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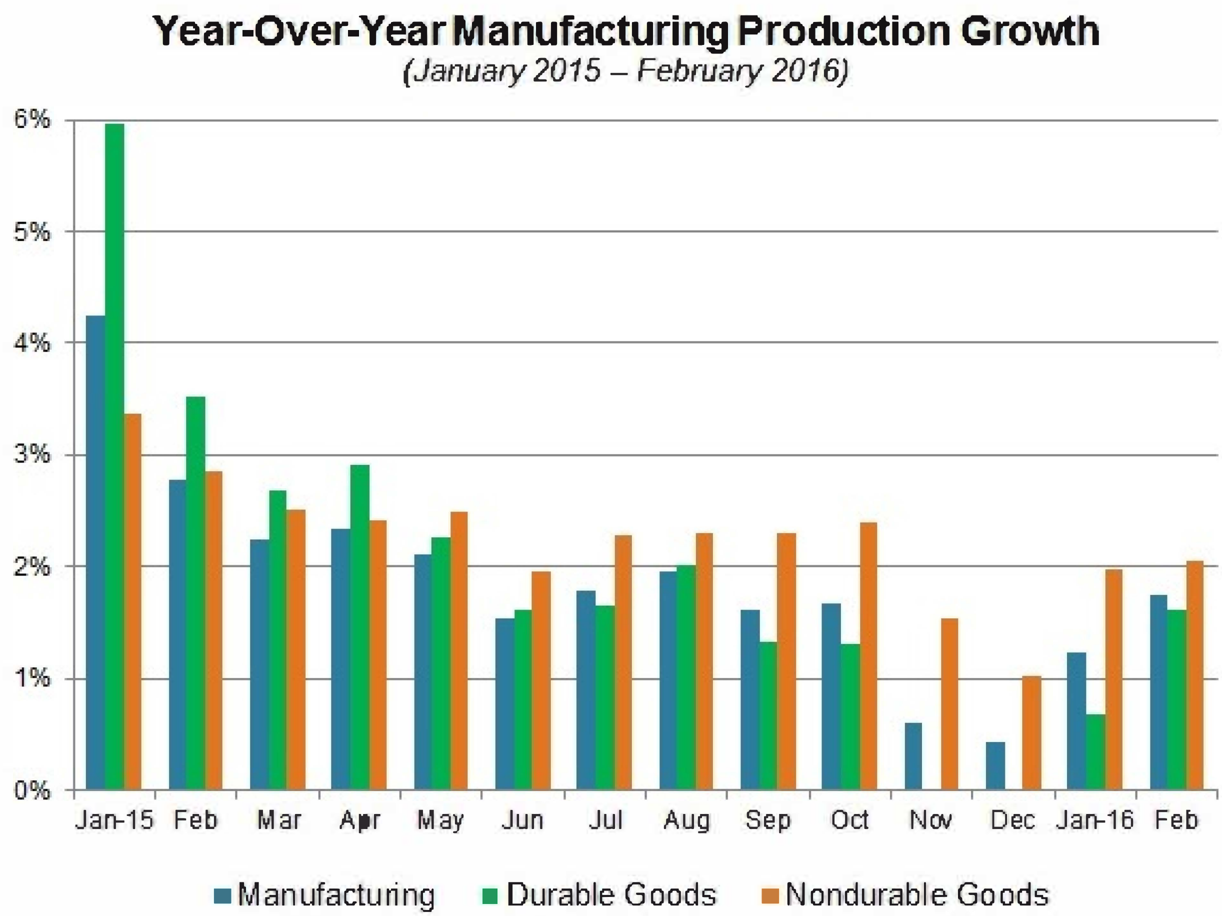

Despite ongoing challenges, there were signs in the broader U.S. economy that the manufacturing sector was beginning to stabilize. For instance, manufacturing production grew 0.2 percent in February, extending the 0.5 percent gain in January. Output in the sector has increased 1.8 percent over the past 12 months, an improvement after decelerating to just 0.4 percent in December. To be clear, manufacturing activity remains weaker than we would prefer, particularly given the difficulties in growing export demand and with soft commodity prices. Those headwinds can be seen in the total production data, which declined 0.5 percent in February, falling for the fourth time in the past five months. The decrease stemmed from weaker production for utilities and mining, with warmer weather and reduced energy prices negatively impacting these figures.

Manufacturing surveys from the New York and Philadelphia Federal Reserve Banks reported positive sentiment in the sector in their districts in March for the first time in several months. Each noted stronger growth for new orders and shipments in the latest data, even as the labor market and inventory figures remain soft. In both regions, roughly half of the respondents expect their sales to increase over the next six months, which was encouraging. At the same time, the Bureau of Labor Statistics reported that manufacturing job openings rose to the fastest pace in six months. This provides some optimism for faster hiring growth moving forward, especially once demand and production accelerate again. In the larger economy, nonfarm job openings accelerated to 5,541,000, which was somewhat shy of the all-time high of 5,788,000 in July.

Turning to residential construction, new housing starts rose 5.2 percent to an annualized 1,178,000 in February. The data continue to reflect a housing market that is making slow-but-steady progress in the right direction, particularly over the longer term. Along those lines, new housing starts have jumped 30.9 percent year-over-year, up from just 900,000 units in February 2015. The bulk of that growth stemmed from the single-family segment, which has increased 37.0 percent year-over-year. Housing permits pulled back somewhat in February, but they remained 6.3 percent higher than the pace a year earlier. Overall, the housing market continues to be resilient even with some softer-than-desired data in recent months. We would expect to see better data moving forward, building to 1.25 million units or better by year's end. For that reason, homebuilders remain optimistic about single-family sales over the next six months.

The University of Michigan and Thomson Reuters reported that consumer confidence fell to a five-month low in March, according to preliminary data. This suggests that Americans remain quite wary about the economic outlook. In general, consumer sentiment has waned somewhat since reaching a post-recessionary high in January 2015. With that context in mind, retail sales declined 0.1 percent in February. On the surface, this release indicates softer-than-desired spending so far in 2016. Yet, the year-over-year pace remains decent, up a modest 3.1 percent since February 2015. Much of the decline over the past two months has stemmed from reduced gasoline prices. Excluding gasoline station sales, retail spending rose 0.2 percent in February, and on a year-over-year basis, that figure was 4.8 percent. That suggests a much healthier pace of consumer spending than the headline number might indicate.

The Federal Open Market Committee (FOMC) chose to keep short-term interest rates unchanged, as expected, at its March 15–16 meeting. Coming into 2016, conventional wisdom held that the Federal Reserve would raise the federal funds rate as much as four times this year, building on the 25 basis point increase made during the December 15–16 meeting. Yet, in the interim, the global economic environment has been highly volatile, with softer-than-desired economic activity and lingering outlook worries among businesses. In the FOMC's statement, participants acknowledged these challenges, but also noted that "economic activity has been expanding at a modest pace."

The Federal Reserve also released its economic projections, and the data make it clear that FOMC participants had slightly downgraded their forecasts for growth for 2016 and 2017. The Federal Reserve now predicts 2.2 percent real GDP growth in 2016, down from 2.4 percent in December, and 2.1 percent growth in 2017, down from 2.2 percent. The Federal Reserve also expects the unemployment rate to fall to 4.7 percent in 2016 and to 4.6 percent in 2017. In addition, core inflation is seen remaining below 2.0 percent. Yet, the Federal Reserve expects inflationary pressures to pick up from currently low levels as the effect of energy price declines and the labor market improves further. Looking at the latest data, both consumer and producer prices decreased in February, even as core inflationary pressures picked up slightly in both reports.

From a financial markets perspective, the economic projections also provide a signal about the number of future rate increases. Participants now see the effective federal funds rate rising to 0.9 percent by year's end, down from 1.4 percent in December. Given that the current target range for the federal funds rate is between 0.25 and 0.50 percent, this would suggest two more increases in 2016, instead of four as predicted in December. As such, this keeps a rate hike at either the April 26–27 or June 14–15 meetings on the table, with the latter being more likely. The Federal Reserve will be looking for broader progress in the U.S.

economic data, and we hope this includes improved manufacturing activity.

This week, we will get more data on manufacturing activity, including Markit Flash Manufacturing PMIs for the United States and Eurozone, which will be released on Tuesday. In February, U.S. manufacturing activity grew at its slowest pace since October 2012, according to Markit, with Europe also easing due to global headwinds. We hope the March data will begin to show some improvement from this weakness. In addition, we will also look for progress in the Kansas City and Richmond Federal Reserve Bank manufacturing surveys, with the Census Bureau releasing new figures for durable goods orders and shipments as well. Other highlights this week include new figures for existing and new home sales, the second revision to fourth quarter GDP and state employment for February.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, March 14
State Employment Report (January)

Tuesday, March 15
NAHB Housing Market Index
New York Fed Manufacturing Survey
Producer Price Index
Retail Sales

Wednesday, March 16
Consumer Price Index
FOMC Monetary Policy Statement
Housing Starts and Permits
Industrial Production

Thursday, March 17
Conference Board Leading Indicators
Job Openings and Labor Turnover Survey
Philadelphia Fed Manufacturing Survey

Friday, March 18
University of Michigan Consumer Sentiment

This Week's Indicators:

Monday, March 21
Existing Home Sales

Tuesday, March 22
Markit Flash Manufacturing PMIs for the United States and Eurozone
Richmond Fed Manufacturing Survey

Wednesday, March 23
New Home Sales

Thursday, March 24
Durable Goods Orders and Shipments
Kansas City Fed Manufacturing Survey

Friday, March 25
Gross Domestic Product (Second Revision)
State Employment Report (February)

Summaries for Last Week`s Economic Indicators

Conference Board Leading Indicators

The Conference Board's Leading Economic Index (LEI) increased 0.1 percent in February, bouncing back slightly after declining in both December and January. The LEI rose from 123.1 in January to 123.2 in February, bringing the index back to where it was in October. Manufacturing continued to provide a drag on the LEI in February, with new orders subtracting 0.1 percentage points from the headline number. Other negatives included building permits, consumer confidence and the S&P 500. On the other hand, strength in weekly unemployment claims, the interest rate spread and overall lending conditions lifted the LEI.

Meanwhile, the Coincident Economic Index (CEI), which assesses current conditions, also rose 0.1 percent in February. Industrial production fell once again for the month, even as manufacturing output expanded for the second straight month (see below). Nonetheless, the decline in total industrial production subtracted 0.07 percentage points from the CEI in February. The other three components—nonfarm payrolls, personal income and manufacturing and trade sales—were positive contributors to the index.

Consumer Price Index

The Bureau of Labor Statistics reported that consumer prices declined 0.2 percent in February, pulling back after being unchanged in January. Across the past 12 months, the consumer price index has increased 1.0 percent. Energy prices fell 6.0 percent for the month, but core inflation, which excludes food and energy prices, increased 0.3 percent. On the energy front, gasoline prices fell 13.0 percent in February, extending the 4.8 percent declines in both December and January. Meanwhile, higher prices for fruits and vegetables, nonalcoholic beverages and cereal and baking products helped to boost food costs 0.2 percent for the month.

Strong gains for apparel, medical care, new and used vehicles, shelter expenses and transportation services helped fuel core consumer prices. On a year-over-year basis, core inflation was 2.3 percent, up from 1.8 percent six months ago. This was the highest year-over-year level for core inflation in nearly four years. Yet, overall pricing pressures remain in control for now, providing the Federal Reserve some flexibility as it decides when to raise short-term interest rates once more.

Housing Starts and Permits

The Census Bureau and the U.S. Department of Housing and Urban Development reported that new housing starts rose 5.2 percent, up from an annualized 1,120,000 in January to 1,178,000 in February. The January starts figure was estimated originally to be 1,099,000 units; therefore, the decline from severe winter weather in the prior report was not as bad as previously thought. More importantly, the data continue to reflect a housing market that is making slow-but-steady progress in the right direction, particularly over the longer term. Along those lines, new housing starts have jumped 30.9 percent year-over-year, up from just 900,000 units in February 2015. The bulk of that growth stemmed from the single-family segment, which has increased 37.0 percent year-over-year.

Single-family (up from 767,000 to 822,000) and multifamily (up from 353,000 to 356,000) housing starts were both higher for the month, but the largest gains were clearly in the former. Indeed, the February pace for single-family housing starts was the fastest since November 2007, marking a post-recessionary high. Multifamily activity has had larger swings from month to month. While starts in the multifamily segment were up 18.7 percent from the 300,000-unit pace in February 2015, activity was off from the 390,000 units in December.

Meanwhile, the housing permits data pulled back somewhat in this report, down from 1,204,000 in January to 1,167,000 in February. This was not far from the average of 1,187,167 over the past six months, even as it continued to represent a 6.3 percent year-over-year gain from the 1,098,000 housing permits in February 2015. Single-family permitting was more encouraging (up from 728,000 to 731,000), being only marginally below the 732,000-unit pace in December, which was an eight-year high. The decline came from the multifamily segment (down from 476,000 to 436,000).

Overall, the housing market has remained resilient even with some softer-than-desired data in recent months. We would expect to see improved data moving forward, building to 1.25 million units or better by year's end.

Industrial Production

Manufacturing production grew 0.2 percent in February, extending the 0.5 percent gain in January. As such, output in the sector has begun 2016 on a somewhat stronger note than it ended 2015. To be clear, manufacturing activity remains weaker than we would prefer, particularly given the difficulties in growing export demand and with soft commodity prices. Still, manufacturing output has increased 1.8 percent over the past 12 months, up from 0.5 percent in December and 1.2 percent in January. However, production growth slowed considerably last year, with the year-over-year rate of manufacturing output down from 4.3 percent in January 2015. Capacity utilization for manufacturers was unchanged at 76.1 percent in February.

Looking more closely at the February data, the sector-by-sector breakdown was mixed, particularly with the growth rate easing from January's pace. Durable goods manufacturing production increased 0.4 percent in February, but output from nondurable goods firms fell 0.1 percent.

The largest gains were in apparel and leather (up 3.0 percent), petroleum and coal products (up 2.5 percent), miscellaneous durable goods (up 0.9 percent), primary metals (up 0.8 percent), computer and electronic products (up 0.7 percent), electrical equipment and appliances (up 0.7 percent) and plastics and rubber products (up 0.6 percent). In contrast, sectors with declining production in February included textile and product mills (down 1.3 percent), wood products (down 1.2 percent), food, beverage and tobacco products (down 0.7 percent), chemicals (down 0.3 percent), fabricated metal products (down 0.1 percent) and motor vehicles and parts (down 0.1 percent).

On a more positive note, sectors with the greatest year-over-year growth were motor vehicles and parts (up 9.1 percent), electrical equipment and appliances (up 7.4 percent), miscellaneous durable goods (up 5.8 percent), wood products (up 3.9 percent) and furniture and related products (up 3.6 percent).

Meanwhile, total industrial production declined 0.5 percent in February, falling for the fourth time in the past five months. The decrease stemmed from weaker production for utilities (down 4.0 percent) and mining (down 1.4 percent). Warmer weather and reduced energy prices have impacted these figures. Capacity utilization dropped from 77.1 percent to 76.7 percent. Over the past 12 months, industrial production has fallen 1.0 percent, pulled lower by 9.9 percent and 9.3 percent year-over-year declines in mining and utilities, respectively.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics reported that there were 336,000 manufacturing job openings in January, the fastest pace in six months. It is worth noting that the number of job postings in December was revised lower, down from an original estimate of 365,000 openings to 317,000. In general, job openings pulled back in the second half of 2015 after reaching an all-time high in July of 366,000. Overall, the number of job postings has exceeded 300,000 in 11 of the past 13 months, and this provides some optimism for faster hiring growth moving forward, especially once demand and production accelerate again. Both durable (up from 174,000 to 183,000) and nondurable (up from 143,000 to 153,000) goods manufacturers posted more jobs in January, with the openings for nondurable goods firms achieving a new record level.

Manufacturers hired 277,000 workers in January, up from 274,000 in December. Hiring for durable goods businesses increased (up from 163,000 to 168,000), but this was offset slightly by a decline from nondurable goods manufacturers (down from 112,000 to 110,000). At the same time, manufacturing job separations, which include quits, layoffs and retirements, dropped for the fifth straight month, down from 263,000 to 258,000. As such, net hiring (or hires minus separations) was 19,000 in January, up from 11,000 in both November and December. This was good news in that it suggests that hiring has stabilized from net declines in the autumn months.

In the larger economy, nonfarm job openings accelerated from 5,281,000 to 5,541,000. This was shy of the all-time high of 5,788,000 in July, but it remained a very strong figure. There were increased job openings in nearly every major sector except for educational services, financial activities, information and state and local government. Beyond job openings, net hiring in the overall economy decreased from 273,000 to 126,000, a relatively soft pace.

NAHB Housing Market Index

The National Association of Home Builders and Wells Fargo reported that sentiment was unchanged in March. The Housing Market Index remained at 58 for the second straight month. Numbers greater than 50 indicate that more homebuilders are confident in their outlook than negative, and this measure has achieved that threshold every month since July 2014, showing that builders continue to cite progress in the housing market. At the same time, confidence has ebbed somewhat since October's post-recessionary peak of 65, with softer-than-desired activity dampening enthusiasm slightly.

Nonetheless, homebuilders remain optimistic about single-family sales over the next six months. The sales index of expected single-family activity was 65 in March, unchanged from the month before. While this was down from 75 in October, the data continue to indicate strong demand expectations in the outlook.

New York Fed Manufacturing Survey

The Empire State Manufacturing Survey stabilized in March, with the headline index expanding for the first time since July. The composite index of general business conditions increased from -16.6 in February to 0.6 in March. New orders (up from -11.6 to 9.6) and shipments (up from -11.6 to 13.9) both shifted into positive territory in March, with modest growth after several months of declines. The percentage of respondents suggesting that their sales had risen for the month rose from 22.5 percent in February to 34.9 percent in March. Still, one-quarter of respondents noted declining new orders in March, with 39.8 percent observing no change.

Even with some progress in March, the labor market data remained soft. The index for employment declined further for the month (down from -1.0 to -2.0). Yet, the average workweek expanded for the first time since July (up from -5.9 to 2.0), mirroring the overall index. At the same time, inventories contracted once again (down from 0.0 to -6.9).

Meanwhile, manufacturers in the district were more upbeat about the next six months. The forward-looking composite index jumped from 14.5 to 25.5, its highest level in three months, and most of the key subcomponents were higher in March, including new orders (up from 22.2 to 39.0), shipments (up from 23.8 to 33.3), the average workweek (up from 0.0 to 5.0), capital expenditures (up from 12.9 to 15.8) and technology spending (up from 5.9 to 9.9). Indeed, 52.5 percent of respondents expect new orders to increase in the months ahead, which is encouraging. Hiring was also expected to rise modestly (down from 16.8 to 12.9), but at a slower pace than in the prior report.

Philadelphia Fed Manufacturing Survey

The Federal Reserve Bank of Philadelphia reported that manufacturing activity rebounded in March following six straight months of contraction. The composite index of general business activity increased from -2.8 in February to 12.4 in March. This was an encouraging sign that manufacturers were starting to see some improvements in activity after months of weakness. Along those lines, new orders (up from -5.3 to 15.7) and shipments (up from 2.5 to 22.1) were each up strongly in March. Indeed, 36.7 percent of respondents in this survey reported increased sales in March, up from 28.3 percent in February, and the percentage citing declining orders dropped from 33.6 percent to 21.0 percent.

Nonetheless, there were indicators showing lingering softness. While the average workweek widened for just the second time in the past six months (up from -12.9 to 5.7), employment growth remained in negative territory (up from -5.0 to -1.1), albeit with some easing in the pace of decline. Two-thirds of respondents said that hiring was unchanged in March, with 15.5 percent noting increased employment. Meanwhile, inventories contracted for the ninth consecutive month (up from -17.1 to -12.7).

Looking ahead six months, manufacturers in the district remain cautiously upbeat about activity in their economic outlook. The forward-looking composite index jumped from 17.3 to 28.8, its highest level in four months. Moreover, nearly 50 percent of respondents expect sales to increase over the next six months, with 47.1 percent predicting increased shipments. In addition, the outlook for both employment (up from 2.3 to 6.3) and capital expenditures (up from 2.5 to 13.3) accelerated for the month.

One-quarter of manufacturing leaders in the region anticipate a pickup in investment, and in a special question, capital expenditures for non-computer equipment and software are predicted to grow at a faster rate this year than last. However, there are pullbacks in investment for computers and related hardware, energy-saving investments and structures.

Producer Price Index

The Bureau of Labor Statistics reported that producer prices for final goods and services decreased 0.2 percent in February, pulling back somewhat after eking out a 0.1 percent gain in January. At the same time, producer prices for final demand goods fell 0.6 percent, declining for the third straight month. This was mainly due to decreased energy costs, which declined 3.5 percent, 5.0 percent and 3.4 percent in December, January and February, respectively. Indeed, the price of West Texas Intermediate crude oil fell from $40.43 per barrel on November 30 to $26.19 per barrel on February 11, its lowest level since 2002. On a year-over-year basis, producer prices for final demand energy goods have decreased 14.7 percent since February 2015.

Meanwhile, food costs were also lower in February, down 0.3 percent. Reduced prices for bakery products, beef and veal, fish and shellfish, fresh and dry vegetables, grains, pasta products, oilseeds and rice helped to lower overall food costs. In contrast, the largest gains in prices for food items came from eggs, fresh fruits and melons, pork, poultry and shortening and cooking oils. Food costs have trended lower over the past 12 months, down 2.5 percent.

Since February 2015, producer prices for final demand goods and services were unchanged, its first non-negative reading in 13 months. Core inflation, which excludes food and energy prices, was 1.1 percent in February, up from 0.7 percent in January. Despite the uptick, overall pricing pressures remain under control for now, with core producer prices remaining below the Federal Reserve's stated goal of 2 percent for 21 straight months.

Retail Sales

The Census Bureau reported that retail sales declined 0.1 percent in February, but perhaps more importantly, spending fell 0.4 percent in January. January retail sales were reported originally to be a gain of 0.2 percent. On the surface, this release indicates softer-than-desired spending so far in 2016. Yet, the year-over-year pace remains decent, up a modest 3.1 percent since February 2015.

Much of the decline over the past two months has stemmed from reduced gasoline prices. Indeed, the average price of regular conventional gasoline, according to the Energy Information Administration, fell from $1.93 per gallon the last week of December to a seven-year low of $1.64 a gallon in mid-February. Along those lines, gasoline station sales, which are reported in nominal dollars, fell 3.3 percent and 4.4 percent in January and February, respectively. Excluding gasoline station sales, retail spending rose 0.2 percent in February, and on a year-over-year basis, that figure was 4.8 percent. That suggests a much healthier pace of consumer spending than the headline number might indicate.

Other retail sales data for February were mixed. On the positive side, there were rebounds for spending on building material and garden supplies (up 1.6 percent), sporting goods and hobbies (up 1.2 percent), food services and drinking places (up 1.0 percent), clothing and accessories (up 0.9 percent) and health and personal care (up 0.7 percent). In contrast, retailers that saw declining sales for the month included miscellaneous store retailers (down 1.1 percent), furniture and home furnishings (down 0.5 percent), food and beverage stores (down 0.2 percent), general merchandise stores (down 0.2 percent), motor vehicle and parts dealers (down 0.2 percent), nonstore retailers (down 0.2 percent) and electronics and appliances (down 0.1 percent).

State Employment Report (January)

Michigan created the most net new manufacturing jobs in January, according to the Bureau of Labor Statistics, adding 5,200 workers for the month. Texas (up 4,300), Pennsylvania (up 3,200), New York (up 3,000) and North Carolina (up 2,700) also topped the list of manufacturer employment gains in January. In addition, Michigan has also generated the greatest job gains in the sector over the past 13 months, with manufacturing employment up 16,500 since December 2014. Other states with the fastest job growth over that period included Georgia (up 13,900), Florida (up 13,400), Tennessee (up 11,000) and Ohio (up 9,700).

The national employment rate fell to 4.9 percent in January. The lowest unemployment rates in the country were in North Dakota and South Dakota, with both at 2.8 percent. A number of states were not far behind, including New Hampshire (2.9 percent), Nebraska (3.0 percent), Colorado (3.2 percent) and Hawaii (3.2 percent). In contrast, the highest unemployment rates were in Mississippi (6.7 percent), Alaska (6.6 percent), New Mexico (6.5 percent), the District of Columbia (6.5 percent), Illinois (6.3 percent) and West Virginia (6.3 percent).

University of Michigan Consumer Sentiment

The University of Michigan and Thomson Reuters reported that consumer confidence fell to a five-month low in March, according to preliminary data. The Index of Consumer Sentiment declined from 91.7 in February to 90.0 in March, its lowest level since October. This suggests that Americans remain quite wary about the economic outlook, which can be seen in decreases for the current (down from 106.8 to 105.6) and expected (down from 81.9 to 80.0) measures.

Overall, consumer confidence has remained ebbed since reaching a post-recessionary high of 98.1 in January 2015, and the release suggests that the latest data reflect an "expectation that gas prices would inch upward during the year ahead." Nonetheless, Richard Curtin, the chief economist for the Survey of Consumers at the University of Michigan, said that survey responses "are still consistent with a 2.7 percent rate of growth in personal consumption expenditures during 2016."

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Questions or comments?

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Center for Manufacturing Research