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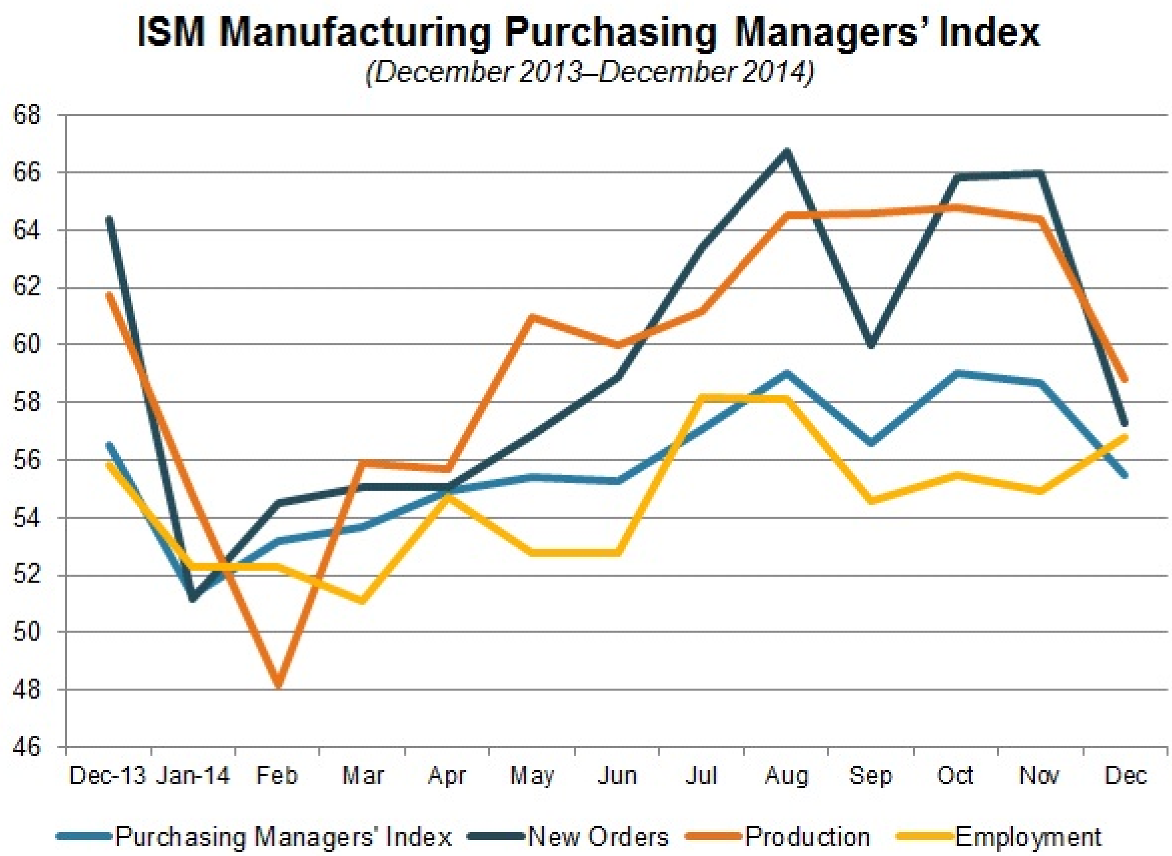
Monday Economic Report

January 5, 2015



Growth in manufacturing activity slowed somewhat in December, according to the Institute for Supply Management (ISM). The headline [purchasing managers' index] (PMI) dropped from 58.7 in November to 55.5 in December, its lowest level in six months. Slower global growth, reduced commodity prices and the West Coast ports slowdown were cited in the ISM report as reasons for the decline. While this report was disappointing, it is notable that the lower figure followed several months of very healthy expansions in both new orders and production, and manufacturers were more upbeat at year's end than earlier in the year. The manufacturing PMI data averaged 57.7 in the second half of 2014, an improvement from the 54.0 average observed in the first half.

In general, the economy in the United States continues to fare better than the economies of other countries. Among other things, this can be seen in foreign exchange markets, with the U.S. dollar reaching an 11-year high against major currencies on Friday. Weaknesses abroad can be illustrated by current events in China and Europe. In December, manufacturers in China reported their first contraction in activity since May, with the HSBC China Manufacturing PMI dropping from 50.0 in November to 49.6 in December. Meanwhile, demand and output remained quite sluggish in Europe, even as the Markit Eurozone Manufacturing PMI improved a bit from 50.1 to 50.6.

These economic data diverge from U.S. data. For instance, third quarter real GDP was revised sharply higher, increasing by an annualized 5.0 percent instead of the earlier estimate of 3.9 percent growth. This was the fastest quarterly pace in 11 years. Recent surveys—including the NAM/*IndustryWeek* survey—indicate relative optimism moving forward. The Dallas Federal Reserve Bank also noted better production data in December and an improved outlook for the next six months in its district, even as lower petroleum prices were dampening new orders within the energy sector.

Other data released last week were also encouraging. Manufacturing construction spending edged marginally higher in November, rising to its highest level since June 2009. More importantly, dollars devoted to construction in the sector have risen sharply year-over-year, up 21.1 percent since November 2013. This suggests that manufacturing leaders are more confident in making investments in their companies, mirroring the stronger employment index seen in the ISM report discussed above. Moreover, the public is also more upbeat. The Conference Board's consumer confidence index rebounded in December, even as it remained below its October peak. Lower gasoline prices have likely helped to improve perceptions about the current economic environment, outweighing lingering worries about labor market and income growth.

This week, the focus will largely be on jobs. We will get new employment numbers for December on Friday, and they are expected to extend the strong numbers seen in November. Nonfarm payrolls will probably grow by more than 200,000 for the eleventh straight month, with manufacturing hiring consistent with the almost 15,000 average jobs observed year-to-date. Another highlight will be new trade numbers as the weak international environment continues to keep export growth at a sluggish pace. Beyond these figures, other data points to look for this week include new reports on consumer credit, factory orders and a regional manufacturing survey from the Philadelphia Federal Reserve Bank.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

This Week's Indicators:

Monday, December 29, 2014
Dallas Fed Manufacturing Survey

Tuesday, December 30, 2014
Conference Board Consumer Confidence

Wednesday, December 31, 2014
NEW YEAR'S EVE

Thursday, January 1, 2015
NEW YEAR'S DAY

Friday, January 2, 2015
Construction Spending
ISM Manufacturing Purchasing Managers' Index

Monday, January 5, 2015
None

Tuesday, January 6, 2015
Factory Orders and Shipments

Wednesday, January 7, 2015
ADP National Employment Report
California Manufacturing Survey
International Trade Report

Thursday, January 8, 2015
Consumer Credit
Philadelphia Fed Manufacturing Survey

Friday, January 9, 2015
BLS National Employment Report

Summaries for Last Week`s Economic Indicators

Conference Board Consumer Confidence

Consumer confidence rebounded in December after dipping somewhat in November, according to the Conference Board. The headline index increased from 91.0 in November to 92.6 in December. December's consumer confidence index level, however, remains below the 94.1 reading observed in October, which was the highest reading since October 2007. The drop in November was curious, particularly given stronger economic data and the rise in the competing survey from the University of Michigan to pre-recessionary levels. Even so, it is clear that Americans are ending 2014 with much-improved confidence relative to earlier in the year.

Looking specifically at the December data, the increase stemmed primarily from better perceptions of the current economic environment (up from 93.7 to 98.6). This aspect of the survey reached its highest point since February 2008. It is likely the result of lower gasoline prices, which put more money in Americans' wallets. In addition, the percentage of respondents saying that jobs were "plentiful" increased from 16.2 percent to 17.1 percent, and those reporting that jobs were "hard to get" dropped from 28.7 percent to 27.7 percent. To be fair, this still suggests a weaker-than-desired labor market, despite some progress.

Beyond these positives, the data also show some persistent challenges. The percentage of those taking the survey expecting their incomes to increase has dropped from 17.7 percent in July to 16.4 percent in December. Moreover, the forward-looking index has declined from 91.9 to 88.5 over that same time period, suggesting that some worries about the next six months remain. This anxiety might be holding back spending a little, with weaker data on auto and home-buying plans for the month.

Construction Spending

Manufacturing construction spending edged marginally higher in November, up 0.1 percent, according to the Census Bureau. Manufacturers devoted an annualized $58.99 billion on construction projects in November, up from $58.91 billion in October. More importantly, dollars devoted to construction in the sector have risen sharply year-over-year, up from $48.71 billion in November 2013, or 21.1 percent. This latest figure was the highest level since June 2009, mirroring the increased outlook seen in other measures and indicating that manufacturing leaders are more confident to make investments in their companies.

Outside of manufacturing, the November data were somewhat disappointing, down 0.3 percent. Stronger residential construction numbers, up 0.9 percent, were offset by a 1.0 percent decline in nonresidential activity for the month. Public sector spending was down 1.7 percent.

Looking specifically at private, nonresidential construction, the sector-by-sector data were mixed. Areas with reduced construction spending in November included the amusement and recreation (down 4.1 percent), health care (down 4.1 percent), religious (down 2.5 percent), office (down 2.1 percent) and commercial (down 1.8 percent) sectors. In contrast, the largest increases were seen in the power (up 2.4 percent), transportation (up 1.8 percent) and communication (up 0.9 percent) sectors.

Over the past 12 months, these private, nonresidential segments had the greatest gains: manufacturing (up 21.1 percent), office (up 17.5 percent), lodging (up 11.3 percent), commercial (up 8.9 percent), educational (up 6.5 percent) and transportation (up 6.5 percent).

Dallas Fed Manufacturing Survey

The Federal Reserve Bank of Dallas noted an increased pace of manufacturing production in December. The indices for production (up from 6.0 in November to 15.8 in December), shipments (up from 12.1 to 19.6) and capacity utilization (up from 9.8 to 12.4) increased for the month. The percentage of respondents citing increased output rose from 25.8 percent in November to 30.2 percent in December, with those observing decreased production dropping from 19.8 percent to 14.4 percent.

That said, many of the sample comments mentioned the negative impact of lower oil prices on business. With the Texas economy highly dependent on the petroleum sector, the sharp reduction in crude oil prices has begun to affect demand. For instance, the index for new orders fell from 5.6 to 1.3, largely from a high number of respondents mentioning a reduction in sales levels in December (up from 20.4 percent to 26.0 percent). The index of general business activity also declined, down from 10.5 to 4.1.

Nonetheless, the Dallas Fed continues to report expanding levels of activity, despite some slippage in the pace of growth of new orders. Indeed, manufacturers in the district remain mostly optimistic about the next six months, with the expected company outlook index rising from 23.1 to 24.1. Over 40 percent of all respondents continue to anticipate higher levels of production, orders and shipments in the months ahead, with 35.4 percent planning to add more workers and 28.6 percent foreseeing more capital spending.

ISM Manufacturing Purchasing Managers' Index

The Institute for Supply Management reported that growth in manufacturing activity slowed somewhat in December. The manufacturing purchasing managers' index (PMI) dropped from 58.7 in November to 55.5 in December, its lowest level in six months. While this decline was disappointing, it is important to note that new orders (down from 66.0 to 57.3) and production (down from 64.4 to 58.8) continued to expand at decent levels, albeit with less strength that in prior months. Indeed, this was the first time since June that the new orders index had been below 60.

The sample comments provide some clues regarding the lessening of sentiment in December. The West Coast ports slowdown was cited in several comments as negatively impacting deliveries. The second issue mentioned was the sharp reduction in petroleum prices, dampening demand from the energy sector. Beyond those points, the other notable challenge continues to be the slowing global economy. In fact, the index for export sales declined from 55.0 to 52.0, suggesting very modest growth in international orders last month.

On a more positive note, manufacturers were more upbeat at year's end than earlier in the year. The headline PMI figure averaged 57.7 in the second half of 2014, an improvement from the 54.0 average in the first half. Recent data suggest progress in the U.S. economy since the winter-related weaknesses observed in the first quarter of 2014, and surveys—including the NAM/*IndustryWeek* survey—indicate relative optimism moving forward. One survey respondent, for instance, noted strength in holiday sales this season.

Perhaps with those elements in mind, the ISM report observed an increased pace of hiring in December. The employment index rose from 54.9 to 56.8, its highest level since August. Moreover, much like the headline number, the employment index was also higher in the second half (56.4) than in the first half (52.7), an encouraging development regarding future job growth.

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Questions or comments?

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