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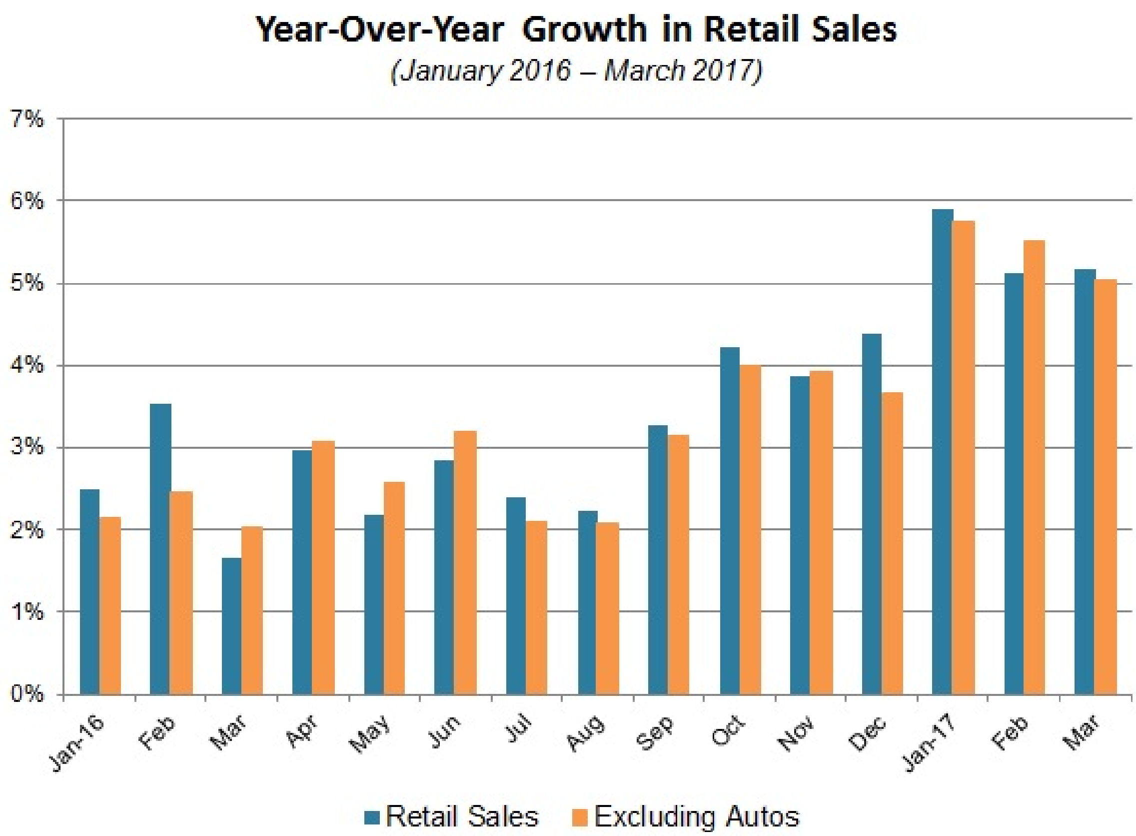
Monday Economic Report

April 17, 2017



In preliminary figures, the consumer sentiment rebounded in April after pulling back somewhat in the prior two months. Confidence remained high and not far from January's 13-year record. Indeed, the underlying figures suggest that Americans remain quite upbeat. That message is also being conveyed in the spending data, with retail sales up 5.2 percent over the past 12 months. The American consumer has been more willing to open to open his/her pocketbook, especially when compared to this time last year. With that said, retail spending edged slightly lower in March for the second straight month, down 0.2 percent. Softer automotive sales help to explain at least part of this weakness. Excluding motor vehicles and parts, retail sales held steady in March.

In a similar manner, sentiment among small business owners in March remained near the 12-year high seen in January even as it has eased a little since then. The Small Business Optimism Index edged down from 105.3 in February to 104.7 in March, which was not far from the 105.9 reading recorded in January. One year ago, the index was 92.6. Along those lines, the percentage of respondents suggesting that the next three months would be a "good time to expand" remained unchanged at 22 percent in March, down from 25 percent in January but well above the 6 percent who said the same thing in March

2016. With that in mind, respondents have upped their plans for more workers and capital spending. On the investment front, 64 percent of small business owners said that they had made a capital expenditure in the past six months, its highest reading since December 2013.

In another positive development, total hires in manufacturing in February rose to the highest level since June 2008. The sector edged up from 304,000 in January to 305,000 in February. This represented notable progress from just 268,000 six months ago. At the same time, total separations—which include quits, layoffs and retirements—decreased from 304,000 to 292,000. Overall, net hiring (or hires minus separations) improved from zero in February to 13,000 in March, its fastest pace in seven months. Hopefully, the pace of new hiring will continue to improve moving forward, and with job postings elevated, the prospects are encouraging. In fact, manufacturing job openings have continued to trend higher since weakening last autumn. Postings in the sector rose from 361,000 to 364,000, its highest level since July's 15-year high (394,000).

Meanwhile, lower energy costs helped to push down both consumer and producer prices in March. That will help to alleviate some of the pressure on the Federal Reserve as it seeks to normalize rates in the face of rising pricing pressures and stronger economic growth. (In the latest *Wall Street Journal* survey, of which I am a participant, 78.7 percent of economists expect the Federal Open Market Committee (FOMC) to raise federal funds rates again at its June 13 – 14 meeting.) With that said, it is also clear that inflationary pressures have accelerated over the past few months. Overall, producer prices for final demand goods and services have risen 2.3 percent since March 2016, its highest year-over-year rate since March 2012. Core producer prices–which exclude food, energy and trade services—grew 1.75 percent year-over-year in March, up slightly from 1.7 percent in February. That year-over-year pace was the fastest rate since August 2014.

This week, we will find out whether the manufacturers can increase production for the seventh straight month, building on recent progress in the sector. While businesses continue to grapple with a number of headwinds, signs point toward the global economic environment for manufacturing trending in the right direction. This can be seen in regional sentiment surveys, as well, including reports from the New York and Philadelphia Federal Reserve Banks, both of which will release data from their April surveys this week. Other economic highlights of the week include the most recent updates for housing starts and permits, leading indicators, real GDP by industry and state employment.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, April 10
None

Tuesday, April 11
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, April 12
None

Thursday, April 13
Producer Price Index

This Week's Indicators:

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

Tuesday, April 18
Housing Starts and Permits
Industrial Production

Wednesday, April 19
None

Thursday, April 20
Conference Board Leading Indicators

University of Michigan Consumer Sentiment (Preliminary)

Friday, April 14
Consumer Price Index
Retail Sales

Philadelphia Federal Reserve Manufacturing Survey

Friday, April 21
Existing Home Sales
Real GDP by Industry
State Employment Report

Summaries for Last Week`s Economic Indicators

Consumer Price Index

The Bureau of Labor Statistics reported that consumer prices decreased 0.3 percent in March, its first decline in 13 months. The reduced figure stemmed from a reduction in energy costs, down 3.2 percent, including a 6.0 percent decline in gasoline prices. With that said, gasoline costs have jumped nearly 20 percent over the past 12 months. At the same time, food prices increased by 0.3 percent in March, its highest monthly rate since June 2015. Overall, the consumer price index increased 2.4 percent year-over-year in March, down from 2.8 percent in February but up from 0.9 percent one year ago.

Core consumer prices, which exclude food and energy costs, edged down 0.1 percent in March. In this release, higher prices for medical care and transportation services offset reduced costs for apparel, household furnishings and new and used vehicles. Excluding food and energy costs, consumer prices have increased 2.0 percent over the past 12 months, pulling back a little from 2.2 percent in the prior report. Even though core consumer price inflation has equaled or exceeded the Federal Reserve's stated goal of 2 percent for 17 consecutive months, overall price pressures remain modest and under control for now.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics reported that total hires in manufacturing in February rose to the highest level since June 2008, edging up from 304,000 in January to 305,000 in February. This represented notable progress from just 268,000 six months ago. With that said, the underlying data were mixed in February, with nondurable goods hiring up from 139,000 to 149,000 but hiring for durable goods firms down from 165,000 to 156,000. At the same time, total separations—which include quits, layoffs and retirements—decreased from 304,000 to 292,000. Separations were lower for both durable (down from 163,000 to 155,000) and nondurable (down from 141,000 to 137,000) goods manufacturers. Overall, net hiring (or hires minus separations) improved from zero in February to 13,000 in March, its fastest pace in seven months.

Meanwhile, manufacturing job openings have continued to trend higher since weakening last autumn. Postings in the sector rose from 361,000 to 364,000, its highest level since July's 15-year high (394,000). Job openings in February also ticked up for durable goods, up from 206,000 to 209,000, but were flat for nondurable goods businesses at 155,000. This report remains encouraging from an openings standpoint, as elevated levels of postings should lead to better hiring numbers down the line.

In the larger economy, nonfarm job openings increased from 5,625,000 in January to 5,743,000 in February. This marks the most since the all-time high of 5,852,000, achieved in March 2016, and it has trended upward since bottoming out at 5,491,000 in August. This release had more openings for construction, education and health services, government, leisure and hospitality and manufacturing. In addition, net hiring in the overall economy rose from 177,000 in January to 243,000 in February.

NFIB Small Business Survey

Sentiment among small business owners in March remained near the 12-year high seen in January even as it has eased a little since then according to the National Federation of Independent Business (NFIB) latest survey. The Small Business Optimism Index edged down from 105.3 in February to 104.7 in March, which was not far from the 105.9 reading recorded in January. Over the past four months, the headline index has averaged 105.4, illustrating the sizable uptick in confidence observed since the election. One year ago, the index was 92.6. Along those lines, the percentage of respondents suggesting that the next three months would be a “good time to expand” held steady at 22 percent in March, after falling from 25 percent in January but remaining well above the 6 percent who said the same thing in March 2016.

The percentage expecting sales to increase over the next three months remained elevated. It eased from 31 percent in December, its largest level since October 2005, to 18 percent in March. For comparison purposes, that figure was 1 percent one year ago. Likewise, the net percentage planning to add workers in the next three months inched up from 15 percent to 16 percent. While this was off from 18 percent in January, it suggests that more small businesses are planning to add to their workforce than what we saw a few months ago. Nine percent were planning to hire as recently as August, for instance.

On the investment front, 64 percent of small business owners said that they had made a capital expenditure in the past six months, its highest reading since December 2013. That is an encouraging sign that firms are stepping up their capital expenditures. In fact, capital spending plans for the next three to six months increased from 26 percent to 29 percent, a three-month high.

Respondents noted taxes as the “single-most important problem” (20 percent), highlighting the need for comprehensive business tax reform. Government regulations (17 percent), the quality of labor (16 percent) and poor sales (12 percent) also topped the list.

Producer Price Index

The Bureau of Labor Statistics reported that producer prices for final demand goods and services edged down 0.1 percent in March, falling for the first time in seven months. For manufacturers, producer prices for final demand goods were also off by 0.1 percent, led lower by reduced energy costs, down 2.9 percent for the month. Still, on a year-over-year basis, final demand energy prices have risen 15.3 percent. At the same time, food prices jumped 0.9 percent in March, its strongest monthly gain since December.

Higher costs for cooking oils, eggs, fruits, meats and vegetables were enough to offset lower prices for coffee, dairy products, grains, milled rice and oilseeds. Since March 2016, food prices have inched up 0.3 percent, its first positive year-over-year gain since February 2015.

Excluding food and energy, final demand goods prices for producers increased by 0.4 percent in March. Overall, producer prices for final demand goods and services have risen 2.3 percent since March 2016, its highest year-over-year rate since March 2012. Moreover, it represents a notable pickup in inflationary pressures after being unchanged in August. Meanwhile, core producer prices—which exclude food, energy and trade services—grew 1.75 percent year-over-year in March, up slightly from 1.7 percent in February. That year-over-year pace was the fastest rate since August 2014.

Retail Sales

The Census Bureau reported that retail sales edged slightly lower in March for the second straight month, down 0.2 percent. Softer automotive sales help to explain at least part of this weakness, with spending at motor vehicle and parts dealers down 1.2 percent for the month. Excluding automobiles, retail sales remained unchanged in March. Despite the reduced headline number in the latest release, the data continue to reflect American consumers who have been more willing to open their pocketbooks, especially when compared to this time last year. Along those lines, retail spending has risen 5.2 percent over the past 12 months, with the year-over-year rate down from January’s 5.9 percent pace but well above the more-hesitant rate of 1.7 percent seen in March 2016. Excluding motor vehicles and parts sales, the year-over-year rate was 5.0 percent.

Beyond automobiles, the retail sales figures in March were mixed. Retail segments with increased spending for the month included electronics and appliance stores (up 2.6 percent), miscellaneous store retailers (up 1.8 percent), clothing and accessories stores (up 1.0 percent), nonstore retailers (up 0.6 percent) and food and beverage stores (up 0.5 percent), among others. In contrast, building material and garden supply stores (down 1.5 percent), gasoline stations (up 1.0 percent), sporting goods and hobby stores (down 0.8 percent), food services and drinking places (down 0.6 percent) and furniture and home furnishings stores (down 0.3 percent).

Since March 2016, the largest gains in retail spending were for gasoline stations (up 14.3 percent), nonstore retailers (up 11.9 percent), miscellaneous store retailers (up 6.5 percent), building material and garden supply stores (up 6.3 percent), health and personal care stores (up 5.7 percent) and motor vehicle and parts dealers (up 5.6 percent). The gasoline station increase stemmed largely from higher prices. To illustrate this, the average price of regular conventional gasoline grew from $1.78 per gallon on March 7, 2016, to $2.26 a gallon on March 6, 2017, according to the Energy Information Administration.

University of Michigan Consumer Sentiment (Preliminary)

The University of Michigan and Thomson Reuters reported that consumer confidence rebounded in April after pulling back a little in February and March, according to preliminary figures. The Index of Consumer Sentiment rose from 96.9 in March to 98.0 in April, its highest level since the 98.5 reading in January, the survey's best reading in 13 years. Indeed, over the past five months, the headline number has averaged 97.6, with Americans more confident than earlier in 2016. For instance, the Index of Consumer Sentiment measured 87.2 as recently as October. With that said, Richard Curtin, the Surveys of Consumers chief economist, said that confidence has remained sharply divided along partisan lines since the election.

Looking specifically at the April data, the public was more upbeat in their assessment of current conditions, up from 113.2 to 115.2, with the measure for future economic conditions also inching slightly higher, up from 86.5 to 86.9. Final data will be released on April 28.

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Questions or comments?

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