaries for Last Week`s Economic Indicators

Chicago Fed National Activity Index

The National Activity Index declined sharply, down from 0.05 in April to -0.51 in May. This index has declined in 10 of the past 13 months. Positive numbers indicate that the U.S. economy is growing above its historical trend, with negative readings suggesting the opposite. Manufacturing was a large part of the downward shift in May, with industrial production down once again. Production-related indicators subtracted 0.32 points from the index for the month, with manufacturing output down 0.4 percent and year-over-year growth essentially stagnant. Employment and housing were also drags on the headline number in May.

The three-month moving average for the index was also lower, down from -0.25 to -0.36. It has been negative for 16 straight months, highlighting the ongoing economic challenges across the past year. (The three-month average was zero in August 2015.) May's reading was the lowest since August 2012. Yet, even with notable weaknesses, the chance of a recession remains somewhat low—at least for now. The probability of a recession rises when the three-month moving average falls below -0.70.

Conference Board Leading Indicators

The Conference Board's Leading Economic Index (LEI) decreased 0.2 percent in May, ending two months of gains. Weaker data on consumer confidence, the S&P 500 and weekly unemployment claims pushed the index back into negative territory. At the same time, other components in the index were also soft, easing from the larger contributions to the LEI in prior months. This included manufacturing new orders, the average workweek for production workers, building permits and overall lending conditions. The largest positive contribution came from the interest rate spread.

Meanwhile, the Coincident Economic Index (CEI), which assesses current conditions, remained unchanged in May. Declining industrial production pulled the CEI lower for the month, reflecting ongoing challenges in manufacturing and mining. At the same time, the three other components of the CEI—nonfarm payrolls, personal income and manufacturing and trade sales—were positive contributors to the index. The soft jobs numbers in May, however, meant that the employment contribution was negligible in this report, particularly relative to prior releases.

Durable Goods Orders and Shipments

The Census Bureau reported that new durable goods orders decreased 2.2 percent in May, ending two months of gains. Sales of new durable goods orders dropped from $236.0 billion in April, which had been a nine-month high, to $230.7 billion in May. On a year-over-year basis, sales have risen 3.2 percent, up from $223.5 billion in May 2015. Looking more closely at the current report, much of the decline stemmed from weakness in the transportation equipment sector, with orders down 5.6 percent for the month. This included sharp drops in sales for motor vehicles and parts (down 2.8 percent) and defense aircraft and parts (down 34.1 percent). Excluding transportation, new durable goods orders were off 0.3 percent in May and were down 0.4 percent over the past 12 months. In general, this suggests lingering broad-based softness for manufacturers outside of transportation equipment.

On a sector-by-sector basis, new durable goods orders were mostly lower, but with a few exceptions. In addition to autos and defense aircraft, sales declined in May for computers and related products (down 2.5 percent), primary metals (down 1.4 percent), fabricated metal products (down 0.3 percent), machinery (down 0.2 percent) and electrical equipment and appliances (down 0.1 percent). Core capital goods (or nondefense capital goods excluding aircraft) declined 0.7 percent for the month. In contrast, new orders rose for communications equipment (up 4.7 percent) and nondefense aircraft and parts (up 1.0 percent).

Meanwhile, durable goods shipments decreased 0.2 percent in May, falling for the fourth time in the past six months. The sector-by-sector breakdowns were similar to what was noted above, with the largest declines in motor vehicles and parts (down 3.4 percent), computers and related products (down 3.0 percent), machinery (down 0.8 percent) and primary metals (down 0.5 percent). At the other end of the spectrum, shipments were higher for defense aircraft and parts (up 19.5 percent), nondefense aircraft and parts (up 6.6 percent), communications equipment (up 1.6 percent) and fabricated metal products (up 0.1 percent). Excluding transportation, durable goods shipments were down 0.3 percent, with core capital goods shipments down 0.5 percent.

Since May, durable goods shipments have fallen 1.1 percent, with a decline of 1.5 percent when excluding transportation equipment.

Existing Home Sales

The National Association of Realtors® reported that existing home sales rose 1.8 percent, growing for the third straight month. Sales increased from 5.43 million units at the annual rate in April to 5.53 million in May, up 4.5 percent over the past 12 months. Single-family (up from 4.81 million to 4.90 million) and condo/co-op (up from 620,000 to 630,000) sales were higher for the month, with growth in every region of the country except the Midwest, which pulled back in May.

Inventories of existing homes for sale have picked up in the past five months, up from 3.9 months of supply in December to 4.7 months in May. With that said, the months of supply were unchanged in May from the prior report. The median home price in this release was $239,700, up 4.7 percent year-over-year.

Kansas City Fed Manufacturing Survey

The Kansas City Federal Reserve Bank reported that manufacturing activity expanded slightly for the first time since January 2015. The composite index of general business conditions rose from -5 in May to 2 in June. New orders (up from -3 to 4), production (up from -11 to 12), shipments (up from -6 to 10) and the average workweek (up from -15 to 1) all improved in this month’s report, with each measure shifting into positive territory after several months of contraction. Yet, it was not all good news, with lingering challenges still present. Along those lines, hiring (up from -13 to -4), the backlog of orders (up from -19 to -3) and exports (up from -8 to -1) continued to decrease, albeit with some easing in the rate of decline in the June release. In addition, the sample comments suggest that respondents remain cautious in their outlook, stressing ongoing marketplace challenges.

Still, even with muted expectations, manufacturers in the region remain somewhat positive about the next six months. The future-oriented composite index increased from 4 to 7. Moreover, there are generally favorable assessments about new orders (down from 15 to 12), production (unchanged at 15), shipments (down from 9 to 7), employment (up from -4 to 13) and capital expenditures (up from -3 to 8), despite slightly reduced expectations in a few of these indices. Thirty-one percent of respondents anticipate higher sales in the months ahead, with 43 percent seeing no change and 23 percent predicting reduced order levels. This was down from 36 percent in the prior survey expecting higher sales. At the same time, respondents do not predict growth for exports, highlighting struggles with ongoing global headwinds and the still strong U.S. dollar.

Markit Flash Manufacturing PMIs for the United States and Eurozone

The Markit Flash Eurozone Manufacturing PMI rose from 51.5 in May to 52.6 in June, its highest level so far in 2016. Along those lines, the Markit Flash Eurozone Composite PMI, which includes services, declined from 53.1 to 52.8, its lowest point since January 2015. As such, even with encouraging industrial news, overall economic sentiment remained mixed, with modest growth that has slowed so far this year. Uncertainties related to the "Brexit" vote, combined with global headwinds, have added to those anxieties.

Nonetheless, manufacturers reported faster expansions for new orders (up from 51.7 to 53.4), exports (up from 50.9 to 52.5), output (up from 52.4 to 53.8) and employment (up from 51.2 to 52.1) in June. Demand and production grew at their fastest rate since December, recovering from the lull in May, which had been the slowest pace year-to-date. Overall, however, Eurozone manufacturers have now reported growth in the sector in every month since June 2013.

With that said, growth on the continent has not been uniform. The improved June numbers came largely from progress in Germany (up from 52.1 to 54.4), its highest rate since February 2014, on healthy gains in orders (up from 53.9 to 56.8) and output (up from 53.6 to 55.7). In contrast, French manufacturing activity declined for the fourth consecutive month (down from 48.4 to 47.9), contracting at its fastest pace since February 2015.

Meanwhile, the Markit Flash U.S. Manufacturing PMI increased from 50.7, its lowest level since September 2009, to 51.4. In May, output (up from 49.1 to 50.9) had contracted for the first time since October 2013, but production rebounded in June, expanding somewhat mildly. Exports also turned positive (up from 49.6 to 52.5) despite a still strong U.S. dollar and continuing economic challenges abroad. At the same time, new orders (up from 51.6 to 52.4) and employment (up from 51.1 to 52.0) picked up slightly for the month. Overall, the data about manufacturers in the United States mirrored the recent progress in the NAM's latest survey, which recorded a pickup in respondents' outlook even as softness in the market persists.

New Home Sales

The Census Bureau and the U.S. Department of Housing and Urban Development reported that new home sales declined 6.0 percent in May. Sales of single-family homes fell from 586,000 in April to 551,000 in May. However, the data for April and May were both stronger than March's 522,000 sales pace, suggesting that demand for new homes has picked up overall, even with some easing in this report. Indeed, new home sales have risen 8.7 percent year-over-year, up from 507,000 in May 2015. In this release, sales growth picked up in the Midwest but was off in other regions of the country.

With softer sales, the number of months of supply in the market rose from 4.9 in April to 5.3 in May. The median price for new homes sold in May was $290,400, up 1.0 percent year-over-year.

University of Michigan Consumer Sentiment (Revised)

The University of Michigan and Thomson Reuters reported that consumer confidence ebbed slightly in June. The Index of Consumer Sentiment dropped from 94.7 in May to 93.5 in June. This was off from a preliminary estimate of 94.3. With that said, the past two months represented improvement from April's dismal 89.0 level and lingering anxieties across the past 12 months. Indeed, consumer cautiousness has led to weaker-than-desired—but still modest—spending growth over much of that time frame. Along those lines, Richard Curtin, the chief economist for this survey, said that the data were consistent with real consumer expenditures increasing 2.5 percent in 2016.

The underlying data for June were mixed. Respondents were more upbeat about current economic conditions (up from 109.9 to 110.8), but they were less certain in their longer-term economic outlook (down from 84.9 to 82.4).

Questions or comments?

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Center for Manufacturing Research