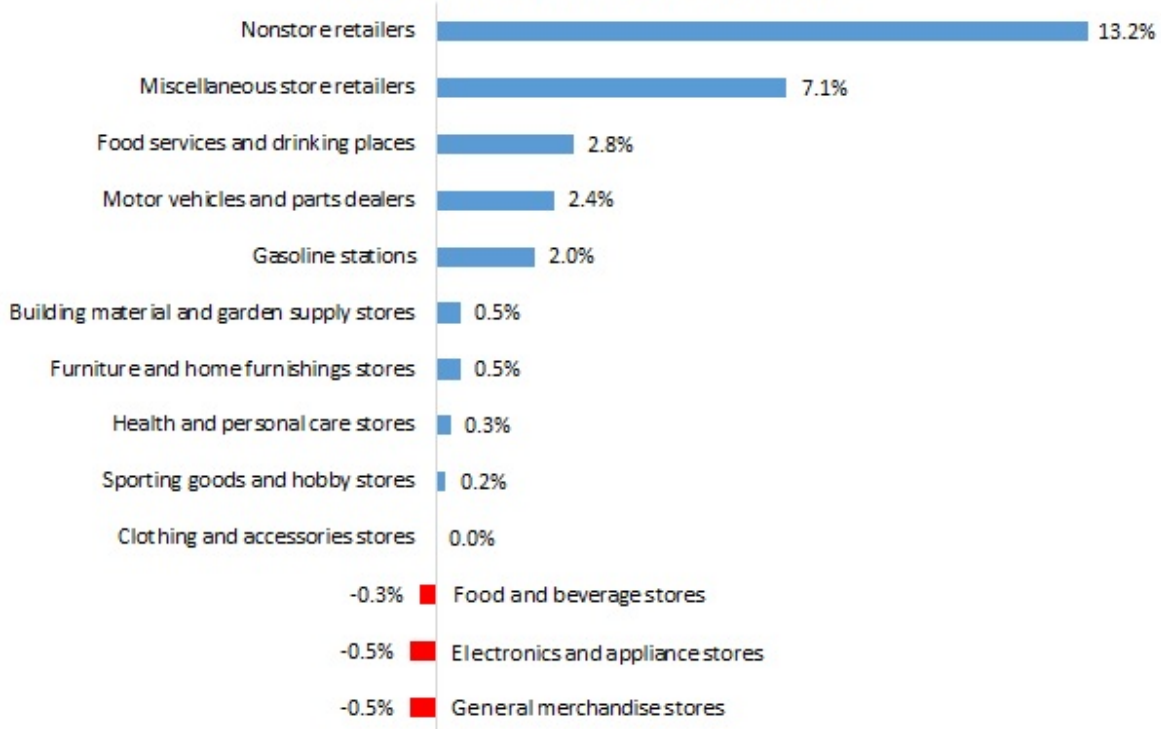




January 17, 2017

### Percentage Change in Retail Sales, December 2015 – December 2016



Consumers and small business owners have expressed rising confidence levels about the economy in recent data, with the data jumping significantly since the election. Time will tell if the strong bump in enthusiasm—largely spurred by a belief that a Trump administration will usher in pro-growth measures—can be sustained or will eventually wane a bit, but for now, sentiment has reached multiyear highs for a number of measures. For instance, the [Small Business Optimism Index](#) from the National Federation of Independent Business soared in December to its highest reading in 12 years. The percentage of respondents suggesting that the next three months would be a “good time to expand” leapt from 11 percent to 23 percent, its fastest pace since the Great Recession. In addition, the percentage expecting sales to increase over the next three months rocketed from 1 percent in October to 31 percent in December, the largest level since October 2005.

Despite easing slightly in preliminary January data, the [Index of Consumer Sentiment](#) from the University of Michigan and Thomson Reuters hovered near its best reading in nearly 13 years. This trend mirrored rising post-election optimism in the [competing survey](#) from the Conference Board, which rose to its highest level since August 2001 in December. These reports were largely consistent with accelerating

[retail sales](#) figures for December, up 0.6 percent for the month and 1.5 percent in the fourth quarter. Indeed, Americans have been more eager to open their pocketbooks at year's end after being rather cautious in their purchases earlier in the year, including an [increased willingness](#) to use their credit cards. Over the past 12 months, retail sales have risen 4.1 percent. That represents a healthy rebound from the 1.7 percent pace in March. December's increase was boosted by healthy gains for motor vehicles and parts dealers, up 2.4 percent, among other categories.

Meanwhile, [manufacturing employment](#) fell in 2016, with 45,000 fewer workers in the sector across the year. The latest Job Openings and Labor Turnover Survey report mirrored that softness, with [net hiring](#) in the sector flat for November. Note that the data source has a slight time lag, coming after news that manufacturers [added](#) 17,000 workers in December. The Institute for Supply Management's survey also reflected more optimism about manufacturing activity, including stronger hiring growth. In addition, manufacturing job openings have remained relatively elevated, despite some easing in recent months after peaking at an all-time high in April. This gives us encouragement for faster hiring growth moving forward.

Finally, [producer prices](#) for final demand goods accelerated in the latest report, up 0.7 percent in December. Overall, producer prices for final demand goods and services have increased 1.6 percent since December 2015, its highest year-over-year rate in 26 months and a notable pickup in inflationary pressures after being unchanged in August. Despite the uptick in inflation, pricing pressures remain largely in check, at least for now. Core inflation on a year-over-year basis has remained below the Federal Reserve's stated goal of 2 percent for 31 straight months (since May 2014). Prices are likely to accelerate somewhat moving forward, likely exceeding the 2 percent threshold in the coming months. Nonetheless, it should remain in an acceptable range for the Federal Open Market Committee, which continues to balance the need for accommodation in its monetary policy with a desire to normalize rates on the basis of economic progress.

We will get a better sense of the current state of manufacturing activity this week with the release of December's industrial production figures. Manufacturing production has been essentially stagnant on a year-over-year basis, but since the election, sentiment surveys have had a more upbeat assessment of demand and output growth. Surveys from the New York and Philadelphia Federal Reserve Banks will also provide some context about regional data for January. Other highlights for the week include the latest figures for consumer prices, housing starts and permits and real GDP by industry.

Chad Moutray, Ph.D., CBE  
Chief Economist  
National Association of Manufacturers

P.S.: Please join Jeff French, national manufacturing practice leader at Grant Thornton, and myself for a webinar on January 24 at 1:00 p.m. EST as we discuss "Navigating Headwinds for Success: The State of the Manufacturing Industry." Click [here](#) to register.

## Economic Indicators

**Last Week's Indicators:**  
(Summaries Appear Below)

**Monday, January 9**  
Consumer Credit

**Tuesday, January 10**  
Job Openings and Labor Turnover Survey  
NFIB Small Business Survey

**This Week's Indicators:**

**Monday, January 17**  
MARTIN LUTHER KING JR. HOLIDAY

**Tuesday, January 18**  
New York Fed Manufacturing Survey

**Wednesday, January 19**  
Consumer Price Index

**Wednesday, January 11**

None

Industrial Production

NAHB Housing Market Index

**Thursday, January 12**

None

**Thursday, January 20**

Housing Starts and Permits

Industry GDP

Philadelphia Fed Manufacturing Survey

**Friday, January 13**

Producer Price Index

Retail Sales

University of Michigan Consumer Sentiment

**Friday, January 21**

INAUGURATION DAY

## Summaries for Last Week's Economic Indicators

### Consumer Credit

The Federal Reserve Board reported that [U.S. consumer credit outstanding](#) rose 7.9 percent at the annual rate in November, a three-month high. Total consumer credit was \$3.750 trillion, with \$992.4 billion in revolving credit and \$2.757.6 trillion in nonrevolving credit. Across the past 12 months, consumer credit has increased 6.3 percent, with roughly equal gains for both revolving and nonrevolving credit lines.

Nonrevolving credit, which includes auto and student loans, increased 6.2 percent over that time frame. In addition, revolving credit, which includes credit cards and other credit lines, increased 6.4 percent year-over-year. That is notable because the pace of growth has accelerated across the past 12 months, up from 5.0 percent year-over-year growth in November 2015. That mirrors stronger consumer spending data of late. As such, Americans are more willing to use their credit cards when making purchases, moving on from some of the caution earlier in 2016.

### Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics reported that [net hiring](#) in the manufacturing sector was flat in November, continuing a trend of weak net job growth year to date. According to the latest Job Openings and Labor Turnover Survey, total hiring edged up from 274,000 in October to 275,000 in November, with marginal increases for both durable (up from 159,000 to 160,000) and nondurable (up from 114,000 to 115,000) goods firms. At the same time, total separations, which include quits, layoffs and retirements, rose from 269,000 to 275,000 for the month. Overall, net hiring (or hiring minus separations) decreased from 5,000 in October to zero in November.

Meanwhile, manufacturing job openings changed little, up from 320,000 in October to 324,000 in November. Postings in the sector have trended lower since achieving an all-time high of 397,000 in April; yet, they remain elevated, especially relative to hiring levels. Through the first 11 months of 2016, job openings have averaged 343,000 per month, up from 311,000 for 2015 as a whole. As such, we have continued to see relatively healthy gains in manufacturing job openings, despite some easing over the past few months. This gives us optimism for faster hiring growth moving forward. In the November data, nondurable goods firms had more openings, up from 123,000 to 139,000, but there were fewer postings among durable goods manufacturers, down from 197,000 to 185,000.

In the larger economy, nonfarm job openings increased from 5,451,000 in October to 5,522,000 in November. Much like the manufacturing data, total postings in the nonfarm sector have moved lower since peaking at an all-time high of 5,831,000 in July. There were more openings in November in the finance and insurance; leisure and hospitality; manufacturing; mining and logging; and state and local government sectors. In addition, net hiring in the overall economy was slightly lower, down from 194,000 in October to 191,000 in November.

### NFIB Small Business Survey

The National Federation of Independent Business reported that sentiment among small business owners soared in December to its highest reading in 12 years. The [Small Business Optimism Index](#) increased from 98.4 in November to 105.8 in December. Respondents have been quite positive in the aftermath of the

election, hoping the new administration will bring about needed changes on the tax and regulatory front. Beyond the headline number, there were also significant jumps in the underlying data. For instance, the percentage of respondents suggesting that the next three months would be a “good time to expand” leapt from 11 percent to 23 percent, its fastest pace since the Great Recession. In addition, the percentage expecting sales to increase over the next three months rocketed from 1 percent in October to 31 percent in December, the largest level since October 2005.

This rise flowed through to other variables as well. While actual employment changes remained soft (but positive) in December, the net percentage planning to add workers in the next three months edged up from 15 percent to 16 percent, its highest level so far this year. On the investment front, 63 percent of small business owners said they had made a capital expenditure in the past six months, up from 55 percent in the prior report and a three-year high. Similarly, capital spending plans for the next three to six months rose from 24 percent to 29 percent, the fastest rate since August 2014.

The top “single most important problem” was taxes (21 percent), highlighting the need for comprehensive tax reform. Government regulations (19 percent), the quality of labor (12 percent) and poor sales (12 percent) also topped the list.

### **Producer Price Index**

[Producer prices](#) increased 0.3 percent in December, extending the 0.4 percent gain in November. More importantly for manufacturers, producer prices for final demand goods accelerated in the latest report, up 0.7 percent in December. This reflected large monthly jumps in both energy and foods costs, up 2.6 percent and 0.7 percent, respectively. There were higher prices for beef; chicken; dairy products; eggs; fish and shellfish; pork; and vegetables for the month. Still, food costs have been on a downward trend over the past two years, down 6.1 percent over the past 24 months. On the other hand, rising natural gas and gasoline prices helped push energy costs higher in December. Since December 2015, final demand energy prices have risen 6.1 percent, but to be fair, they have fallen 23.3 percent from levels seen three years ago. Excluding food and energy, final demand goods prices for producers increased 0.3 percent in December.

Overall, producer prices for final demand goods and services have increased 1.6 percent since December 2015, its highest year-over-year rate in 26 months and a notable pickup in inflationary pressures after being unchanged in August. Meanwhile, core producer prices, which exclude food and energy, also grew 1.6 percent year-over-year in December, the most since January 2015. The year-over-year pace of core inflation for producers has moved gradually higher across the past 12 months, up from 0.2 percent one year ago.

The bottom line is that pricing pressures have continued to accelerate, even as they remain largely in check, at least for now. Core inflation on a year-over-year basis has remained below the Federal Reserve’s stated goal of 2 percent for 31 straight months (since May 2014). Prices are likely to accelerate somewhat moving forward, likely exceeding the 2 percent threshold in the coming months. Nonetheless, it should remain in an acceptable range for the Federal Open Market Committee, which continues to balance the need for accommodation in its monetary policy with a desire to normalize rates on the basis of economic progress.

### **Retail Sales**

The Census Bureau reported that [retail sales](#) accelerated in December, finishing 2016 on a strong note. Spending at retailers grew 0.6 percent in December, increasing for the fourth straight month. In the fourth quarter alone, retail sales rose 1.5 percent, illustrating once again that Americans continued to increase their spending at year’s end after being rather cautious in their purchases earlier in the year. Over the past 12 months, retail sales have risen 4.1 percent. That represents a healthy rebound from the 1.7 percent pace in March. With that said, healthy sales gains at motor vehicle and parts dealers (up 2.4 percent) helped to boost the December headline number. Excluding automobiles, retail spending increased by a more modest 0.2 percent, with year-over-year growth of 3.4 percent.

Beyond autos, the sales data in the December report were somewhat spotty. Retail segments with increased spending for the month included gasoline stations (up 2.0 percent), nonstore retailers (up 1.3

percent), building material and garden supplies (up 0.5 percent), furniture and home furnishings (up 0.5 percent), health and personal care (up 0.3 percent) and sporting goods and hobbies (up 0.2 percent). Increased sales at gasoline stations likely stemmed from higher prices, with the average price of a gallon of regular conventional gasoline up from \$2.08 on November 28 to \$2.25 on December 26, according to the Energy Information Administration.

In contrast, there were some notable weaknesses, including miscellaneous store retailers (down 1.0 percent), food services and drinking places (down 0.8 percent), department stores (down 0.6 percent) and electronics and appliance stores (down 0.5 percent).

Since December 2015, the largest gains in retail spending included nonstore retailers (up 13.2 percent), miscellaneous store retailers (up 7.1 percent), motor vehicle and parts dealers (up 6.8 percent), gasoline stations (up 6.3 percent) and health and personal care stores (up 6.2 percent).

### University of Michigan Consumer Sentiment

The University of Michigan and Thomson Reuters reported that consumer confidence was little changed in January in preliminary data. The [Index of Consumer Sentiment](#) edged down from 98.2 in December, its best reading in nearly 13 years, to 98.1 in January. This trend mirrored rising post-election optimism in the [competing survey](#) from the Conference Board, which rose to its highest level since August 2001 in December. Interestingly, the press release notes a significant partisan divide in data when asked about the economic outlook and opinions about government policies.

The January data reflected a slightly better assessment of current economic conditions (up from 111.9 to 112.5), but expectations of future conditions (down from 89.5 to 88.9) dipped a bit. Nonetheless, overall the economic outlook was strong, consistent with real personal spending growth of 2.7 percent in 2017, according to the University of Michigan.

## Connect with the Manufacturers



Questions or comments?

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