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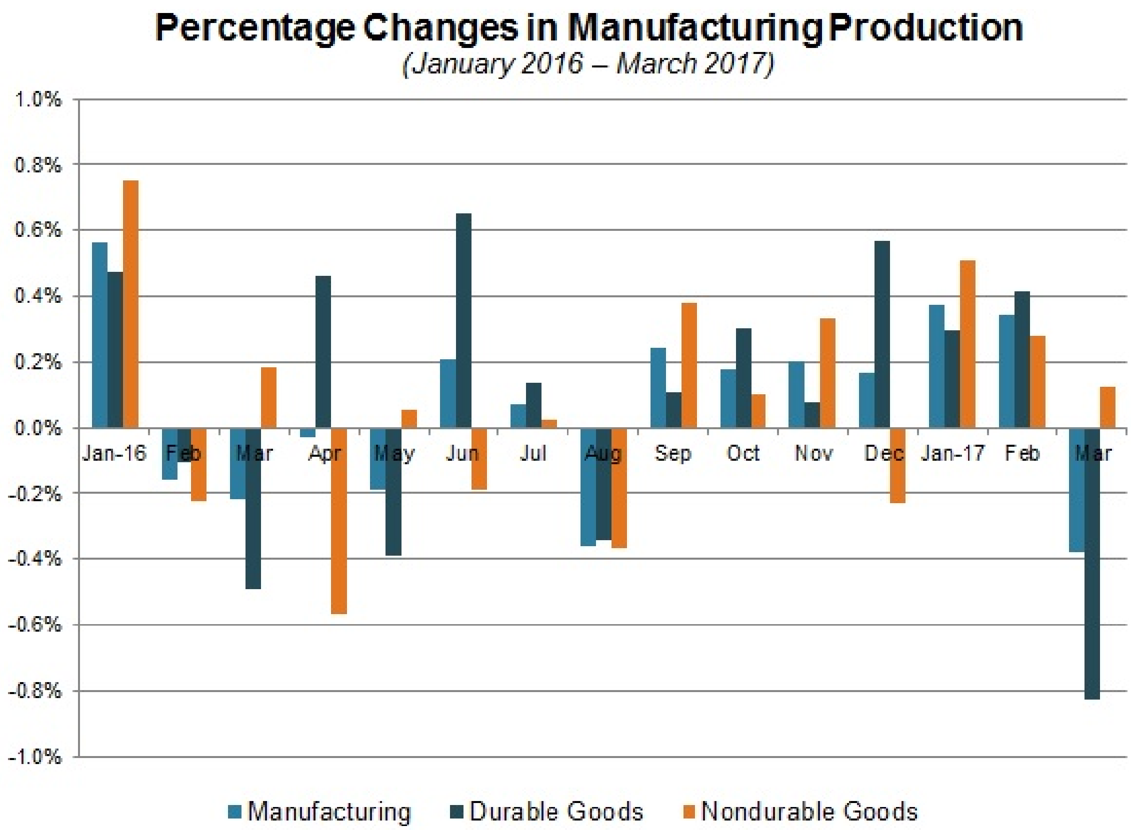
Monday Economic Report

April 24, 2017



While manufacturing activity has turned a corner and is trending in the right direction overall, especially relative to what we saw for much of last year, many of the economic indicators released last week reflected some easing in the latest data. Along those lines, manufacturing production fell in March, ending six straight monthly gains. Output in the sector declined 0.4 percent, pulled lower by a sharp reduction in motor vehicles and parts production, down 3.0 percent, among others. Nonetheless, manufacturing production has increased 0.8 percent over the past 12 months, down from 1.0 percent in the prior release but with progress from declining year-over-year rates as recently as October. Similarly, manufacturing capacity utilization decreased from 75.6 percent—a 13-month high—to 75.3 percent. In general, the utilization rate has trended higher since bottoming out at 74.7 percent in August.

Sentiment surveys also decelerated in April, even as they continued to show notable progress and modest expansions for the manufacturing sector as a whole. Nationally, the Markit Flash U.S. Manufacturing PMI eased to its slowest growth rate since September, down from 53.3 in March to 52.8 in April. It was the third straight monthly decline, down from 55.0 in January, which was the fastest growth rate in nearly two years. More encouragingly, the Markit survey reflected increased expansions for exports and employment, and the forward-looking outlook remained quite positive. There were similar findings in the regional surveys from the New York and Philadelphia Federal Reserve Banks. New orders and shipments continued to expand at decent paces, and both reports suggest that hiring and capital expenditures will pick up strongly in the coming months. On the downside, they also indicate that pricing pressures should remain elevated.

There were also promising signs for manufacturing activity abroad. For one thing, the global economy is expected to strengthen, according to the latest World Economic Outlook from the International Monetary Fund, with growth accelerating from 3.1 percent in 2016 to 3.5 percent in 2017. In addition, European business leaders appear to be brushing aside political uncertainty concerns. Instead, they have focused on the fact that the Eurozone economy has trended generally in the right direction in recent months. Indeed, the Markit Flash Eurozone Manufacturing PMI rose to its fastest rate since April 2011, with underlying data higher across-the-board. Despite some fretting about the election in France, manufacturing activity in that country accelerated to its fastest rate since April 2011, helping to lift the Eurozone data. At the same time, Germany edged slightly lower from its six-year high in April, but remained quite strong.

Meanwhile, the housing market provided some mixed news in the latest reports, even as the longer-term trend remained reassuring. Poor weather was likely a factor in the 6.8 percent decline in new housing starts in March. More importantly, starts have exceeded 1.2 million in five of the past six months—a psychological threshold that we appear to have finally sustained. On a year-over-year basis, new residential construction has risen 9.2 percent. Moreover, housing permits—a proxy of future activity—rebounded somewhat in March, increasing 3.6 percent for the month and jumping 17.0 percent over the past 12 months. Other residential releases were also comforting. For instance, homebuilders have healthy assessments about single-family home sales over the next six months, even with some easing in April. More positively, existing home sales rose to a 10-year high in March and have increased 5.9 percent year-over-year. With that said, inventory levels remain low, limiting sales from growing even further.

This week, we will get additional clues about the current state of the manufacturing sector, with updates on regional activity from the Dallas, Kansas City and Richmond Federal Reserve Banks. Manufacturers will also be monitoring closely preliminary reports on durable goods orders and international trade in goods. The biggest headlines will come with Friday's release of first-quarter GDP. I expect that it will show the U.S. economy expanding 1.2 percent in the first quarter, but some estimates have it growing more slowly. Beyond those measures, other highlights this week include new data on consumer confidence, employment costs and the Chicago Federal Reserve's National Activity Index.

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

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, April 17
NAHB Housing Market Index
New York Federal Reserve Manufacturing Survey

Tuesday, April 18
Housing Starts and Permits
Industrial Production

This Week's Indicators:

Monday, April 24
Chicago Fed National Activity Index
Dallas Fed Manufacturing Survey

Tuesday, April 25
Conference Board Consumer Confidence
Richmond Fed Manufacturing Survey

Wednesday, April 19
None

Thursday, April 20
Conference Board Leading Indicators
Philadelphia Federal Reserve Manufacturing Survey

Friday, April 21
Existing Home Sales
Markit Flash PMIs for the United States and the Eurozone
State Employment Report

Wednesday, April 26
None

Thursday, April 27
Durable Goods Orders and Shipments
International Trade in Goods (Preliminary)
Kansas City Fed Manufacturing Survey

Friday, April 28
Employment Cost Index
Gross Domestic Product
University of Michigan Consumer Sentiment (Revised)

Summaries for Last Week`s Economic Indicators

Conference Board Leading Indicators

The Conference Board's Leading Economic Index (LEI) increased 0.4 percent in March, pulling back slightly from the 0.5 percent gain in February. Over the past six months, the LEI rose 2.4 percent, signaling modest growth and accelerating from prior months where growth was more sluggish. New orders in the manufacturing sector added 0.21 percentage points to headline growth, with demand expanding for the fourth consecutive month. Nonetheless, a narrowing of the average workweek for production workers subtracted 0.13 percent, with average weekly unemployment claims also providing a minor drag. All of the other components of the LEI were positive, including the interest rate spread, consumer confidence, housing permits and the S&P 500.

Meanwhile, the Coincident Economic Index (CEI), which assesses current conditions, rose 0.2 percent in March, mirroring the increase in February. Each of the components of the CEI—industrial production, nonfarm payrolls, personal income and manufacturing and trade sales—positively contributed to the index for the month.

Existing Home Sales

According to the National Association of Realtors (NAR), existing home sales increased 4.4 percent in March, rising to the highest level since February 2007. Sales jumped from an annualized 5.47 million units in February to 5.71 million units in March, with higher levels of activity in every region except the West. Over the past 12 months, existing home sales have grown 5.9 percent, up from 5.39 million units in March 2016. Single-family (up from 4.87 million to 5.08 million) and condo/co-op (up from 600,000 to 630,000) accelerated for the month, with 6.1 percent and 5.0 percent growth year-over-year, respectively. NAR Chief Economist Lawrence Yun said, "The early returns so far this spring buying season look very promising as a rising number of households dipped their toes into the market and were successfully able to close on a home last month."

Yet, he also cautioned about the low levels of inventories of existing homes for sale. While inventories picked up somewhat in March, they remained 6.6 percent lower than a year ago. In fact, there were 3.8 months of supply on the market in March, unchanged from February but well below the 4.8 months of supply seen as recently as July. The median price for an existing home sold in March was $236,400, up 6.8 percent year-over-year.

Housing Starts and Permits

The Census Bureau and the Department of Housing and Urban Development reported that new housing starts declined 6.8 percent in March. New residential construction activity fell from an annualized 1,303,000 in February to 1,215,000 in March. More importantly, it has exceeded 1.2 million in five of the past six months—a psychological threshold that we appear to have finally sustained. That suggests the housing market continues to show some strength, even with some notable easing in the latest data. Along those lines, both single-family (down from 875,000 to 821,000) and multifamily (down from 428,000 to 394,000) starts fell in March, with single-family activity decelerating from a pace not seen since October 2007.

On a year-over-year basis, new residential construction has risen 9.2 percent, up from 1,113,000 in March 2016. Single-family and multifamily activity increased 9.3 percent and 8.8 percent, respectively, over the past 12 months.

Meanwhile, housing permits rebounded somewhat in this release, up 3.6 percent from 1,216,000 to 1,260,000. Since permits represent a proxy of future activity, this was encouraging. It was the seventh consecutive month with permits exceeding 1.2 million, so much like we see above in the starts figures, it looks like that threshold has been largely sustained. The underlying data in March were mixed. Single-family permitting edged down from 832,000 to 823,000, whereas multifamily permits jumped from 384,000 to 437,000.

Much like the earlier figures, new residential construction permits have moved higher over the longer term. Over the past 12 months, housing permits have jumped 17.0 percent, up from 1,077,000 units in March 2016, with single-family and multifamily activity up 13.5 percent and 24.1 percent, respectively.

Industrial Production

The Federal Reserve reported that manufacturing production pulled back in March, ending six straight monthly gains. Output in the sector declined 0.4 percent, pulled lower by a sharp reduction in motor vehicles and parts production, down 3.0 percent, among others. Yet, even with the reduced figures in March, the data continue to reflect improvements in the manufacturing sector, with activity turning a corner after struggling for much of the past two years due to a number of economic headwinds. Indeed, manufacturing production has increased 0.8 percent over the past 12 months, down from 1.0 percent in the prior release but with progress from declining year-over-year rates as recently as October. Similarly, manufacturing capacity utilization decreased from 75.6 percent—a 13-month high—to 75.3 percent. In general, the utilization rate has trended higher since bottoming out at 74.7 percent in August.

A sizable decline in durable goods activity—down 0.8 percent—pulled the March headline number lower, but on the positive side, nondurable goods production edged up 0.1 percent. Output was higher for petroleum and coal products (up 1.5 percent), computer and electronic products (up 0.9 percent), chemicals (up 0.4 percent) and paper (up 0.2 percent), but other segments were mostly lower. The largest declines included motor vehicles and parts (down 3.0 percent), apparel and leather (down 1.6 percent), electrical equipment and appliances (down 1.6 percent), primary metals (down 1.3 percent), miscellaneous durable goods (down 1.1 percent), aerospace and miscellaneous transportation equipment (down 0.8 percent), plastics and rubber products (down 0.8 percent), printing and support (down 0.8 percent) and wood products (down 0.4 percent).

Meanwhile, total industrial production increased 0.5 percent in March, its fastest gain since December and boosted by a large increase in utilities output, up 8.6 percent. As such, colder weather played a major factor in March’s gain. Mining production grew slightly, up 0.1 percent. Over the past 12 months, total industrial production increased 1.5 percent. That was the highest year-over-year rate since February 2015 and an improvement from the -2.4 percent year-over-year pace one year ago. Mining and utilities have risen 2.9 percent and 4.6 percent year-over-year, respectively. Capacity utilization rose from 75.7 percent to 76.1 percent, a 14-month high.

Markit Flash PMIs for the United States and the Eurozone

The Markit Flash Eurozone Manufacturing PMI rose from 56.2 in March to 56.8 in April, its fastest rate since April 2011. While there continues to be a lot of political uncertainty on the continent, survey respondents in the sector have mostly brushed aside such concerns. Instead, they have focused on the fact that the Eurozone economy has trended generally in the right direction in recent months, with activity accelerating at a modest rate, and the headline PMI has trended higher since bottoming out at 51.2 in February 2016. Despite some fretting about the election in France over the weekend, manufacturing activity in that country accelerated to its fastest rate since April 2011 (up from 53.3 to 55.1), helping to lift the Eurozone data. At the same time, Germany edged slightly lower from its six-year high in April (down from 58.3 to 58.2), but remained quite strong.

The underlying Eurozone data in April were higher across-the-board, including new orders (up from 57.1 to 57.6), output (up from 57.5 to 58.0), exports (up from 56.7 to 57.5) and employment (up from 55.1 to 55.8). As such, demand and production both grew at paces not seen in six years. Likewise, the index for future output (up from 66.6 to 66.9) bounced back to January's pace, which had been the highest level since the survey was introduced in mid-2012.

Meanwhile, the Markit Flash U.S. Manufacturing PMI eased to its slowest growth rate since September, down from 53.3 in March to 52.8 in April. It was the third straight monthly decline, down from 55.0 in January, which was the fastest growth rate in nearly two years. Nonetheless, we continue to see modest growth overall in the sector nationally, even with some easing for both new orders (down from 55.0 to 53.7) and output (down from 54.4 to 53.4). The data also showed some encouraging signs, including increases in the expansions for exports (up from 51.4 to 52.1) and employment (up from 51.4 to 52.5). Looking ahead 12 months, manufacturers in the United States continued to be optimistic about future output (up from 65.7 to 65.9).

NAHB Housing Market Index

The National Association of Home Builders (NAHB) and Wells Fargo reported that the Housing Market Index pulled back somewhat in April after reaching the highest level since June 2005 in March. The index decreased from 71 in March to 68 in April. Index values greater than 50 indicate strong builder confidence, with numbers greater than 60 suggesting strong expectations for activity. Along those lines, NAHB Chairman Granger MacDonald said, "[B]uilder confidence is on very firm ground, and builders are reporting strong interest among potential home buyers." At the same time, NAHB Chief Economist Robert Dietz noted that regulatory costs and higher material prices are both challenges.

Even with a slight dip in the headline number, builders have healthy assessments about single-family home sales over the next six months. The index for expected sales declined from 78 to 75, but that still suggests a rather robust outlook. In the April data, sentiment edged lower in every part of the country except the West, with all but the Northeast indicating healthy gains in building activity.

New York Federal Reserve Manufacturing Survey

The Empire State Manufacturing Survey reported that manufacturing activity slowed in April, easing from the more robust paces in February and March. The composite index of general business conditions declined from 16.4 in March to 5.2 in April, its weakest reading since November. On the positive side, it was the sixth consecutive monthly expansion, continuing to improve from the softer economic environment at this point last year. The underlying data in April were mixed. Growth in both new orders (down from 21.3 to 7.0) and the average employee workweek (down from 15.0 to 8.8) decelerated for the month, mirroring the headline number. More encouragingly, shipments (up from 11.3 to 13.7) and hiring (up from 8.8 to 13.9) both accelerated in April, which was a good sign.

Along those lines, manufacturers in the New York region remained very upbeat about the next six months. The forward-looking composite index increased from 37.4 to 39.9, and the readings for new orders (down from 33.9 to 31.0) and shipments (down from 35.5 to 29.2) indicated strong growth ahead despite some easing in this month's report. Indeed, manufacturers continue to invest in their firms—another indication that the overall outlook remains optimistic. There were notable accelerations in expected employment (up from 14.2 to 19.7), the average employee workweek (up from 11.5 to 17.5), capital expenditures (up from 23.9 to 27.7) and technology spending (up from 8.0 to 15.3). The capital spending variable grew at the fastest rate since February 2015.

Philadelphia Federal Reserve Manufacturing Survey

The Federal Reserve Bank of Philadelphia reported that manufacturing activity remained strong in April, even as headline growth has continued to pull back from February's pace, which was the best reading since November 1983. The composite index of general business activity has decreased from 43.3 in February, to 32.8 in March, to 22.0 in April. Despite the easing in the composite and many of the underlying measures, the data continued to signal a healthy expansion in the district, including new orders (down from 38.6 to 27.4), shipments (down from 32.9 to 23.4), employment (up from 17.5 to 19.9) and the average workweek (up from 18.5 to 18.9). The rate of hiring growth was the fastest since May 2011. On the downside, there have been rising pricing pressures of late (down from 40.7 to 33.7), even as the index for prices paid decelerated somewhat from its highest level in nearly six years.

There were similar results in the forward-looking measures, with the expectations composite index down from 59.5—a 31-month high—to 45.4. Still, manufacturers in the Philadelphia region remained very optimistic in their outlook for the next six months. More than 59 percent of respondents felt that new orders would increase over the next six months, with 54.9 percent predicting more shipments. More importantly, especially given the cautious hiring and investing across the past year, at least 40 percent of respondents see more employment and capital expenditures growth moving forward. In a special question, 63.3 percent of manufacturers in the district said that, if they had plans to increase capital spending this year, it would take place in the second half of 2017.

State Employment Report
Kentucky created the most net new manufacturing jobs in March, according to the Bureau of Labor Statistics, adding 2,800 workers in the month. Florida (up 2,600), North Carolina (up 2,600), Missouri (up 1,900), Michigan (up 1,800), California (up 1,700), Texas (up 1,700) and Virginia (up 1,500) also topped the list of manufacturing employment gains in March. In addition, Florida saw the greatest job gains over the past 12 months, with manufacturing employment in the state up 13,100 since March 2016. Other states with the fastest manufacturing job growth year-over-year included Indiana (up 8,800), South Carolina (up 8,800), Kentucky (up 7,700), Alabama (up 7,000) and Ohio (up 6,500).

The national unemployment rate declined from 4.7 percent in February to 4.5 percent in March. Colorado had the lowest unemployment rate in the country at 2.6 percent. A number of states were not far behind, including Hawaii (2.7 percent), New Hampshire (2.8 percent), North Dakota (2.8 percent), South Dakota (2.8 percent), Maine (3.0 percent), Vermont (3.0 percent), Iowa (3.1 percent), Nebraska (3.1 percent) and Utah (3.1 percent). In contrast, New Mexico (6.7 percent), Alaska (6.4 percent), Alabama (5.8 percent), the District of Columbia (5.8 percent) and Louisiana (5.7 percent) had the highest unemployment rates.