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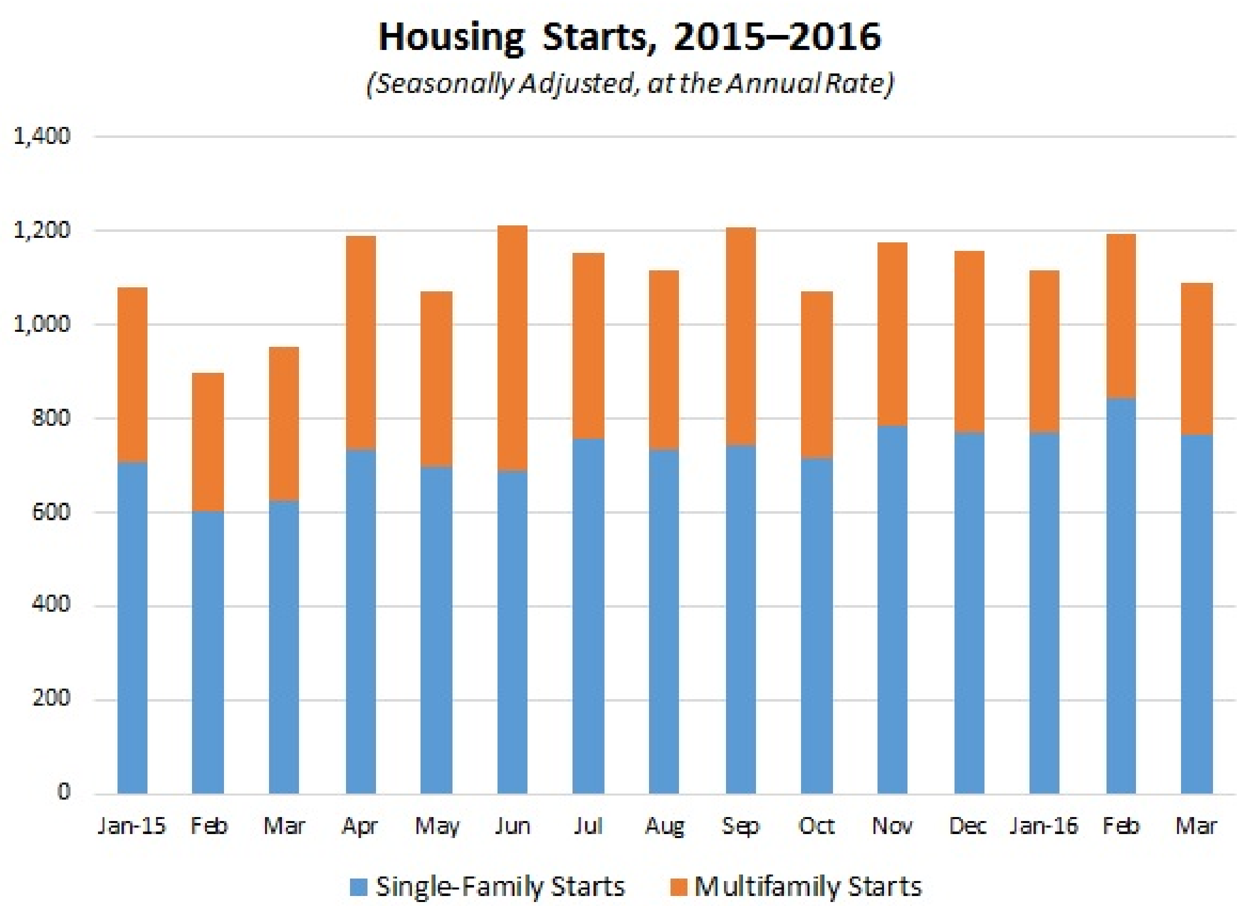

Building on disappointing hiring, production and retail numbers this month, the housing data out last week provided another discouraging economic measure for us to absorb. New housing starts fell 8.8 percent, down from an annualized 1,194,000 in February to 1,089,000 in March. This was a surprising drop, with the consensus estimate calling for roughly 1,180,000 units being started for the month. Single-family activity slowed to a five-month low, with the highly volatile multifamily component decreasing to its slowest pace in 13 months. Housing permits were also soft in March, down from 1,177,000 at the annual rate to 1,086,000, its lowest level in 12 months.

With that said, residential construction has been one of the better aspects in the U.S. economy over the past year, and even with the sharp decline in this report, housing starts rose 14.2 percent year-over-year, up from 954,000 in March 2015. The bulk of that growth stemmed from the single-family segment, which has increased 22.6 percent year-over-year. Overall, the housing market has remained 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 by year's end. Indeed, that optimism continues to fuel sentiment among homebuilders, which remain cautiously upbeat about single-family unit sales over the next six months. At the same time, the news on existing home sales was better, up 5.1 percent in March, with low inventories as the main challenge in that segment.

Meanwhile, the manufacturing releases out last week were also weak. For instance, U.S. manufacturing activity grew at the slowest pace since September 2009, with the Markit Flash U.S. Manufacturing PMI decreasing from 51.5 in March to 50.8 in April. Activity in the sector has decelerated significantly over the past 12 months, with the main PMI number down from 54.2 in April 2015. In addition, the Federal Reserve Bank of Philadelphia reported that manufacturing activity declined again after rebounding in March. These reports stand in sharp contrast to the better-than-expected sentiment from the Institute for Supply Management (ISM). In that release, new orders and output both grew surprisingly strong in March, lifting its manufacturing PMI value above 50 for the first time since August. It provided some encouragement after months of softness, even with ongoing challenges, and it helped to fuel the narrative that manufacturing activity was beginning to stabilize.

Looking abroad, the Markit Flash Eurozone Manufacturing PMI declined from 51.6 in March to 51.5 in April, with growth remaining somewhat subdued. The February level (51.2) was a 12-month low, with this latest figure not far from that level. Overall, Eurozone manufacturers have now reported expanding activity levels every month since June 2013, albeit with weaker growth than desired. More than anything, this report shows that Europe is not immune to the softening in manufacturing activity seen worldwide. Markit also released preliminary PMI data for France and Germany, which continue to move in opposite directions. French manufacturers reported a second straight contraction with new orders plunging, whereas German survey respondents noted rebounding demand and production in April. Even with very modest manufacturing growth on the continent, the European Central Bank is likely to continue its efforts to stimulate the economy.

The net result of the recent slew of discouraging economic news has been a downgrading of expectations on the part of many business leaders. Economists responding to the latest Business Conditions Survey from the National Association for Business Economics said that sales growth fell to its lowest level in seven years, with particular weakness for goods-producing firms, such as manufacturing. Hiring and capital spending activity also fell sharply for goods producers. Yet, businesses were somewhat upbeat about activity improving over the next three months, with 46 percent anticipating rising sales and 31 percent predicting improved profit margins. The Philadelphia Federal Reserve Bank's survey also noted better sales and shipments growth moving forward, providing some encouragement for the future.

Other measures of the national economy were mixed. The Conference Board's Leading Economic Index rebounded in March, boosted by stronger new orders in the above-mentioned ISM report, among other factors. In contrast, reduced industrial production served as a drag on the Chicago Federal Reserve Bank's National Activity Index, which decreased from -0.38 in February to -0.44 in March. It fell for the second straight month, continuing to suggest that the U.S. economy is growing below its historical trend.

We will get our first look at first-quarter real GDP growth on Thursday, with consensus estimates of around 1 percent or lower. Still, the outlook is for roughly 2 percent growth for 2016 as a whole, which should signal some progress in economic output moving forward. We hope this includes better manufacturing data and will get a fresh look at how the sector is doing with surveys this week from the Kansas City and Richmond Federal Reserve Banks and from preliminary figures on durable goods orders and shipments for March.

Beyond those numbers, the largest headline will come from the Federal Open Market Committee (FOMC) meeting, which concludes on Wednesday. The Federal Reserve is not likely to make any changes to its monetary policies at that meeting, but analysts will be watching closely for signs on the pace of future normalization. I would expect for the FOMC to raise short-term rates again by 25 basis points at its June meeting. Other highlights week include the latest data on consumer confidence, employment costs, international trade in goods, new home sales and personal income and spending.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, April 18
NABE Business Conditions Survey
NAHB Housing Market Index

Tuesday, April 19
Housing Starts and Permits

Wednesday, April 20
Existing Home Sales

Thursday, April 21
Chicago Fed National Activity Index
Conference Board Leading Indicators
Gross Domestic Product by Industry
Philadelphia Fed Manufacturing Survey

Friday, April 22
Markit Flash Manufacturing PMIs for the United States and Eurozone

This Week's Indicators:

Monday, April 25
Dallas Fed Manufacturing Survey
New Home Sales

Tuesday, April 26
Conference Board Consumer Confidence
Durable Goods Orders and Shipments
Richmond Fed Manufacturing Survey

Wednesday, April 27
FOMC Monetary Policy Statement
International Trade in Goods (Preliminary)

Thursday, April 28
Gross Domestic Product
Kansas City Fed Manufacturing Survey

Friday, April 29
Employment Cost Index
Personal Income and Spending
University of Michigan Consumer Sentiment (Revised)

Summaries for Last Week`s Economic Indicators

Chicago Fed National Activity Index

The U.S. economy slipped a little further beyond its potential in March, according to the Chicago Federal Reserve Bank. The National Activity Index (NAI) decreased from -0.38 in February to -0.44 in March, with this measure below zero for the second straight month or in 12 of the past 15 months. Negative numbers indicate that the U.S. economy is growing below its historical trend, and when the three-month moving average falls below -0.70, the risk of recession is increased. The three-month moving average dropped from -0.11 to -0.18, which would indicate that a recession was still not likely even as economic growth remained less than desired.

Manufacturing was one factor in pulling the NAI lower in March, with industrial production falling for the second consecutive month. Consumer spending, hiring and housing were also drags on the NAI for the month.

Conference Board Leading Indicators

The Conference Board's LEI increased 0.2 percent in March, rebounding from declines in each of the prior three months. Stronger-than-expected growth in manufacturing new orders, as seen in the most recent ISM report, helped to boost the LEI in March. Other positive contributors to the LEI for the month included the S&P 500, the interest rate spread and overall lending conditions. On the other hand, building permits and unemployment claims served as a drag for the LEI in March, with neutral contributions from the average workweek and consumer confidence.

Meanwhile, the Coincident Economic Index (CEI), which assesses current conditions, was unchanged in March. Industrial production fell once again for the month, including for manufacturing. The decline in industrial production subtracted 0.09 percentage points from the CEI in March. The other three components —nonfarm payrolls, personal income and manufacturing and trade sales—were positive contributors to the index.

Existing Home Sales

The National Association of Realtors® reported that existing home sales rose 5.1 percent, up from 5.07 million units at the annual rate in February to 5.33 million units in March. While less than the 5,470,000 pace in January, it was not far from the average over the past 12 months of 5,293,333 units. On a year-over-year basis, existing home sales have edged up from 5,250,000 in March 2015, an increase of 1.5 percent. In March, sales of existing single-family homes increased 5.5 percent, up from 4.51 million to 4.76 million, with condo and co-op sales rising 1.8 percent from 560,000 to 570,000. The largest gains were in the Midwest and Northeast.

At the same time, inventories of existing homes for sale remain low. There were 4.5 months of supply on the market in March. That represented some progress after inventories plummeted to 3.9 months of supply in December, but it was below the 2015 average of 4.9 months of supply as a whole. The reduction in supply has pushed prices higher, with an average price in March of $222,700. That was up 5.7 percent year-over-year from $210,700 in March 2015.

Gross Domestic Product by Industry

Manufacturers produced $2.18 trillion in value-added output in the fourth quarter of 2015, according to the Bureau of Economic Analysis. This represented a decline of 0.4 percent from the third quarter, a reflection of recent weaknesses in the sector due to global headwinds and reduced commodity prices. This level included $1.19 trillion in value-added output from durable goods firms, with $0.99 trillion stemming from nondurable goods manufacturing companies. Overall, manufacturers represented 12.0 percent of GDP in the fourth quarter.

Real GDP expanded 1.4 percent in the fourth quarter, and manufacturers contributed 0.29 percentage points to that figure. Other major industry contributors included information (0.49 percent), professional and business services (0.46 percent), construction (0.30 percent), educational services, health care and social assistance (0.16 percent) and arts, entertainment, recreation, accommodation and food services (0.10 percent). Mining (-0.17 percent), transportation and warehousing (-0.09 percent), utilities (-0.09 percent), finance, insurance, real estate, rental and leasing (-0.07 percent) and government (-0.05 percent) served as drags on real GDP growth in the fourth quarter.

Housing Starts and Permits

The Census Bureau and the U.S. Department of Housing and Urban Development reported that new housing starts fell 8.8 percent, down from an annualized 1,194,000 in February to 1,089,000 in March. This was a surprising drop, with the consensus estimate calling for roughly 1,180,000 units being started for the month. Both single-family (down from 841,000 to 764,000) and multifamily (down from 353,000 to 325,000) starts were lower for the month, with declines in every region except for the Northeast. Single-family activity slowed to a five-month low, with the highly volatile multifamily component decreasing to its slowest pace in 13 months.

With that said, residential construction has been one of the better aspects in the U.S. economy over the past year, and even with the sharp decline in this report, housing starts rose 14.2 percent year-over-year, up from 954,000 in March 2015. The bulk of that growth stemmed from the single-family segment, which has increased 22.6 percent year-over-year.

Meanwhile, housing permits were also soft in March, down from 1,177,000 at the annual rate to 1,086,000, its lowest level in 12 months. The 7.7 percent decline in housing permits stemmed mainly from a drop in multifamily activity (down from 441,000 to 359,000), with single-family permitting also lower for the month (down from 736,000 to 727,000). Housing permits have increased 4.6 percent year-over-year, up from 1,038,000 in March 2015.

Overall, the housing market has remained 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 by year's end.

Markit Flash Manufacturing PMIs for the United States and Eurozone

U.S. manufacturing activity grew at the slowest pace since September 2009, according to preliminary figures from Markit. The Markit Flash U.S. Manufacturing PMI decreased from 51.5 in March to 50.8 in April. In general, the strong dollar and weaknesses abroad have dampened international demand and overall sentiment across the past year. Manufacturing activity has decelerated significantly over the past 12 months, with the main PMI number down from 54.2 in April 2015. In this report, output (down from 51.4 to 50.3) and hiring (down from 52.1 to 50.2) both pulled back to a near standstill, with exports contracting for the second time in the past three months (down from 50.0 to 48.5). On the other hand, new orders continued to expand modestly, but with some easing for the month (down from 52.8 to 52.0).

As such, this report stands in sharp contrast to the better-than-expected sentiment in the competing data from the ISM. In that release, new orders and output both grew surprisingly strong in March, lifting its manufacturing PMI value above 50 for the first time since August. It provided some encouragement after months of softness, even as other economic data, including this one from Markit, continue to suggest ongoing challenges.

Meanwhile, the Markit Flash Eurozone Manufacturing PMI declined from 51.6 in March to 51.5 in April, with growth remaining somewhat subdued. The February level (51.2) was a 12-month low, with this latest figure not far from that level. The headline index remained down from 53.2 in December, which had been its fastest pace since April 2014. The underlying data in April were mixed. On the positive side, exports (up from 51.0 to 51.6) and employment (up from 50.5 to 51.3) accelerated a bit for the month. At the same time, however, new orders (down from 52.0 to 51.9) and output (down from 52.7 to 52.5) both edged slightly lower in their growth rates. Overall, Eurozone manufacturers have now reported expanding activity levels every month since June 2013, albeit with weaker growth than desired.

More than anything, this report shows that Europe is not immune to the softening in manufacturing activity seen worldwide. Markit also released preliminary PMI data for France and Germany, which continue to move in opposite directions. German manufacturing activity rebounded in April to a three-month high (up from 50.7 to 51.9), led by stronger demand and production, whereas French manufacturers reported a second straight contraction (down from 49.6 to 48.3), with new orders declining at their fastest pace in 14 months (down from 47.8 to 45.7).

NABE Business Conditions Survey

The National Association for Business Economics reported that sales growth fell to its lowest level in seven years. In the latest Business Conditions Survey, the net rising index for sales dropped sharply from 32 in January to 4 in the latest survey, its smallest reading since April 2009. The percentage of respondents suggesting that their sales had fallen over the past three months rose from 15 percent in the last report to 25 percent this time, with 41 percent of goods-producing firms citing reduced sales. As a result, the net percentage saying that their profits were rising dropped from zero in January to -5 percent in April. With that said, businesses were cautiously optimistic about activity improving over the next three months, with 46 percent anticipating rising sales and 31 percent predicting improved profit margins.

The labor picture remained mixed. The net percentage of respondents suggesting that their employment levels rose over the past three months declined from 19 percent to 11 percent, but hiring mostly held up relative to the decreases seen elsewhere in the survey. Indeed, 29 percent of respondents said that employment had risen, with 18 percent suggesting that it had fallen and 53 percent citing unchanged levels. In contrast, the goods-producing industries, which include manufacturing, were less upbeat regarding labor conditions. The net percentage of goods-producing respondents citing higher employment levels dropped from 15 percent to -11 percent, with 37 percent of firms noting reduced hiring. The outlook for the next three months on the hiring front was equally down.

Capital spending numbers were similar. The net percentage rising figure for capital spending over the past three months declined from 25 percent to 14 percent. Yet, for goods-producing firms, the net percentage reporting increased capital investments plunged further, down from -4 percent in January to -19 percent in April. Expectations for goods producers were marginally positive for the next three months, with a net percentage of 4 percent seeing growth in capital spending moving forward.

In terms of forecasts, the percentage of business economists expecting real GDP to grow 2.1 percent to 3.0 percent in 2016 dropped from 70 percent in January to 57 percent in April. Roughly one-third now see the U.S. economy expanding 1.1 percent to 2.0 percent this year. At the same time, roughly half of goods-producing respondents were experiencing difficulties in filling open positions over the past three months, with 50 percent citing challenges from the global slowdown and 44 percent reporting negative effects from falling commodity prices.

NAHB Housing Market Index

The National Association of Home Builders and Wells Fargo reported that builder confidence remained unchanged in April for the third straight month, with the Housing Market Index (HMI) at 58. Numbers greater than 50 suggest that more homebuilders are positive than negative in their outlook, and the HMI has now exceeded that threshold for 22 consecutive months. However, homebuilders have been less upbeat since the HMI reached its post-recessionary peak of 65 in October, with confidence ebbing somewhat since then. Nonetheless, the larger story remains a positive one, with the HMI above 50 in every region except for the Northeast in April’s release.

In addition, homebuilders remained cautiously optimistic about the next six months. The forward-looking index for single-family home sales inched up from 61 in March to 62 in April. While this was lower than the 75 reading in October, builders see the housing market continuing to move in the right direction going forward.

Philadelphia Fed Manufacturing Survey

The Federal Reserve Bank of Philadelphia reported that manufacturing activity declined again after rebounding in March. The composite index of general business activity fell from 12.4 in March to -1.6 in April. As such, the headline number has now been negative in seven of the past eight months, suggesting that manufacturers continue to struggle from recent economic weaknesses. In April, that was most evident in the new orders (down from 15.7 to 0.0) and shipments (down from 22.1 to -10.8) data, with demand stagnating and shipments plunging. Indeed, the percentage of respondents saying that their orders had increased in the month decreased from 36.7 percent in March to 22.9 percent in April, illustrating the shift in this month's report.

The labor force numbers were equally discouraging, with the indices for employment (down from -1.1 to -18.5) and the average workweek (down from 5.7 to -16.2) declining sharply in April. In fact, respondents suggesting that their employment levels were decreasing for the month rose from 16.6 percent in March to 26.5 percent in April, with those reporting increases dropping from 15.5 percent to 8.0 percent. Meanwhile, inventories contracted for the 10th straight month, falling at the fastest pace in three years in April (down from -12.7 to -20.5).

Despite the weak data for the current economic environment, manufacturers in the district were more upbeat regarding the next six months. The forward-looking composite index jumped from 28.8 in March to 42.2 in April, its highest point since January 2015. Along those lines, 55.7 percent of respondents felt that new orders would rise in the coming months, with 48.8 percent expecting more shipments and more than one-quarter seeing increased hiring and capital spending. That should provide some encouragement for the future.

In a special question, nearly 74 percent of manufacturing leaders in the region said that their state and federal regulatory compliance costs had increased either modestly or substantially over the past few years, with no one noting declines in this trend. In addition, they devoted 5.8 percent of their capital spending costs to regulatory compliance on average, more than what was spent on data and network security (4.7 percent) or physical security (2.8 percent).

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Questions or comments?

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Center for Manufacturing Research