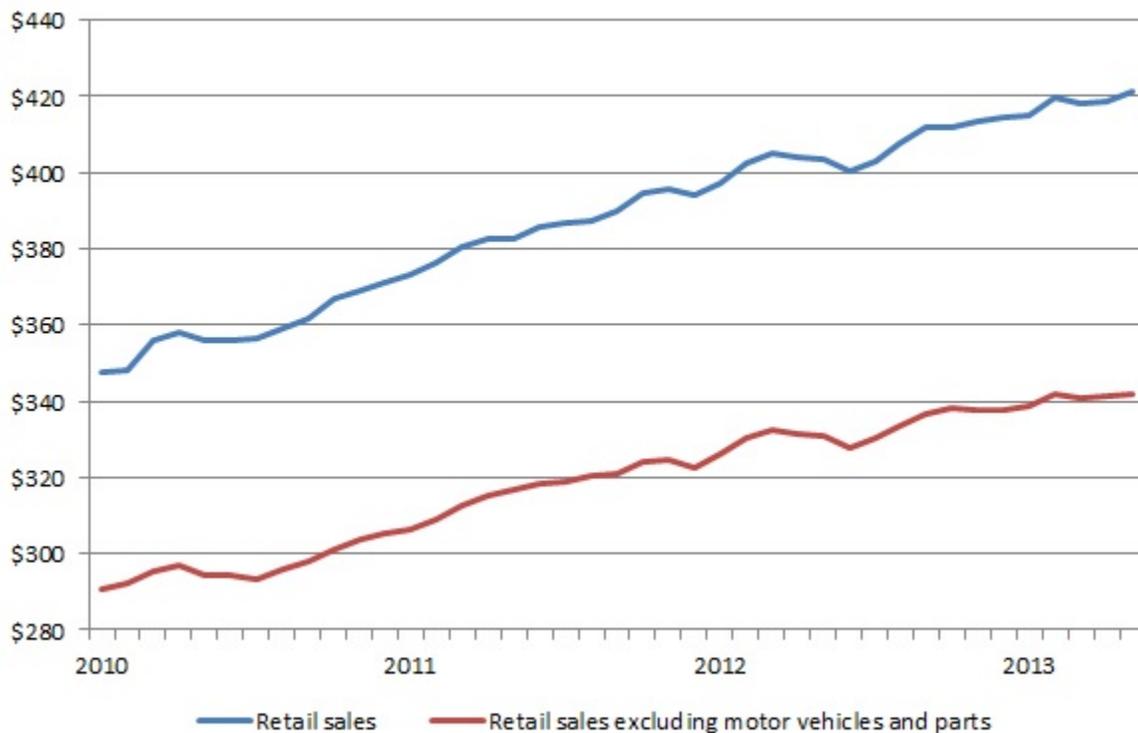




June 17, 2013

## Retail Sales, 2010-2013

(in Billions of Dollars)



In the first five months of 2013, manufacturing production has been virtually unchanged, according to the Federal Reserve Board, and capacity utilization in the sector edged lower from 76.4 percent in December to 75.8 percent in May. Production among manufacturers increased 0.1 percent in May, or up 1.7 percent year-over-year. The latest [NAM/IndustryWeek Survey of Manufacturers](#) predicted that the annual pace of production activity should increase to 2.8 percent by the fourth quarter of 2013. Manufacturing production will need to pick up for that to be true. Manufacturing export numbers have been soft, with higher taxes and across-the-board spending cuts dampening demand.

Regarding the NAM/IndustryWeek survey, manufacturers anticipate sales to increase 2.7 percent on average over the course of the next year. While this is higher than the 2.3 percent growth rate observed three months ago, it is below the 4.3 percent pace of 12 months ago. Larger businesses were more optimistic about sales and their company's outlook than their small and medium-sized counterparts, with all respondents predicting sluggish hiring growth over the next year. The top concern, cited by 82.2 percent of respondents, was the rising cost of health insurance. The average health insurance premium increase in 2013 was 8.6 percent, with a 13.9 percent jump on average anticipated for 2014. The 2014 numbers suggest just how much uncertainty there is regarding

insurance rates, with the perception they will go up significantly. I spoke about this survey and the general state of manufacturing on [CNBC's "Squawk Box"](#) last Tuesday.

On the positive side, retail sales rose 0.6 percent in May, boosted by higher spending on motor vehicles. Auto sales grew 1.8 percent for the month and 8.5 percent over the past 12 months, continuing to provide significant contributions to the manufacturing sector and the larger economy. Non-auto sales were also mostly higher. Despite this gain, the University of Michigan's latest consumer confidence numbers edged slightly lower in June, but the longer-term trend suggests that Americans remain more positive today than they were at the beginning of the year. Likewise, small business owners were more optimistic in the most recent National Federation of Independent Business (NFIB) survey, with improved sales expectations lifting spirits higher. Still, these surveys—including our own—tend to report persistent weaknesses in the marketplace, with index readings below where they should be. The NFIB survey states that economic uncertainties and the political climate are reasons given by those not ready to expand.

This week, markets will be focused on what the Federal Open Market Committee (FOMC) decides to do. There is much anticipation that the FOMC will start to "taper" its quantitative easing program as soon as this summer, lowering its "highly accommodative" asset purchases down from the current \$85 billion each month to something lower than that. The latest producer price index data continue to support the view that inflationary pressures have been kept to a minimum, even with the 0.5 percent increase in May. The year-over-year rate continues to stay below the 2 percent goal stated by the Federal Reserve Board, allowing the FOMC to concentrate on measures to boost economic growth.

The other headlines this week will center on housing and manufacturing activity. Housing permits exceeded 1 million in April for the first time since June 2008, even as new residential construction activity declined. The expectation is that housing starts will increase again in May, rising from the 853,000 level seen in April and moving closer to the 1 million mark again. At the same time, we will get a sense of how manufacturers are faring from the New York and Philadelphia Federal Reserve Banks, and Markit will release early estimates of manufacturing activity for the United States, China and the Eurozone. These measures have had weaknesses of late, so it will be interesting to see if there has been progress in the past month. (For more on worldwide trends, see the latest [Global Manufacturing Economic Update](#).) Aside from these releases, other new reports out next week include the latest data on consumer prices, leading indicators and state employment.

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[{Back to top}](#)

## Economic Indicators

### Last Week's Indicators:

*(Summaries Appear Below)*

#### Monday, June 10

*NAM IndustryWeek Survey of Manufacturers*

#### Tuesday, June 11

*Job Openings and Labor Turnover Survey  
NFIB Small Business Survey*

#### Wednesday, June 12

*None*

### This Week's Indicators:

#### Monday, June 17

*NAHB Housing Market Index  
New York Fed Manufacturing Survey (Empire State)*

#### Tuesday, June 18

*Consumer Price Index  
Housing Starts and Permits*

#### Wednesday, June 19

*FOMC Monetary Policy Statement*

**Thursday, June 13***Retail Sales***Friday, June 14***Industrial Production**Producer Price Index**University of Michigan Consumer Sentiment  
(Estimate)***Thursday, June 20***Conference Board Leading Indicators**Markit Flash PMIs for the United States, China and the Eurozone**Philadelphia Fed Manufacturing Survey***Friday, June 21***State Employment Report*[{Back to top}](#)**Summaries of Last Week's Economic Indicators****Industrial Production**

[The Federal Reserve Board reported that industrial production was unchanged in May, with manufacturing activity up 0.1 percent.](#) So far in 2013, manufacturing production has been virtually unchanged, up in two months and down in three. On a year-over-year basis, manufacturers have increased their output by 1.7 percent. That is far from ideal, as we would like to see production increase by at least double that to signify a flourishing manufacturing sector. Nonetheless, it is indicative of many weaknesses right now in the sector.

At the same time, manufacturing capacity utilization remained at 75.8 percent, which, while the same as April's figure, represented a slowdown from December's 76.4 percent utilization rate.

Both durable and nondurable goods production were up slightly in May, increasing 0.2 percent and 0.1 percent, respectively. Manufacturing activity grew the most in the apparel and leather (up 3.1 percent), computer and electronic products (up 1.1 percent), wood products (up 1.1 percent), petroleum and coal products (up 0.9 percent), plastics and rubber products (up 0.9 percent), nonmetallic mineral products (up 0.8 percent) and motor vehicle (up 0.7 percent) sectors.

However, declines in the primary metals (down 1.0 percent), furniture (down 0.8 percent), aerospace and miscellaneous transportation (down 0.6 percent), machinery (down 0.4 percent) and food and beverage (down 0.3 percent) sectors offset the increases.

In summary, industrial production numbers confirm that manufacturing growth has been quite weak so far in 2013. Manufacturing export numbers have been soft, with higher taxes and across-the-board spending cuts dampening demand. The latest [NAM/IndustryWeek Survey of Manufacturers](#) predicts that the year-over-year pace of production activity will increase to 2.8 percent by the fourth quarter of 2013. For that to be true, production will need to pick up. It will be important for policymakers to implement pro-growth policies like those laid out in the NAM's [Growth Agenda](#) that boost output and orders that the sector is yearning for.

**Job Openings and Labor Turnover Survey**

[The Bureau of Labor Statistics reported that manufacturing job openings declined from 271,000 in March to 245,000 in April.](#) The latest Job Openings and Labor Turnover Survey data find that the number of job openings has stayed below 300,000 since June 2012, and April's figure was the lowest value of 2013. The decline in labor postings perhaps reflects recent weaknesses in the manufacturing sector, with sales being soft and various sentiment surveys observing very slow growth in activity overall.

However, net hiring in the month returned to positive territory. Manufacturers hired 224,000 workers in April, an improvement from the 201,000 new employees added in March. Despite the gain, hiring remains subpar, generally staying below its recent peak of 324,000 in March 2012. Meanwhile, total separations—which include layoffs, quits and retirements—rose from 203,000 to 218,000. As a result, net hiring (or hiring minus separations)

shifted from a decline of 2,000 workers in the sector in March to an increase of 6,000 employees in April. Even with a positive figure, hiring remains quite slow, with manufacturers skittish about adding new workers.

These same trends were also present in the larger economy, with better news overall on net hiring for total employment. The number of job openings declined from 3,875,000 to 3,757,000. The longer-term trend has been positive, with postings up from 3,523,000 the year before. In contrast, net hiring improved from 104,000 to 146,000. In addition to manufacturing, other sectors with increased hiring in April included education and health services, professional and business services and retail trade.

### **NAM/IndustryWeek Survey of Manufacturers**

[The latest NAM/IndustryWeek Survey of Manufacturers found that rising health insurance costs topped the list of concerns this quarter.](#) The issue was cited by 82.2 percent of respondents, up from 74.0 percent in the [first quarter](#) survey.

A series of [special questions](#) on the Affordable Care Act (ACA) drilled further on this topic. Specifically, 99.0 percent of manufacturers surveyed said they provide health insurance coverage to their workforce, with 38.0 percent of those self-insuring. The average health insurance premium increased 8.6 percent this year, with a whopping 13.9 percent predicted for next year. More than anything, the 2014 numbers suggest just how much uncertainty there is regarding insurance rates, with the perception they will go up significantly. Just 43.8 percent of manufacturers said they were prepared to implement the ACA when it goes into effect starting later this year.

Looking at the current economic environment, 72.3 percent of manufacturers said they are either somewhat or very positive about their company's business outlook, up from 51.8 percent six months ago and 70.1 percent three months ago. With the exception of the December survey, optimism levels have been roughly 70 percent since September. In essence, this survey confirms the good-but-not-great nature of the current manufacturing economy, much as we have seen in the most recent [Institute for Supply Management](#) and [employment](#) numbers. Sales are expected to rise 2.7 percent over the course of the next 12 months. While this was higher than the 2.3 percent seen in the March survey, it was still lower than the 4.3 percent observed a year ago.

Manufacturers are planning to increase their hiring over the next 12 months by just 0.6 percent, a slight drop from the 0.7 percent rise noted in the last survey. Slightly more than half of respondents expect their employment levels to be the same, with nearly 16 percent intending to reduce their employment. Meanwhile, capital spending should grow by 1.2 percent over the next year, up from the 0.9 percent increase predicted in March.

On the international front, manufacturers have struggled lately to boost their exports, particularly with slowing economies worldwide. This goes beyond Europe's recession, which has deepened in recent months. Respondents expect exports to increase 1.2 percent over the next 12 months—a rate that has declined over the course of the past few surveys. As with past reports, those firms that expect increased exports over the next 12 months tend to be more positive than those that anticipate either no growth or declining export levels.

Larger firms were more positive than their small and medium-sized counterparts. The largest differences were found when you look at expected sales increases. Larger manufacturers expect sales of 3.2 percent over the course of the next 12 months, with 2.5 percent for small and 2.6 percent for medium-sized entities.

### **NFIB Small Business Survey**

[The NFIB reported that small business owner sentiment rose to its highest level in one year, up from 92.1 in April to 94.4 in May.](#) Coincidentally, that was the same index reading in May 2012. The optimism index has edged higher across the past seven months, rising from a low of 87.5 in November. The variable that has changed over that time is the perception about new orders. Sales expectations rose from -5 percent in November to +4 percent in April to +8 percent in May. With improved business activity predicted, optimism levels have gone up.

Mirroring this rise, the percentage of respondents saying the next three months are a good time to expand increased from 4 percent to 8 percent. Despite the higher figure, uncertainties continue to dampen the enthusiasm for expansion. The top reasons cited for it not being a good time to expand were economic uncertainties and the political climate.

The most important problem cited in this survey was taxes, mentioned by 24 percent of respondents. This is the second month in a row that taxes topped the list, and it almost certainly is a reference to higher marginal and payroll taxes in 2013. Other top concerns were government regulations (23 percent) and poor sales (16 percent).

The employment picture did not change much from last month. The net percentage of respondents planning to hire in the next three months declined from 6 percent to 5 percent; however, that was still an improvement from the zero percent reported in March. The percentage of those saying they were unable to fill positions right now rose from 18 percent to 19 percent.

### **Producer Price Index**

[The Bureau of Labor Statistics reported that producer prices for finished goods jumped 0.5 percent in May.](#) As such, raw material costs bounced back somewhat from the 0.6 percent and 0.7 percent losses in February and March, respectively. This shifted the year-over-year rate up from 0.6 percent last month to 1.7 percent now. Despite the uptick, pricing pressures overall still remain modest.

The higher figure stemmed from increases in both food and energy prices. The cost of finished energy goods rose 1.3 percent, partially offsetting the 3.4 percent and 2.5 percent declines in the prior two months. This increase is consistent with the rise in the price of West Texas Intermediate crude, which rose from an average of \$92.02 per barrel in April to \$94.51 in May. Meanwhile, food prices were 0.6 percent higher after an up-and-down year so far where costs have been higher one month only to fall the next. The largest food price increases were for fruits, vegetables, dairy, eggs and fish.

Outside of food and energy, producer prices were up only slightly. Core inflation—which excludes food and energy costs—rose 0.1 percent in May, with a year-over-year pace of 1.6 percent. This number is important, as it indicates that inflationary pressures remain below the Federal Reserve Board's stated target of 2 percent or less. With the next FOMC scheduled for June 18–19, the data will become more relevant. The expectation is that the FOMC will continue to pursue its “highly accommodative” policies, even as it might taper the level of asset purchases that it conducts each month from its current \$85 billion to something less than that.

For manufacturers, producer prices in May were unchanged from April, with an annual change of only 0.3 percent. This suggests that pricing pressures in total have diminished from a year ago, even as some sectors are experiencing some higher raw material costs. The biggest input price increases in the sector were in the plastics and rubber (up 0.8 percent), food (up 0.5 percent), leather (up 0.5 percent) and paper (up 0.5 percent) manufacturing industries. At the same time, there were lower costs in the primary metal (down 1.4 percent), textile mills (down 0.5 percent), beverage and tobacco (down 0.4 percent) and chemical (down 0.3 percent) sectors, among others.

### **Retail Sales**

[The Census Bureau reported that retail sales jumped 0.6 percent in May, building on April's 0.1 percent gain.](#) This was much larger than the expected increase of 0.4 percent, which had been the consensus estimate. The biggest contributor to the gain was increased auto sales, which grew by 1.8 percent for the month and have risen 8.5 percent year-over-year. This suggests that the motor vehicle segment has started to recover from some of the slower activity levels seen earlier this year. To illustrate how much the auto sector's purchases impacted the total spending gain, retail sales would have risen just 0.3 percent without them included.

There were strengths outside of autos, as well. Since May 2012, retail sales have increased 4.3 percent, or 3.4 percent excluding auto purchases. Some of the biggest increases in retail spending in May were from miscellaneous store retailers (up 1.2 percent), building materials stores (up 0.9 percent), food and beverage stores (up 0.7 percent), nonstore retailers (up 0.7 percent) and sporting goods and hobby stores (up 0.6 percent).

Lower gasoline prices helped to lead non-auto retail sales [down](#) in April, and gasoline station spending was off 0.2 percent in May, as well. On a year-over-year basis, gasoline station retail sales have fallen 1.6 percent. In reality, the price of West Texas Intermediate crude rose from an average of \$92.02 per barrel in April to \$94.51 in May, which could suggest higher spending levels in the June survey from gasoline retailers.

Other areas with declining spending included furniture and home furnishing stores (down 0.8 percent), electronics and appliance stores (down 0.4 percent), restaurants and bars (down 0.4 percent) and clothing and accessories retailers (down 0.2 percent).

### University of Michigan Consumer Sentiment (Estimate)

[Consumer confidence declined slightly in June, according to the University of Michigan and Thomson Reuters.](#) The Consumer Sentiment Survey's overall index declined from 84.5 in May to 82.7 in June. May's reading had been the highest since July 2007. As such, the small pullback does not alter the longer-term trend of growth in optimism in the index, which has increased from 72.9 in December. This is an estimated number, with the final report to be released June 28.

June's dip in sentiment was due to a marginal decline in perceptions about the current economic environment. The index for present conditions dropped from 98.0 in May to 92.1 in June. Again, this still represents improvement since the beginning of the year, with January's index at 85.0. Meanwhile, the forward-looking component increased from 75.8 to 76.7. The expectations index had measured 63.8 in December.

[{Back to top}](#)

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