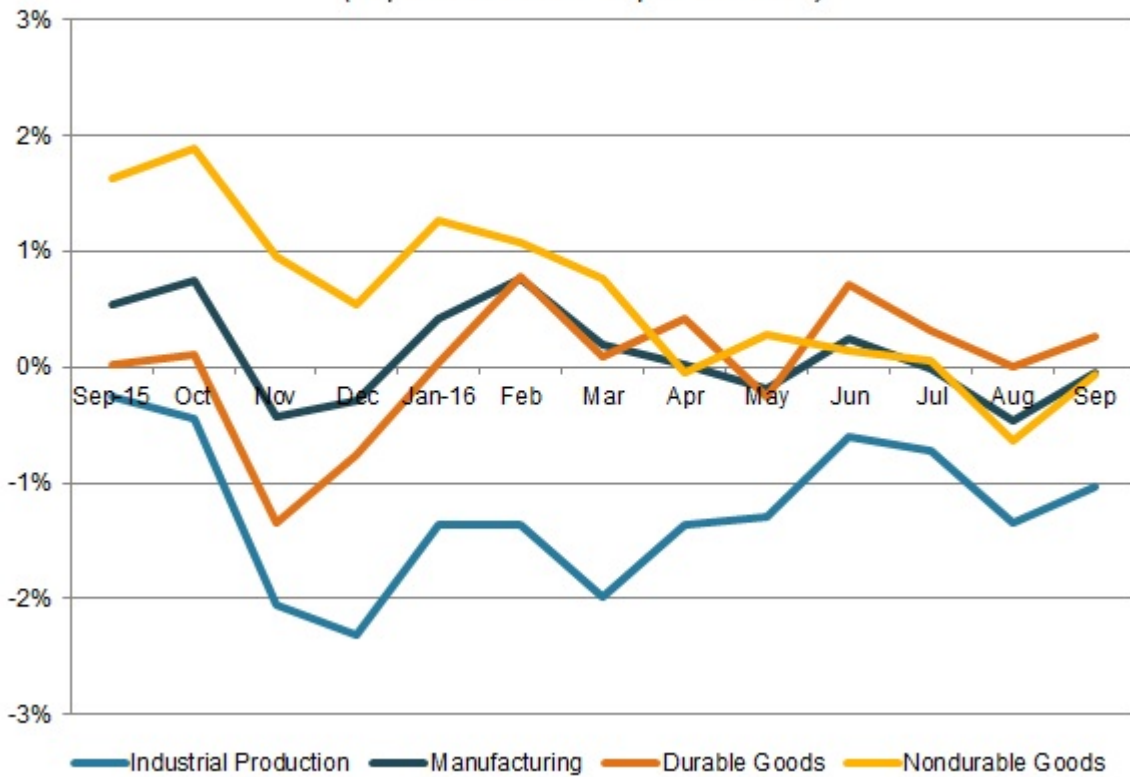




October 24, 2016

Year-Over-Year Industrial Production Growth (September 2015 – September 2016)



As expected, [manufacturing production](#) rebounded slightly in September, up 0.2 percent, after declining 0.5 percent in August. Even with a gain for the month, activity in the sector continues to be weaker than desired. Along those lines, manufacturing production was flat on a year-over-year basis, with essentially stagnant growth across the past seven months. Manufacturers have struggled in their ability to increase demand, including exports, with ongoing economic and political uncertainties dampening growth. Moreover, manufacturing capacity utilization inched up from 74.8 percent to 74.9 percent, but that remained well below the 75.5 percent utilization rate seen one year ago. Meanwhile, total industrial production also recovered a little, up 0.1 percent, in September, but was down 1.0 percent over the past 12 months, pulled lower by sharply reduced mining output, down 9.4 percent year-over-year.

The two regional manufacturing surveys out last week moved in different directions. On the positive side, [manufacturing activity](#) in the Philadelphia Federal Reserve’s district continued to grow in October, expanding for the fourth time in the past five months. There was notable progress for both new orders and shipments, even as the labor market data continued to lag behind. In contrast, the [Empire State](#)

[Manufacturing Survey](#) reported that activity in the sector contracted for the third consecutive month in October. Most of the key variables remained negative in the latest report, albeit with some easing in the rate of decline. With that said, both surveys cited cautious optimism for the next six months. In the New York Federal Reserve Bank's survey, for instance, more than half of the respondents see new orders rising in the months ahead, which is encouraging.

Beyond manufacturing, there was also mixed news on residential construction. New [housing starts](#) declined sharply in September, down 9.0 percent, largely on a huge drop in multifamily activity. New residential construction fell from an annualized 1,150,000 units in August to 1,047,000 in September, an 18-month low. The bulk of that decline came from the multifamily segment, down from 426,000 to 264,000, its slowest pace since June 2013. Multifamily activity is often quite volatile from month to month, making the latest drop likely temporary. Indeed, new single-family housing starts were higher, up from 724,000 to 783,000, the fastest rate since February. On a year-over-year basis, single-family starts have risen 5.4 percent.

On the other hand, housing permits data provide some reassurance that the residential market should improve moving forward, given that they serve as a proxy of future activity. Permitting for new residential units increased from 1,152,000 to 1,225,000, marking its highest level since November 2015 and the first time so far in 2016 that permits have exceeded 1.2 million units at the annual rate. At the same time, homebuilders [report](#) increased confidence about single-family home sales over the next six months, with the index for expected sales rising to its highest level in 12 months. In addition, the headline Housing Market Index continues to reflect increased optimism among homebuilders since the summer. At the same time, [existing home sales](#) rebounded in September, led by strength in the single-family segment.

This week, we will get even more information on the current health of the manufacturing sector, and hopefully, those reports will show improved demand and production from earlier signs of softness. This includes durable goods orders and shipments, regional surveys from the Kansas City and Richmond Federal Reserve Banks and flash purchasing managers' indexes from Markit for the United States and the Eurozone. Of course, the largest headlines will come at the end of the week, with the first estimate of real GDP growth for the third quarter. After expanding just 1.1 percent in the first half of 2016, look for the U.S. economy to grow by roughly 2.5 percent at the annual rate from July through September. Still, for the year as a whole, real GDP should increase around 1.6 percent, easing from the 2.2 percent annual average seen since the Great Recession. Other data releases this week include the latest figures on consumer confidence, employment costs and new home sales.

Chad Moutray, Ph.D., CBE
Chief Economist
National Association of Manufacturers

Economic Indicators

Last Week's Indicators:

(Summaries Appear Below)

Monday, October 17

Industrial Production
New York Fed Manufacturing Survey

Tuesday, October 18

Consumer Price Index
NAHB Housing Market Index

Wednesday, October 19

Federal Reserve Beige Book
Housing Starts and Permits

This Week's Indicators:

Monday, October 24

Chicago Fed National Activity Index
Markit Flash PMIs for the United States and Eurozone

Tuesday, October 25

Conference Board Consumer Confidence
Richmond Fed Manufacturing Survey

Wednesday, October 26

Census Advance Economic Indicators Report

Thursday, October 20

Conference Board Leading Indicators
Existing Home Sales
Philadelphia Fed Manufacturing Survey

Friday, October 21

State Employment Report

New Home Sales

Thursday, October 27

Durable Goods Orders and Shipments
Kansas City Fed Manufacturing Survey

Friday, October 28

Employment Cost Index
Gross Domestic Product (Third Quarter)
University of Michigan Consumer Sentiment
(Revision)



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Summaries for Last Week`s Economic Indicators

Conference Board Leading Indicators

The Conference Board’s [Leading Economic Index](#) (LEI) increased 0.2 percent in September, rebounding from a 0.2 percent decline in August. Over the past six months, the LEI rose just 1.1 percent, illustrating a sluggish—but still modest—pace of growth for the U.S. economy this year. Manufacturing provided a slight drag on the LEI, with soft new orders and a reduced workweek for production workers. The improved data in September stemmed largely from building permits, consumer confidence, the interest rate spread and average weekly unemployment claims. At the same time, the S&P 500 and overall lending conditions provided a small negative contribution to this month’s LEI report.

Meanwhile, the Coincident Economic Index (CEI), which assesses current conditions, also rose 0.2 percent in September. All four components of the CEI—industrial production, nonfarm payrolls, personal income and manufacturing and trade sales—were positive contributors to the index in September. For its part, manufacturing output bounced back in September after weakening in August (see below).

Consumer Price Index

The Bureau of Labor Statistics reported that [consumer prices](#) rose 0.3 percent in September, extending the 0.2 percent gain in August. It was the fastest pace of monthly price growth since April. The jump in consumer inflation in September stemmed largely from higher energy prices, up 2.9 percent, with gasoline costs up 5.8 percent. Still, these energy price increases followed declines across the past two months. In addition, food prices were unchanged for the third straight month. Over the past 12 months, energy and food

prices have declined 2.9 percent and 0.3 percent, respectively. Nonetheless, the consumer price index has increased 1.5 percent year-over-year in September, up from 0.9 percent two months ago.

Core consumer prices edged higher, up 0.1 percent, in September, with underlying data mostly mixed. There were higher prices for medical care commodities and shelter, but lower costs for apparel and new and used vehicles. Excluding food and energy costs, consumer prices have risen 2.2 percent since September 2015, essentially the same year-over-year rate for all of 2016 so far. Yet, even though core consumer price inflation has exceeded the Federal Reserve's stated goal of 2 percent for 11 straight months, overall price pressures remain modest and under control for now.

Existing Home Sales

The National Association of Realtors reported that [existing home sales](#) rose 3.2 percent in September, recovering from declines in both July and August. There were 5.47 million existing homes sold in September, up from 5.30 million in August but still lower than the 5.57 million pace in June. All regions of the country saw gains for the month, which was encouraging. Nonetheless, existing home sales have risen just 0.6 percent over the past 12 months, a much softer pace than desired. Digging deeper into the data, existing single-family home sales increased from 4.67 million to 4.86 million units in September, up 4.1 percent, whereas condo and co-op sales decreased from 630,000 to 610,000, down 3.2 percent.

Inventories remain low, with 4.5 months of supply on the market in September, down from 4.7 months and 4.6 months in July and August, respectively. The average price for an existing home sold in September was \$276,200, up 4.2 percent over the past year.

Housing Starts and Permits

The Census Bureau and the U.S. Department of Housing and Urban Development reported that new [housing starts](#) declined sharply in September, down 9.0 percent, largely on a huge drop in multifamily activity. New residential construction fell from an annualized 1,150,000 units in August to 1,047,000 in September, an 18-month low. The bulk of that decline came from the multifamily segment, down from 426,000 to 264,000, its slowest pace since June 2013. Multifamily activity is often quite volatile from month to month, making the latest drop likely temporary. Indeed, new single-family housing starts were higher, up from 724,000 to 783,000, the fastest rate since February. On a year-over-year basis, single-family starts have risen 5.4 percent. That should suggest more strength in the housing market than the headline data might seem to indicate, especially for single-family homes. I continue to predict 1.2 million housing starts by year's end, which would indicate a rebound from September's lows.

The housing permits data seem to suggest that as well, with permitting for new residential units up from 1,152,000 to 1,225,000. That was the highest level since November 2015 and the first time so far in 2016 that permits have exceeded 1.2 million units at the annual rate. Since permits serve as a proxy of future activity, the data are encouraging. Both single-family (up from 736,000 to 739,000) and multifamily (up from 416,000 to 486,000) housing permits rose for the month, with the largest gains in the latter. Across the past 12 months, housing permits have risen 8.5 percent, boosted by strength in the single-family segment (up 4.4 percent year-over-year) and multifamily structures with five units or more (up 17.2 percent).

Industrial Production

The Federal Reserve reported that [manufacturing production](#) rebounded slightly in September, up 0.2 percent, after declining 0.5 percent in August. The pickup in activity was expected, but even with a gain for the month, activity in the sector continues to be weaker than desired. Along those lines, manufacturing production was flat on a year-over-year basis, with essentially stagnant growth across the past seven months. Manufacturers have struggled in their ability to increase demand, including exports, with ongoing economic and political uncertainties dampening growth. Moreover, manufacturing capacity utilization inched up from 74.8 percent to 74.9 percent, but that remained well below the 75.5 percent utilization rate seen one year ago.

Looking more closely at the September manufacturing data, nondurable goods production increased 0.5 percent, but output from durable goods firms was unchanged. The largest increases for the month included miscellaneous durable goods (up 1.6 percent), printing and support (up 1.5 percent), petroleum and coal

products (up 1.4 percent), plastics and rubber products (up 1.0 percent), apparel and leather (up 0.9 percent), textile and product mills (up 0.9 percent), nonmetallic mineral products (up 0.8 percent) and wood products (up 0.8 percent). At the same time, aerospace and miscellaneous transportation equipment (down 1.4 percent), primary metals (down 0.7 percent) and machinery (down 0.6 percent) all saw declining output.

Meanwhile, total industrial production also recovered a little, up 0.1 percent, in September, after falling 0.5 percent in August. In addition to manufacturing, mining output also increased, up 0.4 percent, whereas utilities production declined for the second straight month, down 1.0 percent. Over the past 12 months, mining and utilities production have decreased 9.4 percent and 0.4 percent, respectively. Overall, total industrial production fell 1.0 percent year-over-year, remaining in negative territory for the 13th straight month largely on the drag from mining activity. Capacity utilization edged higher, up from 75.3 percent to 75.4 percent. One year ago, the utilization rate was 76.4 percent.

NAHB Housing Market Index

The National Association of Home Builders and Wells Fargo reported that the [Housing Market Index](#) (HMI) remained strong in October despite pulling back slightly. The headline HMI decreased from 65 in September to 63 in October, but the recent data reflect increased optimism among homebuilders since the summer. Index values greater than 50 indicate builders are more confident in their outlook than not, with numbers greater than 60 suggesting strong expectations for activity. Respondents were mostly upbeat in every region except for the Northeast, which nonetheless improved slightly in the October report.

Builders continue to report increased confidence about single-family home sales over the next six months, with the index for expected sales up from 71 to 72, its highest level in 12 months.

New York Fed Manufacturing Survey

The [Empire State Manufacturing Survey](#) reported that manufacturing activity contracted for the third consecutive month in October. The composite index of general business conditions declined from -2.0 in September to -6.8 in October. Many of the underlying data points continued to reflect softness in the New York Federal Reserve Bank's district, with negative readings once again despite some easing in the rate of decline, including new orders (up from -7.5 to -5.6), shipments (up from -9.4 to -0.6), employment (up from -14.3 to -4.7) and the average workweek (up from -11.6 to -10.4). Indeed, 32.3 percent of respondents said orders fell in October, compared to 26.7 percent noting increases. On the employment front, 65.1 percent of manufacturers were holding firm with hiring in October, with 15.1 percent adding more workers and 19.8 percent reducing the size of their workforce.

With that said, manufacturers in the New York region remained cautiously upbeat about the next six months. The forward-looking composite index rose from 34.5 to 36.0. In addition, more than half see new orders rising in the months ahead, with 47.2 percent, 24.5 percent and 27.4 percent predicting increased shipments, hiring and capital spending, respectively. In terms of weaknesses, growth of technology spending was anticipated to slow somewhat (down from 10.7 to 8.5), whereas inventories should continue to edge lower (unchanged at -0.9).

Philadelphia Fed Manufacturing Survey

The Federal Reserve Bank of Philadelphia reported that [manufacturing sentiment](#) continued to grow in October, albeit at a slower pace than in September. The composite index of general business activity declined from 12.8 in September to 9.7 in October, but it was the fourth time in the past five months that activity in the sector expanded. This marks notable improvement for manufacturers after weaknesses last year and in the spring months. There was continued progress in October for both new orders (up from 1.4 to 16.3) and shipments (up from -8.8 to 15.3), with roughly 40 percent noting increased demand for the month, up from 30 percent in the prior release.

With that said, the labor market data remained negative, even with some stabilization in this report. The declines for hiring (up from -5.3 to -4.0) and the average workweek (up from -11.7 to -2.2) each slowed in October, but continued to contract. Reflecting that improvement, the percentage of firms noting decreased employment edged down from 17.1 percent to 16.5 percent. Nonetheless, it remains clear that hiring is challenged, at least for now, with 69.3 percent of respondents citing no change in employment in October.

Moving forward, however, manufacturers in the district continued to be cautiously optimistic. The forward-looking index declined from 37.5 to 32.6, but remained quite elevated. More than half of respondents predict higher levels of new orders and shipments over the next six months, with 31.7 percent and 33.3 percent expecting more hiring and capital spending, respectively.

State Employment Report

Indiana and New Jersey created the most net new [manufacturing jobs](#) in September, according to the Bureau of Labor Statistics, with both adding 1,600 workers for the month. South Carolina (up 1,500), Arkansas (up 1,200) and Florida (up 1,100) also topped the list of manufacturing employment gains in last month. In addition, Florida topped the list for the greatest job gains over the past 12 months, with manufacturing employment in the state up 15,300 since September 2015. Other states with the fastest manufacturing job growth year-over-year included Michigan (up 7,700), Tennessee (up 7,100), New Jersey (up 5,100), Georgia (up 4,600) and Utah (up 4,500).

The national [unemployment rate](#) was 5.0 percent in September. The lowest unemployment rate in the country was seen in both New Hampshire and South Dakota, at 2.9 percent. A number of states were not far behind, including North Dakota (3.0 percent), Nebraska (3.2 percent), Vermont (3.3 percent) and Hawaii (3.4 percent). In contrast, Alaska (6.9 percent), New Mexico (6.7 percent), Louisiana (6.4 percent), the District of Columbia (6.1 percent) and Mississippi (6.0 percent) had the highest unemployment rates.

Connect with the Manufacturers



Questions or comments?

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

