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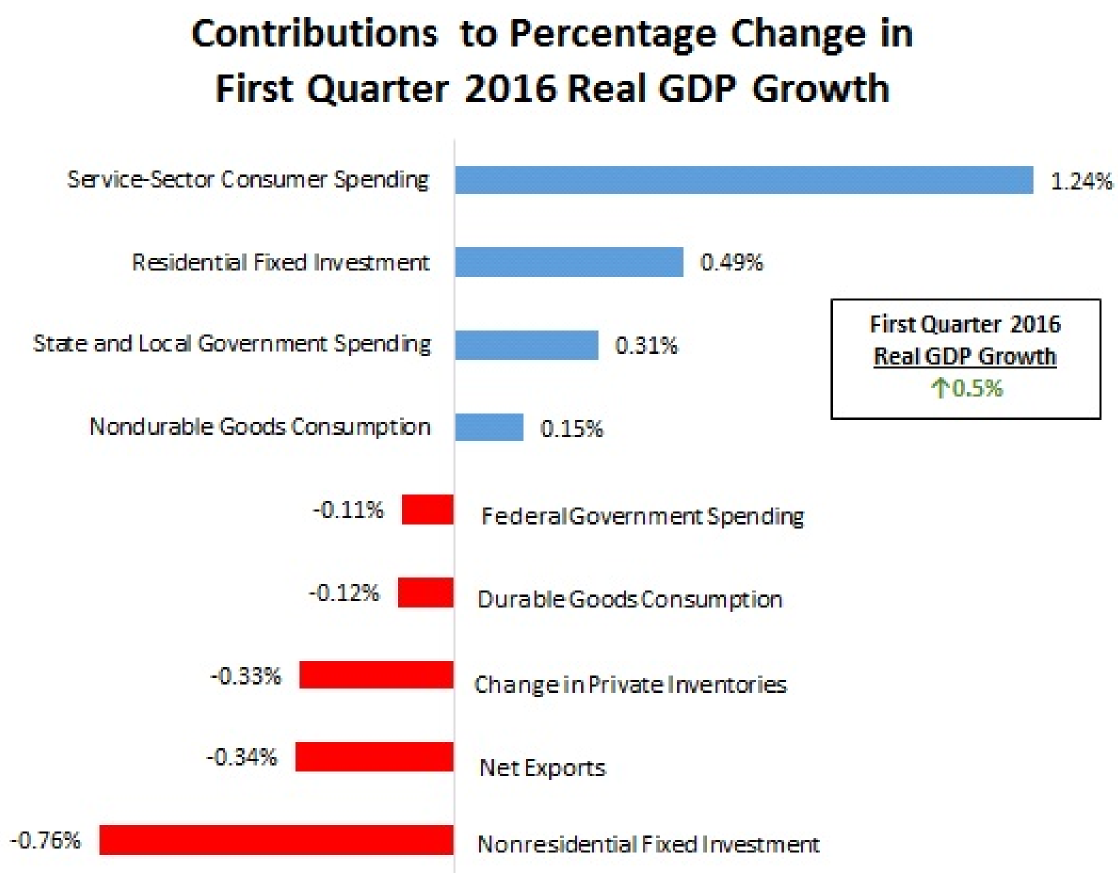

Overall, U.S. economic growth has been disappointing through the first three months of 2016, with real GDP up by just 0.5 percent, extending the sluggishness seen at the end of 2015. Manufacturers have seen this weakness firsthand, with the sector continuing to experience weak demand, production and employment growth in light of global headwinds and still-low commodity prices. Stagnant growth in consumer goods spending, reduced business investment and the drag from net exports put an exclamation point on those challenges, at least for the last two quarters. Meanwhile, preliminary data suggest that the goods trade deficit narrowed to its lowest point in 13 months in March. However, this decline came largely from a decrease in trade, and more precisely, a steep decline in goods imports. Final data on international trade will come out later this week.

From a monetary policy perspective, it is clear that softer than desired economic growth has forced the

Federal Reserve to be patient in their pace for normalizing rates. In its statement, the Federal Open Market Committee (FOMC) acknowledged that “economic activity appears to have slowed” despite progress in some areas, most notably in the labor market. As such, it left the federal funds rate at the quarter- to half-percent target range that it established at its December meeting. More importantly, participants appear to not be a hurry to raise the rate, expressing some caution moving forward. The consensus among most economists had been for the FOMC to hike interest rates again at its June 14-15 meeting. That could still happen, but will hinge on better data between now and then, hopefully including manufacturing.

One would hope improvements in the broader economy would include manufacturing, which continues to lag other segments. New durable goods orders increased by 0.8 percent in March, rebounding somewhat after the 3.1 percent decline seen in February. This was weaker than expected, with a consensus expecting a gain of 1.8 percent. Overall, demand remains quite soft, with the sector challenged by global headwinds and lingering anxieties in the economic outlook. On a year over year basis, new durable goods orders have fallen 2.5 percent. Even with transportation equipment sales excluded, year over year growth declined by 1.4 percent, with orders down 0.2 percent for the month, highlighting the broad-based softness of demand for durable goods over the past 12 months.

The regional manufacturing surveys out last week were mixed. On the one hand, activity expanded for the second straight month in the Richmond Federal Reserve Bank district on relatively strong orders and shipments data, despite some easing in both. Yet, on the other hand, manufacturers in the oil-intensive Dallas and Kansas City Fed districts remained mired in negative territory, with the composite index for each contracting for more than 12 months. Nonetheless, even in those regions, the data were somewhat more encouraging beyond the headline number. In the Dallas Fed report, many of the key measures accelerated, including demand and production, and in the Kansas City district, the pace of decline for new orders and shipments slowed. The labor market variables remained weak in both. The good news, however, is that all three of these regional Fed surveys found manufacturing leaders to be cautiously optimistic about the coming months.

Meanwhile, personal spending remained soft in March, up just 0.1 percent, despite decent income growth. With slower spending, the savings rate rose to 5.4 percent, its highest level since February 2015. Despite this, personal consumption expenditures continued to grow at a modest pace year over year, down from 3.9 percent in February to 3.5 percent in March. As such, consumer spending remains one of the brighter spots in the U.S. economy, even as it remains clear that Americans might be holding back somewhat from making larger purchases. This pullback in purchases was also consistent with lower consumer confidence, as measured both by the Consumer Confidence Index and the University of Michigan. Despite anxieties about labor and income growth, manufacturing compensation rose 2.3 percent over the past 12 months, with wages and salaries and benefits up 2.6 percent and 1.9 percent, respectively. This continues a mostly upward trend over the longer-term.

Last month’s strong data on new orders and production from the Institute for Supply Management (ISM) helped to fuel the narrative that manufacturing activity was starting to stabilize. Since then, a number of indicators have suggested that growth remained challenged. This makes the ISM Manufacturing Purchasing Managers’ Index for April, out this morning, more important. We would expect continued expansion, but likely with a slight pullback from March’s figure. Then, at the end of the week, we will get the latest jobs numbers. Manufacturing hiring has struggled through the first three months of 2016, so we will be looking for signs of progress. Other numbers to highlight this week include the latest indicators for construction spending, factory orders and shipments, international trade and productivity and costs.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

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)

This Week's Indicators:

Monday, May 2
Construction Spending
ISM Manufacturing Purchasing Managers' Index

Tuesday, May 3
None

Wednesday, May 4
ADP National Employment Report
Factory Orders and Shipments
International Trade Report
Productivity and Costs

Thursday, May 5
None

Friday, May 6
BLS National Employment Report

Summaries for Last Week`s Economic Indicators

Conference Board Consumer Confidence

The Conference Board said that consumer sentiment pulled back again in April, erasing the rebound seen in March. The Consumer Confidence Index dropped from 96.1 in March to 94.2 in April, which was just marginally higher than the 94.0 recorded in February. Since June of last year, these data have been highly volatile, ranging from a low of 91.0 in July to 102.6 in September, with the latter being the second-highest reading since the recession. (The index peaked at a post-recessionary high of 103.8 in January 2015.) The high degree of change from month to month indicates just how anxious the public is right now, particularly in their economic outlook. The decrease in April's index stemmed mostly from respondents' weaker expectations for the future (down from 83.6 to 79.3), which was enough to offset an improvement in the public's assessment about the current economic environment (up from 114.9 to 116.4).

The data on labor and income conditions were mixed. For instance, the percentage of those completing the survey suggesting that jobs were "plentiful" declined from 25.4 percent to 24.1 percent, but the percentage of those saying that jobs were "hard to get" also fell, down from 25.2 percent to 22.7 percent. There was a similar pattern for expected income growth. The percentage of respondents anticipating increased incomes decreased from 16.9 percent to 15.9 percent, with those seeing a decrease in income declining, as well, down from 12.3 percent to 11.2 percent.

Dallas Fed Manufacturing Survey

The Dallas Federal Reserve Bank reported mixed news on [Texas manufacturing activity] in April. The composite index of general business conditions remained mired in negative territory, down from -13.6 in March to -13.9 in April. It was the 16th straight month with respondents having a negative outlook about the current economic environment. The sample comments mostly echoed these sentiments, highlighting ongoing challenges in the market. Yet, beyond the headline number, the data were more encouraging, suggesting some stabilization in activity in April. Indeed, measures for new orders (up from -4.8 to 6.2), production (up from 3.3 to 5.8), shipments (up from 0.3 to 7.1), capacity utilization (up from 3.3 to 8.2) and capital expenditures (up from -0.9 to 1.6) each accelerated for the month. To illustrate this progress, 30.1 percent of respondents cited increased new orders in April, up from 23.8 percent saying the same thing in March.

The labor market data remained weak, even with progress in April. The rate of decline slowed for both employment (up from -10.3 to -3.7) and hours worked (up from -5.6 to -1.0), with each measure in negative territory for the fourth consecutive month. Roughly two-thirds of those completing the survey noted no change in hiring. On the positive side, wages and benefits (up from 14.7 to 16.7) continued to expand modestly.

Despite the challenging current environment, manufacturing leaders continued to be cautiously optimistic about the next six months. Forward-looking indices for new orders (up from 29.7 to 32.6), production (up from 31.8 to 33.9), shipments (up from 25.6 to 33.7) and capacity utilization (up from 26.3 to 35.3) improved in April, with each suggesting strong expectations moving forward. More than 45 percent predict demand and production growth over the next six months, with one-quarter seeing additional hiring and one-fifth anticipating more capital spending.

With that said, the composite index for future conditions (down from 6.1 to 0.4) pulled back to near-neutral in April. This suggests that manufacturers in the Texas region remain anxious about growth, even as they are upbeat for better data in the coming months.

Durable Goods Orders and Shipments

The Census Bureau said that new [durable goods orders] increased by 0.8 percent in March, rebounding somewhat after the 3.1 percent decline seen in February. This was weaker than expected, with a consensus expecting a gain of 1.8 percent. Sales of new durable goods orders rose from $228.9 billion in February to $230.7 billion in March. Overall, demand remains quite soft, with the sector challenged by global headwinds and lingering anxieties in the economic outlook. Order volumes have been highly volatile from month to month over the course of the past year, with sales trending lower since peaking in 2015 at $241.0 billion in July. On a year over year basis, new durable goods orders have fallen 2.5 percent, down from $236.7 billion in March 2015. Even with transportation equipment sales excluded, year over year growth declined by 1.4 percent, with orders down 0.2 percent for the month, highlighting the broad-based softness of demand for durable goods over the past 12 months.

Looking more closely at the March new orders data, some of the larger declines were seen in computers and related products (down 6.6 percent), nondefense aircraft and parts (down 5.7 percent), electrical equipment and appliances (down 3.0 percent), motor vehicles and parts (down 3.0 percent) and fabricated metal products (down 1.8 percent). In contrast, there were also several segments that notched gains in March, including primary metals (up 0.8 percent), communications equipment (up 0.7 percent), other durable goods (up 0.6 percent) and machinery (up 0.5 percent). The highly-volatile defense aircraft sales numbers soared 65.7 percent in March, but this followed an increase of 97.7 percent in January and a decrease of 30.4 percent in February. New orders for core capital goods (or nondefense capital goods excluding aircraft) were unchanged in March, but down 1.7 percent year over year.

Meanwhile, durable goods shipments were off by 0.5 percent in March, declining for the second straight month. Shipments were down by 1.0 percent in February. The strongest growth for the month occurred in the defense aircraft and parts (up 6.5 percent), other durable goods (up 0.7 percent), nondefense aircraft and parts (up 0.6 percent), computers and electronic products (up 0.6 percent) and machinery (down 0.5 percent). These increases were offset, though, by declines for motor vehicles and parts (down 3.0 percent), electrical equipment and appliances (down 1.4 percent), fabricated metal products (down 0.3 percent) and primary metals (down 0.2 percent). Excluding transportation, durable goods shipments decreased by 0.8 percent, with core capital goods shipments up 0.3 percent.

The year over year data were similar to the new orders analysis discussed above, with each highlighting ongoing weaknesses in the sector. Since March 2015, durable goods shipments have fallen 1.5 percent, with a decline of 2.0 percent when transportation equipment were excluded.

Employment Cost Index

The Bureau of Labor Statistics said that manufacturing compensation rose 0.5 percent in the first quarter, slowing a bit from the 0.7 percent gain seen in the fourth quarter. On a year over year basis, compensation in the sector grew 2.3 percent. Manufacturing wages and salaries were up 0.6 percent in the first quarter, with benefits up 0.4 percent. Private sector manufacturing workers earned 2.6 percent more over the past 12 months. At the same time, benefits costs picked up from 1.9 percent year over year. BLS does not break out various benefit costs, including health insurance, in its quarterly releases.

Overall, the employment cost index for private sector workers increased 0.6 percent in the first quarter, up from 0.5 percent in the fourth quarter. Private sector wages and salaries and benefits rose 0.7 percent and 0.5 percent, respectively. Wages and salaries have risen 2.1 percent year over year, and benefits have grown 1.2 percent over that time frame.

FOMC Monetary Policy Statement

The Federal Reserve left short-term interest rates unchanged, as expected, at the conclusion of the Federal Open Market Committee (FOMC) meeting. In its statement, the FOMC acknowledged that "economic activity appears to have slowed" despite progress in some areas, most notably in the labor market. As such, it left the federal funds rate at the quarter- to half-percent target range that it established at its December meeting. More importantly, participants appear to not be a hurry to raise the rate, expressing some caution moving forward. The Federal Reserve writes, "The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the long run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data."

At their prior meeting, the economic projections signaled two interest rate increases in 2016, each by 25 basis points. By itself, that was an admission that economic conditions no longer warranted four rate increases this year — the stated goal coming into 2016. The consensus among most economist had been for the FOMC to hike interest rates again at its June 14-15 meeting. That could still happen, but that will hinge on better data coming in between now and then. Hopefully, improvements in the broader economy would include manufacturing, which continues to lag other segments. With that said, this press release would seem to indicate that a June rate increase just became less likely.

Kansas City Federal Reserve Bank President Esther L. George dissented in her vote. She has established herself as an inflation hawk, and she would have preferred for the FOMC to have raised the federal funds rate to half- to three-quarters-percent at this meeting.

Gross Domestic Product

The Bureau of Economic Analysis said that the U.S. economy grew just 0.5 percent in the first quarter of 2016, signifying a sluggish start to the year. This was slightly below the consensus estimate of real GDP growth of 0.7 percent, and it was down from 1.4 percent growth in the fourth quarter of 2015. In many ways, the data for the first quarter mirrored the trends seen in the prior report, with drags on growth coming from fixed business investment and net exports. Consumer spending on goods was the difference-maker in this release. While personal consumption continued to be one of the brighter spots, adding 1.27 percentage points to headline GDP growth, that increase stemmed almost entirely from spending on services. The gain from goods spending was negligible — adding just 0.03 percentage points. This finding is consistent with the disappointing retail sales numbers observed year to date, particularly for durable goods, and it was another sign that Americans have pulled back on their purchases as a result of anxieties in the economic outlook.

That seen caution could also be seen once again among business leaders. Nonresidential fixed investment dropped 5.9 percent at the annual rate in the first quarter, extending the 2.1 percent decline seen in the fourth quarter. Spending on structures and equipment were down for the second straight quarter, with soft inventory growth serving as a drag on growth for the third consecutive report. On a more positive note, residential spending grew at an annualized 14.8 percent in the first quarter, with the housing market continuing to move in the right direction overall. As a whole, gross private domestic investment fell 3.5 percent at the annual rate in the first quarter, subtracting 0.60 percentage points from real GDP growth.

Net exports also presented a challenge, as manufacturers and other businesses struggled to increase international demand. The strong dollar and sluggish economic growth abroad have hurt firms' ability to grow exports, with goods exports down 3.4 percent at the annual rate. Goods exports have fallen in four of the past five months. At the same time, goods imports were off by less, down 0.7 percent for the quarter. As a result, net exports subtracted 0.33 percentage points from top-line GDP growth in the first quarter.

Meanwhile, government spending added 0.2 percentage points to real GDP on stronger state and local government activity. Federal government purchases served as a drag on that figure, pulled down by reduced defense spending.

International Trade in Goods (Preliminary)

Preliminary data from the Census Bureau suggest that the goods trade deficit narrowed to its lowest point in 13 months in March. The balance of goods traded decreased from $62.86 billion in February to $56.90 billion in March. This was largely the result of a steep decline in goods imports, down from $181.56 billion to $173.63 billion, with goods exports also down from $118.70 billion to $116.73 billion.

Goods exports were mostly lower, including reductions for consumer goods (down $2.21 billion), automotive vehicles (down $436 million) and industrial supplies (down $389 million). At the same time, consumer goods also accounted for the bulk of the decrease in goods imports (down $4.68 billion), with notable declines also seen in March for capital goods (down $1.79 billion), industrial supplies (down $930 million), automotive vehicles (down $797 million) and foods, feeds and beverages (down $692 million).

Final data on international trade for February will be released on May 4. Note that the U.S. trade deficit is also assisted by a surplus in service-sector activity, which was $17.68 billion in February. The final data will also include breakouts for petroleum trade and data on U.S.-manufactured goods exports.

Kansas City Fed Manufacturing Survey

The Kansas City Federal Reserve Bank said that manufacturing activity continued to decline in April, contracting for the 14th straight month. Reduced crude oil prices, the strong dollar and weaknesses abroad have pressured the sector's performance, especially since the district includes energy-intensive Oklahoma. With that said, the pace of decline slowed for production (up from -14 to -8), shipments (up from -15 to -6), exports (up from -10 to -4) and the average workweek (up from -10 to -6). New orders remained slightly negative (unchanged at -2), and hiring continued to lag behind (unchanged at -12). Despite the negative seasonally-adjusted figure, one-third of respondents had increased new orders for the month, with 29 percent citing declines.

Meanwhile, the forward-looking data composite index returned to positive territory, up from -2 in March to 10 in April, its highest level in 14 months. Indeed, manufacturers in the Kansas City Fed's district appeared to be more upbeat in April, with greatly-improved assessments for future orders (up from zero to 20), production (up from 5 to 25) and shipments (up from 5 to 27). More than 40 percent of those completing the survey expected increases in each of those three activities over the next six months. In addition, more respondents expect increased employment (up from 1 to 8) and a longer average workweek (up from 3 to 8), with modest gains seen in the labor market. Nonetheless, it was not all good news. Exports (up from zero to 1) were anticipated to remain marginally positive over the coming months, and capital expenditures (up from -9 to -6) were expected to continue to contract.

New Home Sales

The Census Bureau and the U.S. Department of Housing and Urban Development said that new residential sales declined by 1.5 percent, down from 519,000 units at the annual rate in February to 511,000 in March. This was below the consensus estimate of around 520,000 units. On the other hand, it was the fifth straight month with new home sales exceeding 500,000, with sales up 5.4 percent since March 2015's pace of 485,000. As such, these data continue to move in the right direction, albeit with some weaker-than-desired levels of activity over the past two months. There was strong growth in new home sales in the Midwest and South in March, but weaker activity in the West.

With slower sales in this report, the number of months of supply on the market rose from 5.6 months in February to 5.8 months in March. Inventories of new homes for sale have edged up from 5.3 months in December. As a result, the median sales price drifted slightly lower, down 1.8 percent year over year from $293,400 in March 2015 to $288,000 in this latest release.

Personal Income and Spending

The Bureau of Economic Analysis said that personal spending remained soft in March, up just 0.1 percent, despite decent income growth. Personal consumption expenditures had increased by 0.2 percent in January and February. Reduced motor vehicle spending in March helped to drag down durable goods spending by 0.6 percent, but this was offset by a similar increase in nondurable goods purchases. With slower spending, the savings rate rose to 5.4 percent, its highest level since February 2015. Despite this, personal consumption expenditures continued to grow at a modest pace year over year, down from 3.9 percent in February to 3.5 percent in March. As such, consumer spending remains one of the brighter spots in the U.S. economy, even as it remains clear that Americans might be holding back somewhat from making larger purchases.

At the same time, personal income increased by 0.4 percent in March, bouncing back from the more-sluggish 0.1 percent gain seen in February. Personal incomes have grown 4.2 percent over the past 12 months, up from 3.8 percent in the past report. Meanwhile, total manufacturing wages and salaries edged up slightly from $808.8 billion in February to $809.6 billion in March. This continues wage and salary growth in the right direction, up from the $780.9 billion and $801.7 billion averages of 2014 and 2015, respectively.

In other news, the personal consumption expenditure (PCE) deflator rose by 0.1 percent in March, rebounding from the 0.1 percent decrease in February. The increase in March included somewhat higher energy costs, up 1.1 percent. Core inflation — which excludes food and energy — also edged up 0.1 percent. Overall pricing pressures continue to remain minimal for now, with the PCE up 0.8 percent year over year, down from 1.0 percent in the last report. Core inflation increased 1.6 percent over the past 12 months, inching down from 1.7 percent in February.

Richmond Fed Manufacturing Survey

The Richmond Federal Reserve Bank said that manufacturing activity expanded for the second straight month in April. The composite index of general business activity declined from 22 in March to 14 in April. More importantly, the relatively strong data seen in this report are consistent with some stabilization in activity following significant softness over the course of the past year. For instance, new orders (down from

24 to 18) and shipments (down from 27 to 14) each expanded strongly in April despite some easing in the pace of growth in this latest report. Capacity utilization (up from 17 to 18) accelerated slightly in April, its highest point since December 2010. In addition, the labor market variables continued to grow modestly, with some pullback for the month, including hiring (down from 11 to 8) and the average workweek (down from 16 to 9).

The forward-looking measures mostly continued this trend, with relatively healthy increases expected over the next six months despite a notable decline in many of the indices. Manufacturers in the region expect solid growth in new orders (down from 45 to 24), shipments (down from 37 to 22), capacity utilization (down from 26 to 13), employment (down from 19 to 10) and capital expenditures (up from 15 to 22). With that said, the average workweek (down from 10 to 1) was not anticipated to change much over the coming months, bucking the cautious optimism seen in other indicators.

Meanwhile, inflationary pressures remained quite minimal, even with a pickup in input prices seen in April. Manufacturers in the Richmond Fed region said that prices paid for raw materials grew 1.07 percent at the annual rate in April, up from 0.60 percent growth in February. Moving forward, raw material prices are expected to continue to remain muted, up from 0.95 percent at the annual rate six months from now in the last report to 1.36 percent this time.

University of Michigan Consumer Sentiment (Revised)
The University of Michigan and Thomson Reuters reported that consumer confidence fell to its lowest level since September. The Index of Consumer Sentiment declined from 91.0 in March to 89.0 in April. Overall, this report suggested that the American public remains wary about the economic outlook. Indeed, the expectations component of the index dropped from 81.5 to 77.6, with respondents concerned about labor market and income growth moving forward. At the same time, the index for current conditions rose from 105.6 to 106.7. This was an improvement from the 105.4 estimated two weeks ago; however, it still represented a notable decline from December’s 108.1 reading.

Overall, consumer confidence has remained waned since reaching a post-recessionary high of 98.1 in January 2015. Nonetheless, Richard Curtin, chief economist for the Survey of Consumers at the University of Michigan, said that survey responses are consistent with consumer spending growth of 2.5 percent in 2016.

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Questions or comments?

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