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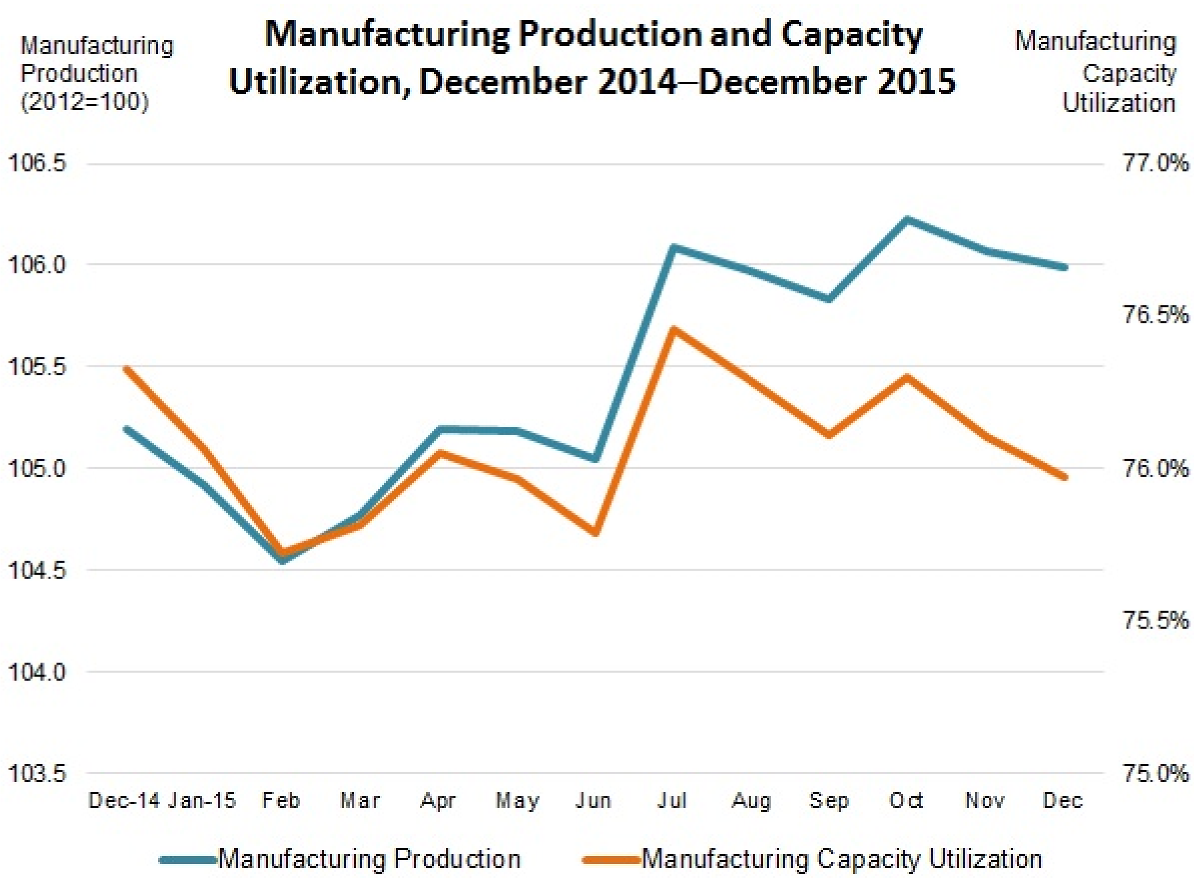
Monday Economic Report

January 19, 2016



It was another terrible week in global equities, with U.S. stocks notching their worst start to a new year in the market's history. The Dow Jones Industrial Average closed at 15978.1 on January 15, down 8.3 percent through the first two weeks of 2016. Financial market analysts are worried about a possible global slowdown, with Chinese equities continuing to plummet and crude oil prices closing the week below $30 per barrel.

The economic data released last week did not help matters. Manufacturing production fell for the fourth time in the past five months, down 0.1 percent in December and up just 0.8 percent over the past 12 months. That represents a significant deceleration in year-over-year growth from the 4.3 percent pace in January 2015. Moreover, manufacturing capacity utilization decreased from 76.1 percent in November to 76.0 percent in December, its lowest level in six months. At the same time, the New York Federal Reserve Bank's composite index of manufacturing activity fell to -19.4 in January, notching negative values in seven of the past eight months. Manufacturing job openings also fell to their lowest level in 13 months in November, with net hiring flat.

These data points highlight the challenges manufacturers are facing, such as the strong U.S. dollar, soft growth to key export markets and reduced commodity prices, and many business leaders anticipate a continuation of these headwinds in 2016 as global growth remains quite volatile.

Meanwhile, Americans also continue to hold back a little in their purchases, likely on lingering anxieties about the economy. Retail sales declined 0.1 percent in December. This served as a disappointing end to the year, particularly for retailers eager for gains during the holiday season. Retail spending grew 2.2 percent year-over-year, down from the more robust 3.7 percent pace in January 2015.

On a positive note, the University of Michigan and Thomson Reuters reported slightly higher consumer confidence in January. The Consumer Sentiment Index rose from 92.6 in December to 93.3 in January, based on preliminary data. It was the highest reading since June, and yet, these findings remain subpar. Similarly, the National Federation of Independent Business reported that optimism edged slightly higher, up from 94.8 in November to 95.2 in December. However, perceptions have generally declined since peaking for the year at 98.3 in May, and the headline index has fallen since reaching a post-recessionary high of 100.4 in December 2014.

We will be hoping for better news this week. Residential construction was one of the brighter spots in the economy in 2015, with housing starts hovering around 1.2 million units at the annual rate by year's end. Yet, there have also been lingering challenges in the housing market. This week, we will get our final reads on residential activity for last year. We hope to see December starts and permits data building off of the healthy gains during November. Homebuilder sentiment is also expected to remain mostly positive. In addition, there will be new manufacturing surveys for January from the Philadelphia Federal Reserve Bank and from Markit, with the latter providing preliminary data on the United States and the Eurozone. We hope these will start to show signs of improvement after softness in prior releases. Other indicators to watch are new figures for consumer prices, existing home sales and leading indicators.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, January 11
None

Tuesday, January 12
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, January 13
Beige Book

This Week's Indicators:

Monday, January 18
MARTIN LUTHER KING, JR. HOLIDAY

Tuesday, January 19
None

Wednesday, January 20
Consumer Price Index
Housing Starts and Permits
NAHB Housing Market Index

Thursday, January 14
None

Friday, January 15
Industrial Production
New York Fed Manufacturing Survey
Producer Price Index
Retail Sales
University of Michigan Consumer Sentiment

Thursday, January 21
Philadelphia Fed Manufacturing Survey

Friday, January 22
Conference Board Leading Indicators
Existing Home Sales
Markit Flash PMIs for the United States and Eurozone

Summaries for Last Week`s Economic Indicators

Industrial Production

The Federal Reserve reported that manufacturing production declined 0.1 percent in December, falling for the fourth time in the past five months. As such, output ended 2015 on a very soft note, with production in the sector up just 0.8 percent over the past 12 months. That represents a significant deceleration in year-over-year growth from the 4.3 percent pace in January 2015. Moreover, manufacturing capacity utilization decreased from 76.1 percent in November to 76.0 percent in December, its lowest level in six months.

These data points highlight the challenges manufacturers are facing, such as the global slowdown and reduced commodity prices, and many business leaders anticipate a continuation of these headwinds in 2016 as global growth remains quite volatile. As manufacturers continue to confront economic headwinds, there are policy measures Washington can take to help get the economy—and manufacturers—growing faster and producing more. Among those policy measures are comprehensive tax reform, robust regulatory reform and the ability to trade with new markets.

Looking more closely at the December data, durable goods production was up 0.1 percent, with output from nondurable goods firms off 0.2 percent. The largest declines were in primary metals (down 3.5 percent), motor vehicles and parts (down 1.7 percent), petroleum and coal products (down 1.2 percent), furniture and related products (down 0.9 percent) and paper (down 0.8 percent). In contrast, electrical equipment and appliances (up 2.3 percent), computer and electronic products (up 1.6 percent) and fabricated metal products (up 1.0 percent) had some of the bigger gains for the month.

Meanwhile, total industrial production declined 0.4 percent in December, extending the 0.9 percent decrease in November. In addition to reduced manufacturing output, production from mining and utilities was also lower, down 0.8 percent and 2.0 percent, respectively. This likely was due to warmer temperatures and a continued pullback in the energy sector. On a year-over-year basis, total industrial production fell 1.8 percent, with mining and utilities output off by 11.2 percent and 6.9 percent, respectively, over the past 12 months. In addition, total capacity utilization fell to 76.5 percent, its lowest level in three years.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics reported that the number of manufacturing job openings fell to the lowest level in 13 months in November. According to the Job Openings and Labor Turnover Survey, job postings in the sector declined from a revised 310,000 in October to 294,000 in November, dipping below 300,000 for the first time since October 2014. As such, it represents a pullback in the pace of job openings since the indicator reached an eight-year high in July with 339,000 postings. Digging a little deeper, job openings for nondurable goods firms decreased from 127,000 to 111,000, whereas postings from durable goods manufacturers remained unchanged for the month. However, both durable and nondurable goods activity remained soft, easing from stronger growth in the summer.

Meanwhile, net hiring in the manufacturing sector was flat in November. Manufacturers hired 274,000 workers during the month, up from 265,000 in October, with durable and nondurable goods businesses seeing increases. At the same time, manufacturing job separations, which include quits, layoffs and retirements, rose from 267,000 to 274,000. As such, net hiring (or hires minus separations) was zero in November, up from a decline of 2,000 in October. We hope to see a rebound in net employment growth in the coming months.

In the larger economy, nonfarm job openings accelerated from 5,349,000 in October to 5,431,000 in November. Postings have slowed since reaching an all-time high of 5,668,000 in July but have trended higher over the past year, up from 4,886,000 in November 2014. Job openings increased in the following sectors in November: construction; education and health services; government; leisure and hospitality; and professional and business services. Beyond job openings, net hiring in the overall economy held steady at 267,000.

New York Fed Manufacturing Survey

Manufacturing activity in the New York Federal Reserve Bank district declined sharply at the beginning of 2016, starting the year much as it ended 2015—in a soft overall economic environment. The Empire State Manufacturing Survey's composite index of general business conditions fell from -6.2 in December to -19.4 in January. This measure has been negative in seven of the past eight months. Respondents noted reduced sentiment across-the-board, including for new orders (down from -6.2 to -23.5) and shipments (down from 4.6 to -14.4). In all, 46.1 percent of manufacturing leaders in the region cited decreasing new orders in January, up from 31.5 percent in December.

The labor market data were also negative, but with some easing in the rate of decline for the month. Employment (up from -16.2 to -13.0) and the average workweek (up from -27.3 to -6.0) both slowed their decreases in January, even as hiring declined for the fifth consecutive month.

Still, manufacturers were hopeful about increased activity over the next six months, albeit with a lot less enthusiasm than in prior months. The forward-looking composite index dropped from 35.7 to 9.5, and other indices were also lower, including new orders (down from 25.4 to 12.2), shipments (down from 32.3 to 17.0), employment (down from 15.2 to 4.0) and capital spending (down from 16.2 to 15.0). On the positive side, 43.0 percent see demand rising in the coming months, with roughly one-quarter expecting new hires. That should provide some degree of cautious optimism for the first half of 2016.

NFIB Small Business Survey

The National Federation of Independent Business reported that optimism rose marginally in December but remained subpar, particularly relative to where it was one year ago. The Small Business Optimism Index increased from 94.8 in November to 95.2 in December. However, perceptions have generally declined since peaking for the year at 98.3 in May, and the headline index has fallen since reaching a post-recessionary high of 100.4 in December 2014. Generally, index values of less than 100 coincide with softer economic growth. Along those lines, the percentage of respondents suggesting that the next three months were a “good time to expand” dropped from 12 percent to 9 percent, the lowest level in six months, with economic and political concerns cited as possible reasons for not expanding. To put that figure in perspective, it rose to 16 percent one year ago.

Despite continued economic anxieties, several of the underlying data provided some encouraging news for small business owners. For instance, respondents were more upbeat about demand. The net percentage predicting higher sales over the next three months rose from -1 percent to 8 percent, the best reading since April. In addition, more firms planned to add workers over the next three months, with the net percentage up from 11 percent to 15 percent, its highest rate in 12 months. Capital expenditure plans also improved, with the percentage anticipating higher spending over the next three to six months rising from 25 percent to 26 percent. Inventories were seen being flat over the same time frame.

The top problem for respondents was taxes, cited by 22 percent, followed by government regulations (20 percent), the quality of labor (15 percent), poor sales (11 percent) and the cost and availability of insurance (9 percent).

Producer Price Index

The Bureau of Labor Statistics reported that producer prices for final demand goods and services decreased 0.2 percent in December. At the same time, producer prices for final demand goods declined 0.7 percent, falling for the sixth straight month. The reduction in December mainly stemmed from lower energy costs, which were off 3.4 percent for the month. Indeed, the price of West Texas Intermediate crude oil has decreased from $42.44 per barrel on average in November to $37.19 a barrel in December. (It has fallen further since then, ending last week below $30 per barrel.) Final demand energy goods were 16.4 percent lower in December than one year ago.

Meanwhile, food costs were also lower, down 1.3 percent in December. The largest declines were for beef and veal, eggs, fish and shellfish, fresh fruits, pasta products and pork. Costs were higher, however, for bakery products, fresh vegetables, grains and turkeys. Food prices fell 5.1 percent across 2015, essentially offsetting the cost increases in 2014.

On a year-over-year basis, producer prices for final demand goods and services have declined 1.1 percent. This year-over-year rate was negative in every month of 2015, mainly due to reduced energy and food costs. In December, core producer prices, which exclude food and energy costs, were up 0.1 percent for the month, or 0.3 percent year-over-year. Overall, the data points show that pricing pressures remain quite minimal right now. Core inflation has remained below the Federal Reserve's stated goal of 2 percent for 19 consecutive months, with this measure being below 1 percent for 10 straight months.

Retail Sales

The Census Bureau reported that retail sales declined 0.1 percent in December, ending 2015 on a weak note. As such, the data show once again that Americans were holding back somewhat at year's end—something that likely disappointed retailers eager for gains from holiday spending. On a year-over-year basis, retail spending grew 2.2 percent in December. While this was an improvement over November's 1.6 percent pace, retail sales grew more robustly earlier in the year, including January's 3.7 percent year-over-year rate.

The underlying December data were mixed. Retail spending was higher for furniture and home furnishings (up 0.9 percent), sporting goods and hobby stores (up 0.9 percent), food services and drinking places (up 0.8 percent) and building materials and garden supplies (up 0.7 percent), among others. In contrast, sales were lower for miscellaneous store retailers (down 2.0 percent), gasoline stations (down 1.1 percent), general merchandise stores (down 1.0 percent) and clothing and accessory stores (down 0.9 percent). Sales of motor vehicles and parts were flat.

For 2015 as a whole, segments with the greatest increases in retail spending were sporting goods and hobby stores (up 7.6 percent), nonstore retailers (up 7.1 percent), food services and drinking places (up 6.7 percent), motor vehicles and parts dealers (up 6.1 percent) and furniture and home furnishings (up 6.0 percent). Gasoline stations had the largest declines year-over-year (down 14.6 percent), but that was largely due to lower prices.

University of Michigan Consumer Sentiment

The University of Michigan and Thomson Reuters reported slightly higher consumer confidence in January. The Consumer Sentiment Index rose from 92.6 in December to 93.3 in January based on preliminary data. It was the highest reading since June, and yet, these subpar findings continue to suggest lingering anxieties about the overall economy. They also mirror the recent softness in retail spending (see above).

The two subcomponents of the index moved in opposite directions in January. Respondents were less confident about the current economic environment (down from 108.1 to 105.1), but they had better assessments of the future climate (up from 82.7 to 85.7). Recent stock market volatility likely impacted perceptions of the current economy negatively.

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Questions or comments?

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Center for Manufacturing Research