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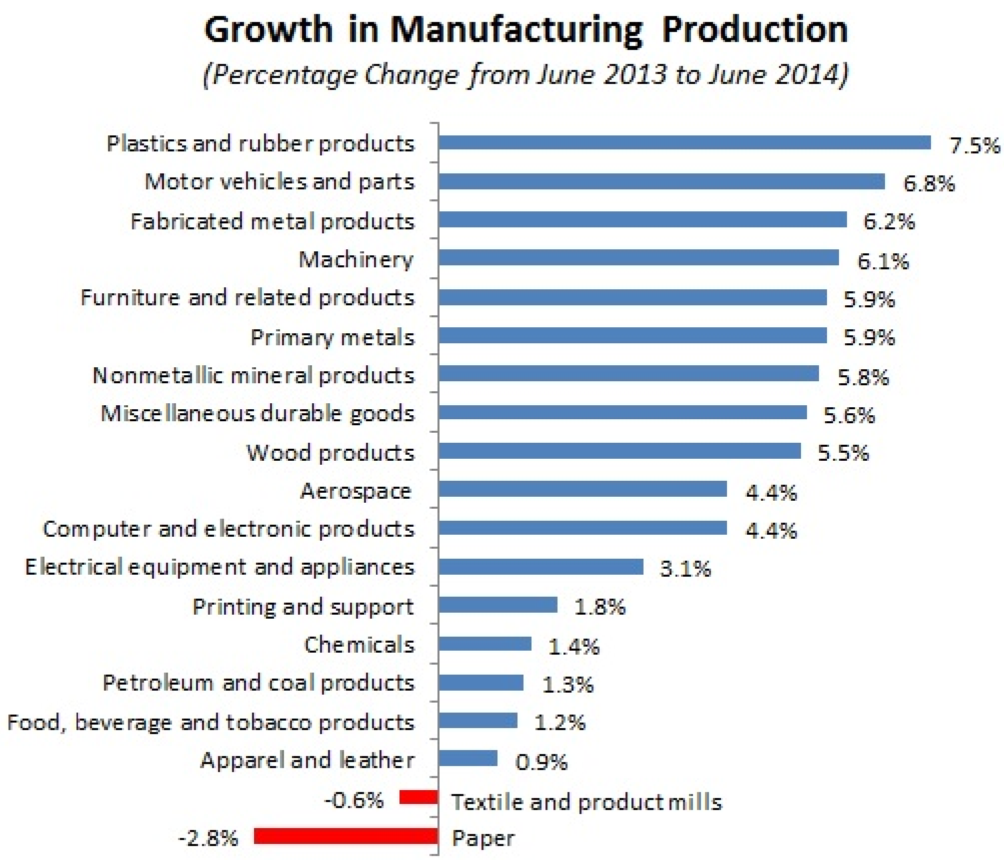

With more and more data starting to trickle in for June, we are seeing some definite trends taking shape. One positive is that the manufacturing sector continues to expand, suggesting that the rebound from winter-related softness earlier in the year has mostly continued. Manufacturers also tend to be mostly upbeat about the second half of this year—a sign of optimism that is encouraging. Yet, there were also indicators suggesting that the pace of activity slowed somewhat in June, most notably in the industrial production, housing starts and retail sales numbers that were released last week.

Indeed, manufacturing output in June increased at its slowest rate since January, with relatively mixed news overall. Nondurable goods production edged higher, up 0.1 percent, but output from nondurable goods manufacturers declined by 0.3 percent. Monthly declines in production in such sectors as apparel, machinery and motor vehicles nearly offset output gains for aircraft, furniture, metals and plastics, and rubber products. Longer-term trends remain reassuring, even if they still leave room for improvement. Over the past 12 months, manufacturing production has increased 3.5 percent, a decent figure overall and progress from the much slower pace of just 1.5 percent in January. Durable goods output has risen by a healthy 5.5 percent year-over-year, whereas nondurable goods activity was a less robust 1.5 percent in the past year.

Housing starts in June were also weaker than expected, down from an annualized 985,000 in May to 893,000 in June. Starts were lower for both single-family and multifamily units. There have been suggestions that rain might have attributed to the weaker construction activity, with storms preventing some units from breaking ground. Yet, single-family starts have struggled for some time, down 4.3 percent over the past 12 months. On the positive side, single-family housing permits rose for the second straight month, up from 615,000 to 631,000 at the annual rate for the month. This could suggest stronger growth in the housing market in the coming months for single-family homes. Along those lines, homebuilder confidence increased to its highest point since January, with better expectations for sales over the next six months.

Meanwhile, surveys out last week reported multiyear highs in the pace of manufacturing activity. New orders and shipments were up sharply in surveys from the New York and Philadelphia Federal Reserve Banks. Hiring also picked up in both regions, and raw material costs remained elevated relative to prior months. More importantly, manufacturers in each survey said they were optimistic that sales, output, employment and capital spending would increase over the next six months. In fact, the Philadelphia Federal Reserve report found that 56.1 percent of its respondents anticipated higher new orders, with 60.4 percent predicting increased shipment levels. In addition, the Manufacturers Alliance for Productivity and Innovation (MAPI) reported that the business outlook rose for the sixth consecutive quarter on accelerated sales domestically and abroad. Shipments and capital spending were also anticipated to grow strongly moving forward.

On the consumer front, Americans continue to be cautious in their purchase decisions. Retail spending increased 0.2 percent in June. This was the slowest pace since January, and it was below expectations. Reduced auto sales contributed to this lower figure. Despite the slower activity levels in June, the year-over-year pace continues to grow at decent levels, up 4.3 percent over the past 12 months. Preliminary consumer confidence data also indicate some nagging anxieties in the economy, according to the University of Michigan and Thomson Reuters. The Consumer Sentiment Index unexpectedly decreased from 82.5 in June to 81.3 in July, and consumer attitudes have not changed much since December. Much of July's decrease stemmed from weaker expectations about the future economy. However, higher gasoline prices might have also been a factor. Indeed, the producer price index increased in June largely on higher energy costs.

This week, we will get additional insights on the health of manufacturing worldwide. Markit will release preliminary purchasing managers' index reports for China, Japan, the Eurozone and the United States for July. We will be looking for continued progress in Asia and the United States and we hope a reversing of the easing in activity in Europe. The Kansas City and Richmond Federal Reserve Banks will also report on their latest manufacturing surveys. Beyond these releases, the Bureau of Economic Analysis will publish real GDP data by industry for the first quarter; given the 2.9 percent drop in real GDP during the first quarter, we would anticipate minimal contributions to growth from the manufacturing sector. Other highlights include the latest data on consumer prices, durable goods orders and existing and new home sales.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

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None

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NAHB Housing Market Index
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This Week's Indicators:

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Chicago Fed National Activity Index

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New Home Sales

Friday, July 25
Durable Goods
Real GDP by Industry (First Quarter 2014)

Summaries for Last Week`s Economic Indicators

Conference Board Leading Indicators

The Conference Board reported that the Leading Economic Index (LEI) rose 0.3 percent in June. This was slower than the 0.7 percent growth rate in May, but it was the fifth consecutive monthly increase. Through the first six months of 2014, the LEI expanded 2.7 percent, which bodes well for activity in the second half of the year. In June, the largest contributors to the LEI were the stock market, favorable credit conditions and the interest rate spread.

Manufacturing activity provided a small net positive to the LEI for the month. Increased new orders helped to push the index higher, but the average workweek served as a bit of a drag on the measure. Other negatives for the LEI in June included housing permits and unemployment claims. Consumer confidence was a nonfactor for the third straight month, further illustrating how little sentiment has changed of late.

Meanwhile, the Coincident Economic Index (CEI), which assesses current conditions, also increased for the fifth month, up 0.2 percent in June. Year-to-date, the CEI has grown 1.3 percent, reflecting the slower-than-desired pace of economic activity in the first half of 2014. Nonetheless, all four subcomponents of the CEI made positive contributions for the month, including industrial production (see below), nonfarm payrolls, personal income and manufacturing and trade sales.

Housing Starts and Permits

The Census Bureau and the U.S. Department of Housing and Urban Development reported that housing starts unexpectedly declined for the second straight month. Starts dropped from an annualized 985,000 in May to 893,000 in June. This fell from the faster pace of 1,063,000 in April, although that figure appears to be a bit of an outlier. Excluding April, the average rate of new housing starts through the first half of 2014 was 930,600. Even with that in mind, June's pace was disappointing and a sign that the housing market remains weaker than we would prefer.

Indeed, new housing starts were off for both single-family (down from 632,000 to 575,000) and multifamily (down from 353,000 to 318,000) units. The pace for single-family starts reached its lowest level since November 2012, highlighting some persistent softness in the residential construction market so far this year. While the longer-term trend remains positive, single-family housing starts have fallen 4.3 percent over the past 12 months.

Meanwhile, housing permits data also fell, down from 1,005,000 units at the annual rate in May to 963,000 in June. Unlike the starts figures, however, there were some encouraging signs. Single-family permitting rose for the second straight month, up from 597,000 in April to 615,000 in May to 631,000 in June. This could suggest stronger growth in the housing market in the coming months for single-family homes. At the same time, multifamily units have been weaker, pulling the headline figure lower. Multifamily permitting dropped from 462,000 to 390,000 to 332,000 over the same three months, with the most recent pace being the slowest in 10 months.

Overall, June's housing numbers were quite discouraging. There was optimism a few months ago that residential activity was beginning to pick up after weakness since last summer, and the consensus expectation had been for housing starts to exceed 1 million again in June. Yet, the housing market continued to underperform through the first six months of this year. Financial difficulties in obtaining credit (particularly for first-time homebuyers) and economic uncertainties remain obstacles for some. Still, I continue to predict housing starts of 1.1 million by year's end, and we can put some hope in the single-family housing permits figures and the possibility of improved activity moving forward.

Industrial Production

Manufacturing production increased 0.1 percent in June, its slowest pace since January's weather-induced decline. In general, manufacturers continue to expand upon the softness earlier in the year, with year-over-year growth of 3.5 percent in June, up from 1.5 percent in January. However, the year-over-year rate was slightly lower than the 3.7 percent pace the month before. Similar trends were seen with manufacturing capacity utilization, which declined from 77.2 percent in May to 77.1 percent in June. While lower for the month, it still represented progress from the 75.5 percent rate in January.

In June, the sector-by-sector data were largely mixed, with durable goods output up 0.1 percent but nondurable goods production off by 0.3 percent. Sectors with the greatest monthly growth included furniture and related products (up 1.4 percent), fabricated metal products (up 1.2 percent), primary metals (up 1.2 percent), plastics and rubber products (up 1.2 percent), aerospace and miscellaneous transportation equipment (up 1.1 percent) and nonmetallic mineral products (up 1.0 percent).

In contrast, food, petroleum and coal products (down 2.7 percent), apparel and leather products (down 1.3 percent), beverage and tobacco products (down 0.6 percent), machinery (down 0.5 percent) and motor vehicles and parts (down 0.3 percent) had lower production in June.

On a year-over-year basis, durable goods production rose by a healthy 5.5 percent in June, an increase from 5.4 percent in May. Nondurable goods activity was up a less robust 1.5 percent over the past 12 months, down from 2.1 percent the month before. The following sectors saw the largest gains in production over the past year: plastics and rubber products (up 7.5 percent), motor vehicles and parts (up 6.8 percent), fabricated metal products (up 6.2 percent), machinery (up 6.1 percent), furniture and related products (up 5.9 percent), primary metals (up 5.9 percent) and nonmetallic mineral products (up 5.8 percent).

Meanwhile, overall industrial production rose 0.2 percent in June, slower than the 0.5 percent increase in May. On a year-over-year basis, industrial production has grown 4.3 percent. Mining accounted for the largest jump in output, up 0.8 percent for the month and 9.7 percent year-over-year. Utility output declined for the fifth straight month, down 0.3 percent in June but up 1.8 percent year-over-year. Total capacity utilization remained unchanged at 79.1 percent.

In conclusion, manufacturers continued to expand output, with the sector recovering from softness earlier in the year. Yet, growth slowed in June, and we would like to see improvements coming from a broader base of the manufacturing sector. In general, manufacturers are cautiously upbeat about production in the second half of this year, but for those projections to materialize, we need to see stronger growth in the United States and globally. For that reason, policymakers should focus on those initiatives that will keep the economy growing and moving forward.

MAPI Manufacturing Survey

MAPI reported that its Composite Business Outlook Index rose from 69 in March to 71 in June. Indeed, this was the sixth consecutive quarterly gain in the manufacturing outlook, up from 55 in December 2012. Index readings greater than 50 indicate expansion, and as such, the data suggest mostly positive trends in the sector. The pace of new orders (up from 71 to 78) and export sales (up from 60 to 67) accelerated, and profit margins edged higher (up from 66 to 70).

In terms of investment, manufacturers completing the MAPI survey said they were increasing their capital spending levels both in the United States (up from 59 to 67) and abroad (up from 59 to 64). At the same time, the rate of research and development spending slowed slightly in this survey (down from 69 to 67), albeit keeping a healthy pace.

Yet, the forward-looking indicators provided mixed news. Prospective shipments within the United States eased slightly (down from 88 to 87) but are still expected to grow relatively strongly. Similarly, export shipments also decelerated somewhat (down from 81 to 76). Overall, the data indicate there is still room for improvement. The percentage of respondent companies operating at above 85 percent capacity dropped from 35.7 percent to 30.0 percent.

Overall, however, the data support the notion that manufacturing activity continues to improve, mirroring similar findings from other indicators. As reported last month, MAPI has a generally upbeat outlook for this year. It predicts that manufacturing production will increase by 3.2 percent and 4.0 percent in 2014 and 2015, respectively, suggesting accelerating growth from the 2.6 percent pace of 2013.

NAHB Housing Market Index

The Housing Market Index (HMI) from the National Association of Home Builders (NAHB) and Wells Fargo found increased builder optimism in June. The HMI increased from 49 in June to 53 in July, the first time the index has surpassed the all-important threshold of 50 since January. When it exceeds 50, the index indicates that more homebuilders are positive than negative in their views of the market. More importantly, the index of single-family sales increased from 53 to 57, with expected sales over the next six months rising from 58 to 64.

As such, NAHB Chief Economist David Crowe was more positive in his assessments of the housing market, with recently better jobs numbers boosting sentiment. He said, “As employment increases and those with jobs feel more secure about their own economic situation, they are more likely to feel comfortable about buying a home.” We are hopeful this improvement in homebuilder confidence helps to foreshadow better sales in the months ahead.

New York Fed Empire State Manufacturing Survey

In July, the Empire State Manufacturing Survey from the New York Federal Reserve Bank increased to its highest level since April 2010. The composite index of general business conditions rose from 19.3 in June to 25.6 in July, suggesting that manufacturing activity expanded strongly in the month. The jump in the headline figure was due largely to a drop in the percentage of respondents saying that conditions were worse, down from 21.1 percent in June to 15.0 percent in July. In contrast, 40.6 percent of manufacturers taking the survey said they felt business was improving, up just slightly from the 40.4 percent who said the same thing the month before.

The underlying data were mostly positive, particularly for shipments (up from 14.2 to 23.6) and employment (up from 10.8 to 17.1). New orders also edged somewhat higher, up from 18.4 to 18.8, mostly from a drop in those saying that sales were lower. Yet, the data also had a few weaknesses, with the average workweek (down from 9.7 to 2.3) easing a bit and pricing pressures (up from 17.2 to 25.0) picking up.

Looking ahead six months, manufacturers in the district continued to be mostly optimistic, albeit with less enthusiasm than the month before. The forward-looking composite index decreased from 39.8 to 28.5, but the data still suggest relatively healthy gains moving forward. Growth rates were slower for a number of indicators, including new orders (down from 44.5 to 25.6), shipments (down from 45.2 to 24.6), hiring (down from 20.4 to 17.1) and capital spending (down from 11.8 to 9.1).

In all, 38.2 percent of respondents anticipate sales to be higher six months from now, with 49.2 percent expecting no changes. Other highlights include a slight increase in technology spending plans (up from 3.2 to 10.2) and reduced levels for inventories (down from 6.5 to -4.6) and the average workweek (down from zero to -4.6).

Philadelphia Fed Manufacturing Survey

The Federal Reserve Bank of Philadelphia reported that manufacturing activity expanded at its fastest pace in more than three years (March 2011). The Business Outlook Survey's composite index of general business activity increased from 17.8 in June to 23.9 in July. The shift stemmed largely from a drop in the percentage of manufacturers in the district who said that conditions had worsened, down from 18.6 percent to 8.9 percent. This helped to push the overall diffusion index higher in July, with roughly one-third of respondents noting improvements for the month in overall conditions.

The pace of new orders (up from 16.8 to 34.2) and shipments (up from 15.5 to 34.2) both spiked in this report. Hiring (up from 11.9 to 12.2) and the average employee workweek (up from 7.3 to 12.5) also continued to move in the right direction. One downside was elevated costs for raw materials, with nearly 36 percent saying that input costs increased in the month.

Over the next six months, manufacturers in the district were overwhelmingly upbeat about future activity. In fact, 56.1 percent said they anticipate increased sales, and 60.4 percent predict higher shipment levels. Moreover, even as the indices edged a bit lower in July, roughly one-third said they planned to add workers, and more than one-quarter intend to increase their capital expenditures in the next six months.

In a few special questions, 38.6 percent noted increased exports over the past year, with just 7.0 percent saying they had moderate decreases. The region exported mainly intermediate products (39.6 percent), with final business products (24.5 percent), capital goods (18.9 percent) and final consumer products (11.3 percent) also important components.

Producer Price Index

The Bureau of Labor Statistics reported that producer prices for final demand goods and services increased 0.4 percent in June, rebounding from the 0.2 percent decline in May. June's higher figure stemmed largely from a sharp jump in the cost of finished energy goods, which increased 2.1 percent in the month. Middle

East tensions in Iraq were largely to blame for this increase. Indeed, the cost of West Texas Intermediate crude oil jumped from $99.69 per barrel on May 1 to $103.07 on June 2 to $106.07 on June 30. (The price of oil has fallen since then, closing at $100.75 a barrel on July 15.)

Food has been another major driver of price increases this year; yet, the cost of finished food goods has fallen in the past two months by 0.2 percent each time. Still, food costs have risen 4.6 percent year-to-date on higher prices for meat, vegetables, dairy and egg products. The lower costs in June reflect some easing in the price growth for those products.

Beyond food and energy, core producer prices for final demand goods increased 0.1 percent in June. The largest increases were in industrial chemicals, cigarettes, commercial and industrial products, construction machinery and equipment, sporting and athletic products, and truck trailers. These were offset by declines in prices for jewelry, mining machinery, motor vehicle parts, railroad equipment, toys and games, and travel trailers and campers, among others.

On an annual basis, producer prices for final demand goods and services rose 1.9 percent over the past 12 months. This dipped slightly lower than the 2.0 percent pace in May, but it remains higher than the 1.1 percent rate in December. Meanwhile, core inflation, which excludes food and energy costs, increased 1.7 percent between June 2013 and June 2014. This suggests that producer prices have decelerated somewhat from the 2.0 percent growth rate the month before.

In general, we have seen a pickup in costs this year, and the Federal Reserve will keep an eye on pricing pressures moving forward. Nonetheless, June’s decline has provided a welcome respite from increases in early 2014.

Retail Sales

The Census Bureau reported that retail sales inched up 0.2 percent in June, its slowest pace since January. The consensus expectation had been for retail spending levels closer to the 0.6 percent and 0.5 percent paces in April and May, respectively. Despite the slower activity levels in June, the year-over-year pace continues to grow at decent levels, up 4.3 percent over the past 12 months. This remains slower than the 4.6 percent pace the month before, but faster than the 1.8 percent year-over-year rate in January.

Spending on motor vehicles and parts declined 0.3 percent in June, its first decrease in six months. Still, the larger story for autos remains a positive one, with 6.4 percent growth year-over-year. If you were to exclude autos, retail spending would have grown by 0.4 percent for the month and 3.7 percent over the past 12 months. The year-over-year pace for retail spending, excluding autos, increased 3.4 percent in May, its fastest rate in 11 months.

Therefore, the news was perhaps more positive than the top-line figure might suggest. Areas with higher retail spending in June included health and personal care stores (up 0.9 percent), nonstore retailers (up 0.9 percent), clothing and accessory stores (up 0.8 percent), sporting goods, hobby, book and music stores (up 0.6 percent), food and beverage stores (up 0.4 percent) and gasoline stations (up 0.3 percent). Beyond autos, building materials and garden supply stores (down 1.0 percent) and food services and drinking places (down 0.3 percent) also saw decreased retail spending for the month.

State Employment Report

The Bureau of Labor Statistics reported that Michigan created the most net new manufacturing jobs in June, adding 6,800 workers during the month. These figures have been boosted—much as they have since the end of the recession—by the rebound in the motor vehicle segment. Other states with significant growth in manufacturing employment in June included Ohio (up 3,700), California (up 2,300), Indiana (up 2,200) and Virginia (up 2,000).

Through the first six months of 2014, Ohio manufacturers have generated the most employment gains, with the state creating 11,100 net new workers in the sector since December 2013. Indiana (up 8,000), Missouri (up 6,100), Texas (up 5,800), Georgia (up 4,100) and South Carolina (up 4,100) have also added a sizable number of new manufacturing jobs so far this year.

The national unemployment rate fell to 6.1 percent in June, as we learned in an earlier release. The lowest unemployment rate continues to be North Dakota's 2.7 percent, followed by Nebraska, Utah and Vermont (each with 3.5 percent). Meanwhile, Rhode Island (7.9 percent) had the highest unemployment rate in the country, with several states also experiencing elevated rates, including Nevada (7.7 percent), Michigan (7.5 percent), California (7.4 percent), the District of Columbia (7.4 percent), Georgia (7.4 percent) and Kentucky (7.4 percent).

University of Michigan Consumer Sentiment

The University of Michigan and Thomson Reuters reported that preliminary data on consumer confidence slipped somewhat in July. The Consumer Sentiment Index unexpectedly decreased from 82.5 in June to 81.3 in July. The consensus expectation had been for a slight gain. Over the last eight months (December to July), the index has averaged 81.8. In essence, after consumer attitudes recovered from the government shutdown by December, they have not moved that much. April's reading of 84.1 is the one outlier in that time frame.

Looking specifically at July's data, the drop in consumer sentiment in the month stemmed from weaker expectations about the future economy. The forward-looking component has declined from 74.7 in April to 71.1 in July. In contrast, views about the current economic environment were more mixed, with an improvement in July (up from 96.6 to 97.1) but with slightly weaker perceptions than in April (98.7).

This nuanced perception could be influenced by the competing news about the health of the U.S. economy, with disappointing data on real GDP growth in the first quarter perhaps outweighing better labor market headlines of late. Either way, it suggests that consumers continue to remain cautious.

We will get final data on July consumer sentiment from the University of Michigan on August 1. The Conference Board will release its June survey data on consumer confidence on July 29.

Connect with the Manufacturers

Questions or comments?

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