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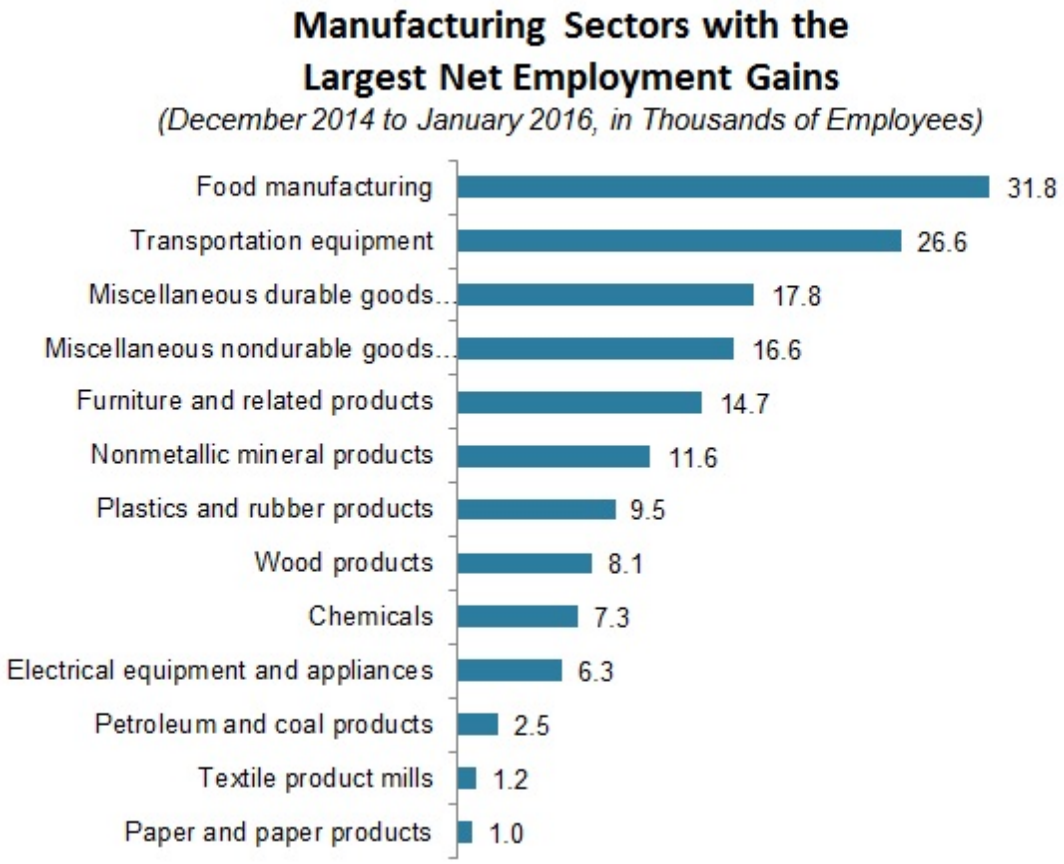

It is amazing how quickly the economic narrative changed on Friday morning with the release of new jobs numbers. There had been a steady drumbeat of bad news recently, particularly in light of global weaknesses and falling commodity prices. Then, the Bureau of Labor Statistics announced that manufacturing employment rose by a surprisingly strong 29,000 workers in January. It marks the fourth consecutive monthly job gain and the strongest since November 2014, when manufacturing demand and production were growing more robustly than seen today. Manufacturers have added 903,000 employees since the Great Recession, for a total of 12.36 million workers in the sector. As such, this release provided a hint of optimism even as other indicators continue to reflect softness. At the same time, it is important to note that employment growth has been quite soft for much of the past year, with the sector adding just 33,000 workers in 2015.

Nonfarm payrolls also increased by 151,000 workers in January. While lower than anticipated, there were also signs that the labor market continues to move in the right direction overall. The unemployment rate fell from 5.0 percent to 4.9 percent, its lowest level since February 2008, even as the participation rate rose from 62.6 percent to 62.7 percent. Moreover, wages trended higher, including for manufacturers, with average weekly earnings up 1.8 percent year-over-year.

With that said, the mixed jobs report likely complicates what the Federal Reserve will do at its March meeting. Recent softness in economic activity has strengthened the hand of those participants wanting to see better data before further raising short-term rates, likely pushing back an increase until April or June. Yet, the decline in the unemployment rate and surprisingly strong gains for manufacturing might seem to undercut that argument, providing signs of a possible turnaround. My guess is that the Federal Open Market Committee will shift its thinking to April or June, but if today's numbers are the beginning of such a turnaround, March will once again be back on the table.

For now, the manufacturing employment numbers appear to be an outlier, as other economic data released last week reflected lingering challenges. The Institute for Supply Management (ISM) reported that manufacturing sentiment remained negative for the fourth straight month. Interestingly, the index for employment growth fell to its lowest level since June 2009, and respondents were less positive about export growth, with the exports index contracting in seven of the past eight months on the strong dollar and soft growth abroad. Nonetheless, the ISM report was not all bad news, with new orders expanding at its fastest rate in five months and production stabilizing.

In addition, new Census Bureau data show that factory orders fell 2.9 percent in December, declining for the fourth time in the past five months, and manufactured goods exports declined 6.7 percent in 2015, using non-seasonally adjusted data, relative to the same time period in 2014. This weakness likely influenced the pullback in private manufacturing construction spending, which declined for the second straight month in December. Even with slower growth in December, manufacturing construction has increased substantially over the past year, up 19.4 percent year-over-year, mostly on increased investments in the chemical sector.

Beyond those indicators, personal spending slowed in December, up just 0.1 percent following a 0.5 percent increase in November. The savings rate increased from 5.3 percent to 5.5 percent. Since falling to 4.8 percent in May, the savings rate has trended higher, supporting the notion that Americans are holding back a little in their consumer spending. Indeed, durable and nondurable goods spending both decreased for the month, down 0.7 percent and 0.2 percent, respectively. With that said, personal consumption expenditures have risen at the modest pace of 3.2 percent over the past 12 months. Meanwhile, personal income rose by 0.3 percent in December, or 4.2 percent year-over-year.

Along those lines, retail sales data for January will be one of the economic highlights this week. Consumer spending was soft at year's end, frustrating retailers with lingering worries about the outlook. The University of Michigan will also provide preliminary figures on consumer sentiment on Friday, hopefully improving upon recent weaknesses. Overall, this will be a lighter week on the economic front. Other indicators to watch for will be the latest data on job openings and small business optimism.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, February 1
Construction Spending
ISM Manufacturing Purchasing Managers' Index
Personal Income and Spending

Tuesday, February 2
None

Wednesday, February 3
ADP National Employment Report

Thursday, February 4
Factory Orders
Productivity and Costs

Friday, February 5
BLS National Employment Report
International Trade

This Week's Indicators:

Monday, February 8
None

Tuesday, February 9
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, February 10
None

Thursday, February 11
None

Friday, February 12
Retail Sales
University of Michigan Consumer Sentiment

Summaries for Last Week`s Economic Indicators

ADP National Employment Report

ADP reported that manufacturing employment remained flat in January, pulling back after hiring gains of 3,000 and 4,000 in November and December, respectively. Employment growth has been quite soft over the course of the past year, with manufacturing demand and production hampered by the global slowdown, a strong dollar and weaknesses in the energy sector. On a year-over-year basis, the ADP data show a decline of 18,000 employees on net for manufacturing since January 2015.

Meanwhile, nonfarm payroll employment rose by 205,000 in January, pulling back from an increase of 267,000 in December. Yet, this was also not far from the 200,000 average experienced over the past 13 months. In January, professional and business services (up 44,000); trade, transportation and utilities (up 35,000); construction (up 21,000) and financial activities (up 19,000) saw the largest job gains. Small and medium-sized businesses (e.g., those with less than 500 employees) accounted for more than 78.5 percent of all net new workers in January.

BLS National Employment Report

The latest data on manufacturing employment provides a big of encouragement for manufacturers that have been beleaguered by the global slowdown and pullbacks in the energy sector. The Bureau of Labor Statistics (BLS) reported that manufacturing employment rose by 29,000 in January, much stronger than expected at the start of the new year. It marks the fourth consecutive monthly job gain and the strongest since November 2014, when manufacturing demand and production were growing more robustly than seen today. Manufacturers have added 903,000 employees since the Great Recession, for a total of 12.36 million workers in the sector. At the same time, it is important to note that employment growth has been quite soft for much of the past year, with the sector adding just 33,000 workers in 2015.

Durable and nondurable goods manufacturers both added more workers on net in January, up 17,000 and 12,000, respectively. Average weekly earnings for manufacturing employees rose from $1,036.52 in December to $1,042.33 in January. On a year-over-year basis, average weekly earnings have risen 1.8

percent since January 2015. Average weekly hours also inched up from 40.6 hours to 40.7 hours for the month, with overtime hours unchanged at 3.3 hours.

In the larger economy, nonfarm payrolls increased by 151,000 workers in January, falling well below the consensus estimate of 200,000 and marking the slowest pace of growth in four months. Job growth was pulled lower by reductions in leisure and hospitality, mining and logging, professional and business services, and transportation and warehousing. At the same time, the unemployment rate fell from 5.0 percent to 4.9 percent, its lowest level since February 2008, even as the participation rate rose from 62.6 percent to 62.7 percent.

Construction Spending

According to the Census Bureau, private manufacturing construction spending declined for the second straight month in December. The value of construction put in place fell from $84.60 billion at the annual rate in November to $78.44 billion in December, or down 7.3 percent. Since achieving the all-time high of $89.65 billion in May, construction activity in the manufacturing sector has ebbed somewhat, with the latest figure representing its lowest level since February. Even with slower growth in December, manufacturing construction has increased substantially over the past year, up 19.4 percent year-over-year. Much of that gain stemmed from investments made in the chemical sector, which continues to benefit from cost advantages in the energy sector. Yet, the recent deceleration also suggests that growth has pulled back somewhat in light of softer overall manufacturing economic activity.

As a whole, private nonresidential construction spending decreased 2.1 percent, and the sector-by-sector data were mostly negative across the board. Only communications (up 4.1 percent) and power (up 0.2 percent) sector projects increased. Manufacturing (down 7.3 percent), religious (down 4.2 percent), office (down 1.9 percent), health care (down 1.9 percent), educational (down 1.8 percent) and transportation (down 1.6 percent) construction spending initiatives experienced the largest declines. On the other hand, private nonresidential construction ticked up 11.8 percent over the past 12 months, suggesting broader growth earlier in the year. Communications (up 37.6 percent), lodging (up 30.6 percent), office (up 20.4 percent), manufacturing (up 19.4 percent), amusement and recreation (up 15.8 percent) and power (up 12.3 percent) achieved the greatest year-over-year growth.

Meanwhile, private residential and public sector construction spending grew by 1.0 percent and 2.7 percent respectively. The housing data increased on better single-family and multifamily activity, with year-over-year growth of 9.9 percent. Overall, total construction put in place in December edged marginally higher, up 0.1 percent, or 8.2 percent since December 2014. Construction spending has been one of the brighter spots in the current economic climate, even with weaknesses seen at the end of the year.

Factory Orders

The Census Bureau reported that new factory orders fell 2.9 percent in December, declining for the fourth time in the past five months, from $470.0 billion in November to $456.5 billion in December, its lowest level since June 2011. As such, these data continue to reflect a disappointing pace of demand for manufactured products in light of recent economic slowness globally. On a year-over-year basis, new orders have declined by 3.9 percent, down from $474.9 billion in December 2014.

Durable and nondurable goods sales both contracted in December, down 5.0 percent and 0.8 percent, respectively. Most of the decline in durable goods sales stemmed from sharply reduced activity for nondefense and defense aircraft, which can be highly volatile from month to month. Transportation equipment orders fell 12.6 percent in December despite an increase of 1.4 percent for motor vehicles and parts. Excluding transportation equipment, durable goods orders would have fallen by 1.0 percent. This speaks to broader weaknesses beyond transportation—something that can be better seen in the year-over-year figures, where durable goods orders decreased by 3.0 percent.

Meanwhile, shipments of manufactured goods also nudged down, by 1.4 percent. This marks the sixth consecutive monthly decline in shipments, with durable and nondurable goods activity off 2.1 percent and 0.8 percent, respectively. Excluding transportation, factory shipments fell 0.4 percent. Much like the new orders data discussed above, the value of manufactured goods shipments have decreased from $490.2 billion in December 2014 to $467.0 billion in this report, or 4.7 percent.

International Trade

The Bureau of Economic Analysis and the Census Bureau reported that the U.S. trade deficit widened slightly, up from $42.23 billion in November to $43.36 billion. The underlying data changed little from the month before, with marginal shifts in goods exports (down from $121.94 billion to $121.16 billion) and goods imports (up from $183.18 billion to $183.67 billion). The service sector trade surplus also inched up a touch, increasing from $19.02 billion to $19.16 billion. For 2015 as a whole, the trade deficit averaged $42.29 billion—not far from the $42.36 billion seen in 2014. Yet, the underlying data reflect some major changes behind the scenes. Goods exports were off sharply, down from an average of $136.05 billion in 2014 to $126.16 billion in 2015, and a similar trend was seen for goods imports, down from $197.84 billion to $183.48 billion.

A fair share of the reduction in goods trade over the past year can be explained by shifts in the petroleum market. Petroleum exports averaged $8.29 billion in 2015, down from $12.03 billion in 2014. Likewise, petroleum imports fell from an average of $27.83 billion in 2014 to $15.17 billion in 2015. In this latest report, the petroleum trade balance widened marginally, up from $5.46 billion to $5.93 billion. Much of the dynamics in these changes over the past year resulted from sharply lower crude oil prices, and indeed, the average price per barrel in the December calculations ($36.60) hit its lowest point since January 2005.

The goods exports by sector data were mostly lower in December, including declines for automotive vehicles and parts (down $559 million), industrial supplies and materials (down $414 million), foods, feeds and beverages (down $374 million) and capital goods (down $339 million). However, increased exports for consumer goods (up $937 million) somewhat offset these losses. In contrast, higher goods imports were led by strength in automotive vehicles (up $980 million), industrial supplies and materials (up $507 million) and foods, feeds and beverages (up $181 million). Consumer goods (down $631 million) and capital goods (down $27 million) also saw decreasing imports.

For manufacturers, global headwinds have significantly hindered their ability to grow international demand. Manufactured goods exports totaled $1,112.35 billion in 2015 using non-seasonally adjusted data, down 6.73 percent from the $1,192.58 billion observed in the same time period in 2014. (Note that we will get seasonally adjusted data on Trade Stats Express when those figures are updated soon to reflect the fourth quarter.)

This trend extends to the top four markets for U.S.-manufactured goods: Canada (down from $312.42 billion year-to-date to $280.33 billion), Mexico (down from $240.25 billion to $236.38 billion), China (down from $123.68 billion to $116.19 billion) and Japan (down from $66.83 billion to $62.47 billion). In addition, exports of manufactured goods to Europe, our second largest region after North America, also dropped year-to-date (down from $333.29 billion to $320.55 billion).

ISM Manufacturing Purchasing Managers' Index

The Institute for Supply Management (ISM) found manufacturing sentiment to remain somewhat negative in January. The Purchasing Managers' Index (PMI) for the sector edged marginally higher, up from 48.0 in December to 48.2 in January, but remained at less than 50 for the fourth straight month, suggesting contracting sentiment among manufacturers over that time frame. This mainly reflected deteriorating employment (down from 48.0 to 45.9) and inventories (unchanged at 43.5), with the decline in hiring at its lowest level since June 2009, the last official month of the Great Recession. Indeed, manufacturers continue to worry about the impact of the global slowdown as we start the new year, as illustrated by export growth

(down from 51.0 to 47.0). The exports index has contracted in seven of the past eight months on the strong dollar and soft growth abroad.

Yet, the report was not all bad news. New orders (up from 48.8 to 51.5) grew at their fastest rate in five months, rebounding after two consecutive months of declining demand. In addition, production (up from 49.9 to 50.2) appears to have stabilized, with output expanding ever so marginally in January. As such, production was very soft, but—and this is the key—positive. Also positive was the fact that pricing pressures (unchanged at 33.5) continue to be quite minimal, pushed lower by falling energy prices. Of course, declining commodity prices negatively impact manufacturing activity, as we have seen in the energy sector and its supporting supply chain.

Personal Income and Spending

The Bureau of Economic Analysis reported that personal spending slowed in December, up just 0.1 percent following a 0.5 percent increase in November. As such, it suggests that Americans pulled back their purchases at year's end, mirroring other data showing soft retail sales. Indeed, durable and nondurable goods spending both dipped for the month, down 0.7 percent and 0.2 percent, respectively. Reduced motor vehicle sales (down 3.3 percent) pulled the durable goods figure lower. Service sector spending increased 0.3 percent. With that said, personal consumption expenditures have risen 3.2 percent over the past 12 months, a modest pace. This was down, however, from 4.0 percent one year ago.

At the same time, personal income rose by 0.3 percent in December. On a year-over-year basis, personal incomes have grown 4.2 percent since December 2014. Meanwhile, total manufacturing wages and salaries fell from $826.8 billion in November to $815.6 billion in December. Despite the lower figure in this report, these have generally trended in the right direction, with averages of $780.9 billion and $806.3 billion in 2014 and 2015, respectively. The savings rate increased from 5.3 percent to 5.5 percent. Since falling to 4.8 percent in May, the savings rate has trended higher, supporting the notion that Americans are holding back a little in their consumer spending.

In other news, the personal consumption expenditure (PCE) deflator declined by 0.1 percent in December, pulled lower by falling energy costs (down 2.6 percent). Energy prices were off 13.6 percent year-over-year. Excluding food and energy, the PCE deflator remained unchanged, with core inflation up 1.4 percent over the past year. Each suggests that overall pricing pressures remain quite minimal for now.

Productivity and Costs

The Bureau of Labor Statistics reported a decline in manufacturing labor productivity by 0.4 percent in the fourth quarter, pulling back after decent gains in the prior two quarters. Output grew by just 0.5 percent in the fourth quarter, down from 3.2 percent in the third quarter. Hourly compensation costs ticked up 3.0 percent, pushing unit labor costs up 3.6 percent. In general, we want unit labor costs to fall, as the improvements in efficiency help to make manufacturers more competitive globally.

For 2015 as a whole, labor productivity in the sector increased 1.3 percent, the same pace as in 2014, with output and unit labor costs up 2.2 percent and 1.3 percent, respectively. Over the longer term, however, manufacturers have benefited from leaner workforces in recent years, with unit labor costs down 9.8 percent since the end of the Great Recession. Durable goods firms have fared even better, with unit labor costs down 15.2 percent in that time frame.

Looking more closely at the fourth quarter data, labor productivity for durable goods firms fell 1.0 percent, with output down 0.2 percent and unit labor costs up 4.6 percent. The decline in output for durable goods followed a 3.9 percent gain in the prior report, and it reflects recent softness in export markets and more-cautious domestic demand. In contrast, nondurable goods manufacturers saw labor productivity growth increase marginally, up 0.3 percent, in the fourth quarter, slowing from the 2.2 percent gained in the third quarter. For nondurable goods businesses, output increased 1.5 percent, with unit labor costs up 2.3 percent.

In the larger economy, nonfarm labor productivity fell 3.0 percent in the fourth quarter. This marks the steepest decline since the first quarter of 2014. Output increased by just 0.1 percent, with unit labor costs jumping 4.5 percent. In 2015, output grew 0.6 percent, just slightly lower than the 0.7 percent gain seen in 2014. Output rose 2.8 percent for the year as a whole, with unit labor costs up 2.4 percent.

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Questions or comments?

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