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Monday Economic Report

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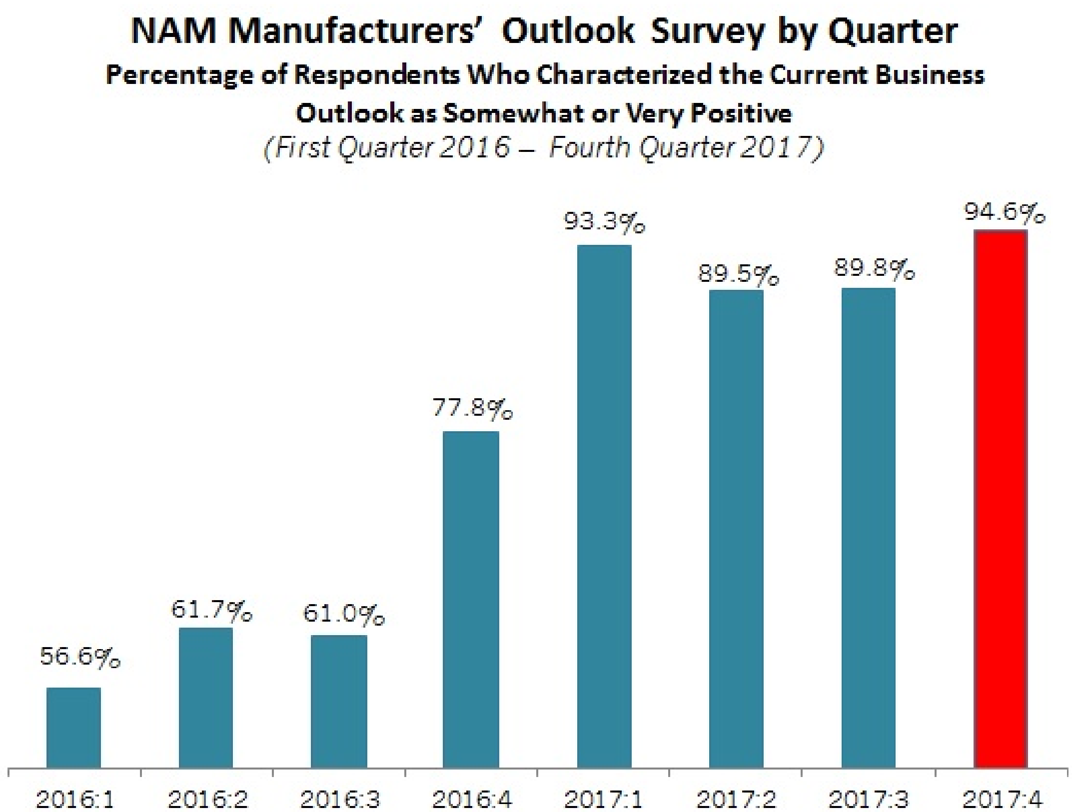

The latest NAM Manufacturers' Outlook Survey reflected continued optimism in the sector, with the headline index rising to unprecedented heights. Indeed, 94.6 percent of respondents said they are positive about their own company's outlook, the highest in the survey's 20-year history. Optimism has been at historically high levels throughout the year, averaging 91.8 percent in the four quarters of 2017, up from a 64.3 percent average in 2016. Manufacturers have reported a robust turnaround in activity over the past 12 months, and they are very upbeat in their assessment of demand and output moving forward. Both sales and capital spending are anticipated to increase over the next 12 months at the fastest rates since mid-2011, and employment continues to trend strongly upward.

In addition, the data indicate continued strength in the labor market. Full-time employment is expected to rise 2.6 percent over the next year, up from 2.2 percent in the previous survey. This is just shy of the 2.7 percent pace recorded in June, which was the fastest rate in the survey's history. Nearly 62 percent of manufacturers anticipate an increase in employment over the next year, with 22.8 percent predicting a jump of at least 5 percent. Along those lines, the inability to attract and retain a quality workforce topped the list of primary business challenges, with 72.9 percent of respondents citing this as their biggest concern. This was closely followed by rising health care and insurance costs at 72.3 percent.

Manufacturers are optimistic about the chance that long-sought-after comprehensive business tax reform will be enacted into law. Just more than three-quarters of respondents said they supported the current tax proposals being debated in Congress, with 16.4 percent unsure. In general, the survey results and comments indicate that a simpler, modern tax code would help manufacturers be more competitive in the global marketplace. Nearly 63 percent said comprehensive business tax reform would encourage their company to increase capital spending, and more than half would expand their business (57.9 percent) and hire more workers (53.8 percent), while a significant proportion would increase employee wages and benefits (48.8 percent) and invest more in the community (34.7 percent).

Beyond the NAM survey, manufacturing production rose for the third straight month in November, up 0.2 percent. This extended a 1.4 percent gain in October, which jumped significantly on rebounds related to recent hurricanes. The data have seesawed from month to month since the spring, but it is hoped the sector can build from recent momentum. Indeed, manufacturing production has risen 2.4 percent over the past 12 months, matching the rate in October, with both being the best year-over-year pace since July 2014. In a similar manner, manufacturing capacity utilization inched up from 76.3 percent in October to 76.4 percent in November, a reading not seen since May 2008.

Meanwhile, similar to manufacturing, total industrial production, which also includes mining and utilities, also increased 0.2 percent in November, or 3.4 percent over the past 12 months, its best year-over-year pace in three years. Moreover, the IHS Markit Flash U.S. Manufacturing PMI increased from 53.9 in November to 55.0 in December, its highest point since January. Looking ahead, the index for future output jumped to its best reading since January 2016 (up from 70.8 to 71.1), with respondents very optimistic about production for the next six months. From a regional perspective, manufacturing activity in the New York Federal Reserve Bank's district eased a little in December but remained strong overall, with respondents also upbeat in their outlook.

Turning to the global economy, manufacturing activity in Europe expanded at the fastest pace since the survey was founded in June 1997, with the IHS Markit Flash Eurozone Manufacturing PMI rising from 60.1 in November to 60.6 in December. As such, this is yet another signal that the economy on the continent is trending in the right direction after sluggishness in recent years. New orders, output and employment each accelerated in December, with hiring and production growth also at record highs. The pace of new orders registered the best reading since April 2000. In addition to data for Europe as a whole, IHS Markit also released preliminary figures for France (up from 57.7 to 59.3) and Germany (up from 62.5 to 63.3). German manufacturing activity expanded at its best rate since the survey began in April 1996, and the data in France saw the strongest growth since September 2000.

At this all-important holiday spending season, data on consumer sales are closely watched, and they have been encouraging. Retail spending grew at a robust 0.8 percent pace in November, extending the 2.0 percent and 0.5 percent rates in September and October, respectively. Overall, the data show that consumers are accelerating their purchases after slowing down somewhat during the summer. On a year-over-year basis, retail sales have risen 5.8 percent since November 2016, up from 4.9 percent in the previous report. With that said, sales of motor vehicles and parts—one of the largest retail segments—declined 0.2 percent in November. Excluding automobiles, retail sales increased 1.0 percent in November, with year-over-year growth of 5.7 percent.

Meanwhile, the Federal Open Market Committee (FOMC) voted to raise short-term interest rates at the conclusion of its December 12–13 meeting. It was the third increase in the federal funds rate, and only the fourth hike since the financial crisis. Specifically, the Federal Reserve increased rates by another 25 basis points, with a new target range of 1.25 to 1.50 percent. In making this decision, participants noted that "the labor market has continued to strengthen and that economic activity has been rising at a solid rate." It also cited low inflationary pressures, even with rising energy costs pushing up both consumer and producer price data in November. It is widely anticipated the FOMC will increase rates three times in 2018, at least according to the latest economic projections. Such increases, of course, would depend on continued improvements in economic activity, especially as the Federal Reserve remains "data dependent."

The housing market, which has underperformed for much of this year, will be the focus of attention this week. While builders remain upbeat about sales moving forward, the sector has been hampered by workforce shortages and rising costs, among other challenges. Housing starts and permits were both markedly higher in October, and that trend is likely to continue in new November data. New and existing home sales will also be reported. In addition, there will be a rush of other indicators this week as agencies push out their releases before the holidays. Those include a second revision for third-quarter real GDP and manufacturing surveys from the Kansas City and Philadelphia Federal Reserve Banks, as well as data releases on consumer confidence, leading indicators, the National Activity Index, personal income and spending and state employment.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, December 11
Job Openings and Labor Turnover Survey
NAM Manufacturers' Outlook Survey

Tuesday, December 12
NFIB Small Business Survey
Producer Price Index

Wednesday, December 13
Consumer Price Index
FOMC Monetary Policy Statement

Thursday, December 14
IHS Markit Flash Manufacturing PMIs for the United States and Eurozone
Retail Sales

Friday, December 15
Industrial Production
New York Fed Manufacturing Survey

This Week's Indicators:

Monday, December 18
NAHB Housing Market Index

Tuesday, December 19
Housing Starts and Permits

Wednesday, December 20
Existing Home Sales

Thursday, December 21
Chicago Fed National Activity Index
Conference Board Leading Indicators
Gross Domestic Product (Second Revision)
Philadelphia Fed Manufacturing Survey

Friday, December 22
Kansas City Fed Manufacturing Survey
New Home Sales
Personal Income and Spending
State Employment Report
University of Michigan Consumer Sentiment (Revision)

Summaries for Last Week`s Economic Indicators

Consumer Price Index
The Bureau of Labor Statistics reported that consumer prices increased 0.4 percent in November, accelerating from a gain of 0.1 percent in October. Higher energy costs, which rose 3.9 percent in the latest data, lifted consumer prices. Gasoline prices alone increased 7.3 percent. In contrast, food prices remained flat in November for the second straight month. Since November 2016, food and energy costs have increased

1.4 percent and 9.4 percent, respectively. Excluding food and energy, core consumer inflation edged up 0.1 percent in November, with increased prices for medical care commodities, new cars and shelter expenses but pulled down by apparel and household furnishings.

Overall, the consumer price index increased 2.2 percent year-over-year in November, up from 2.0 percent in October. There has been an acceleration in pricing pressures since June's 1.6 percent year-over-year reading, but the current rate remains well below the 2.8 percent pace in February. In addition, core consumer prices, which exclude food and energy costs, have risen 1.7 percent over the past 12 months, essentially the average year-over-year pace since May.

FOMC Monetary Policy Statement

The Federal Open Market Committee (FOMC) voted to raise short-term interest rates at the conclusion of its December 12–13 meeting. It was the third increase in the federal funds rate, and only the fourth hike since the financial crisis. Specifically, the Federal Reserve increased rates by another 25 basis points, with a new target range of 1.25 to 1.50 percent. In making this decision, participants noted that "the labor market has continued to strengthen and that economic activity has been rising at a solid rate." It also cited low inflationary pressures. At this meeting, there were two dissenters: Charles Evans and Neel Kashkari of the Chicago and Minneapolis Federal Reserve Banks, respectively. Both preferred to not change the federal funds rate. In addition to increasing short-term rates, the FOMC will continue to normalize the size of its balance sheet, as outlined in its June addendum and approved at the September meeting.

Beyond this latest action, it is widely anticipated the FOMC will increase rates three times in 2018, at least according to the latest economic projections. Such increases, of course, would depend on continued improvements in economic activity, especially as the Federal Reserve remains "data dependent."

Meanwhile, the outlook for growth improved in those projections. Members now see the U.S. economy expanding 2.5 percent in both 2017 and 2018, up from estimates in September for 2.4 percent growth in 2017 and 2.1 percent in 2018. In addition, the Federal Reserve predicts the unemployment rate falling to 4.1 percent in 2017 and 3.9 percent in 2018. In September, projections had the unemployment rate declining to 4.1 percent next year. The Federal Reserve foresees 1.5 percent core inflation in 2017, with that pace rising to 1.9 percent in 2018.

Janet Yellen will chair the next meeting, which is scheduled for January 30–31, and if confirmed, which is expected, Jay Powell will assume the chair role on February 1.

IHS Markit Flash Manufacturing PMIs for the United States and Eurozone

Manufacturing activity in Europe expanded at the fastest pace since the survey was founded in June 1997, with the IHS Markit Flash Eurozone Manufacturing PMI rising from 60.1 in November to 60.6 in December. As such, this is yet another signal that the economy on the continent is trending in the right direction after sluggishness in recent years. New orders (up from 61.4 to 61.6), output (up from 61.0 to 62.0) and employment (up from 58.2 to 58.5) each accelerated in December, with hiring and production growth also at record highs. The pace of new orders registered the best reading since April 2000. Exports eased ever so marginally in the latest data (down from 60.7 to 60.6) but continued to expand robustly. At the same time, the index for future output continued to grow at a very healthy pace (up from 65.6 to 67.8), rising to its highest point since that measure was introduced in mid-2012.

In addition to data for Europe as a whole, IHS Markit also released preliminary figures for France (up from 57.7 to 59.3) and Germany (up from 62.5 to 63.3). German manufacturing activity expanded at its best rate since the survey began in April 1996, and the data in France saw the strongest growth since September 2000.

Meanwhile, the IHS Markit Flash U.S. Manufacturing PMI increased from 53.9 in November to 55.0 in December, its highest point since January. Overall, manufacturing activity in the United States continued to expand modestly, with decent increases in growth for new orders (up from 54.3 to 55.9), output (up from 54.3 to 55.7) and employment (up from 54.3 to 55.7). The rate of hiring grew at the fastest pace since October 2014. At the same time, export growth (down from 52.0 to 50.6) slowed despite expanding for the fourth straight month. Looking ahead, the index for future output jumped to its best reading since January 2016 (up from 70.8 to 71.1), with respondents very optimistic about production for the next six months.

Final data on each of these surveys will be released on January 2.

Industrial Production

The Federal Reserve reported that manufacturing production rose for the third straight month in November, up 0.2 percent. This extended a 1.4 percent gain in October, which jumped significantly on rebounds related to recent hurricanes. With that said, the increase in the latest figures stemmed mostly from higher production for durable goods firms, up 0.4 percent in November, with output from nondurable goods manufacturers unchanged for the month. The data have seesawed from month to month since the spring, but it is hoped the sector can build from recent momentum. Indeed, manufacturing production has risen 2.4 percent over the past 12 months, matching the rate in October, with both being the best year-over-year pace since July 2014. In a similar manner, manufacturing capacity utilization inched up from 76.3 percent in October to 76.4 percent in November, a reading not seen since May 2008.

The underlying data in November provided mixed results. The largest gains in the manufacturing sector included plastics and rubber products (up 1.7 percent), primary metals (up 1.7 percent), computer and electronic products (up 0.7 percent), fabricated metal products (up 0.7 percent), machinery (up 0.7 percent) and electrical equipment and appliances (up 0.5 percent), among others. In contrast, output declined for apparel and leather (down 1.0 percent), textile and product mills (down 0.7 percent), wood products (down 0.6 percent), nonmetallic mineral products (down 0.5 percent) and petroleum and coal products (down 0.5 percent).

Meanwhile, similar to manufacturing, total industrial production also increased 0.2 percent in November, slowing after the 1.2 percent rebound in October. In addition to manufacturing, mining production rose strongly, up 2.0 percent for the month. On the other hand, utilities output decreased 1.9 percent. Recent hurricanes fueled the volatility in these data points. Over the past 12 months, industrial production has risen 3.4 percent, a three-year high. Mining and utilities output increased 9.4 percent and 2.3 percent year-over-year, respectively, in the latest data. In addition, capacity utilization edged up from 77.0 percent to 77.1 percent, its strongest rate since April 2015.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics reported that manufacturing job openings decreased from 435,000 in both August and September—both at the highest point since January 2001—to 402,000 in October. Overall, the data suggest manufacturers are posting new jobs at a very strong rate, exceeding 400,000 for the fifth consecutive month. Indeed, as the manufacturing outlook has improved, job openings have turned higher—another sign the labor market has tightened significantly. One year ago, for instance, there were 314,000 job openings in the sector. The underlying job openings data for durable and nondurable goods decreased, but nondurable goods experienced a steeper decline (down from 173,000 to 147,000) than durable goods (down from 262,000 to 255,000).

Meanwhile, manufacturing hiring remained positive in October. The sector hired 345,000 workers in October, up from 329,000 in September and not far from August's level of 359,000, which was nearly a 10-year high. Hiring increased for both durable (up from 189,000 to 201,000) and nondurable (up from 140,000 to 143,000) goods firms. At the same time, total separations—including layoffs, quits and retirements—inched down from 315,000 to 308,000. As a result, net hiring (or hires minus separations) rose from 14,000 in September to 37,000 in October. This implies average net hiring of 17,500 workers per month year to date, which is a relatively robust growth rate.

Turning to the larger economy, job openings for nonfarm payroll businesses fell from the all-time high of 6,177,000 in September to 5,996,000 in October. It was the first reading below 6 million since May but still a strong figure. In the latest data, construction and leisure and hospitality saw the largest monthly increases in postings. Meanwhile, net hiring among nonfarm businesses rebounded from hurricane-related softness in September of 96,000 to 374,000 in October.

NAM Manufacturers' Outlook Survey

The latest NAM Manufacturers' Outlook Survey reflected continued optimism in the sector, with the headline index rising to unprecedented heights. Indeed, 94.6 percent of respondents said they are positive about their own company's outlook, the highest in the survey's 20-year history. Optimism has been at historically high levels throughout the year, averaging 91.8 percent in the four quarters of 2017, up from a 64.3 percent average in 2016. Manufacturers have reported a robust turnaround in activity over the past 12 months, and they are very upbeat in their assessment of demand and output moving forward. Both sales and capital spending are anticipated to increase over the next 12 months at the fastest rates since mid-2011, and employment continues to trend strongly upward.

Respondents predict sales growth of 5.2 percent over the next year, up from 4.5 percent in the previous release, with more than 56 percent saying their sales will rise by at least 5.0 percent over the next 12 months. At the same time, capital investments are anticipated to grow 3.4 percent over the next 12 months, up from 2.7 percent in September, reflecting business leaders' increased confidence in the future. In addition, the data indicate continued strength in the labor market. Full-time employment is expected to rise 2.6 percent over the next year, up from 2.2 percent in the previous survey. This is just shy of the 2.7 percent pace recorded in June, which was the fastest rate in the survey's history. Nearly 62 percent of manufacturers anticipate an increase in employment over the next year, with 22.8 percent predicting a jump of at least 5 percent. Along those lines, the inability to attract and retain a quality workforce topped the list of primary business challenges, with 72.9 percent of respondents citing this as their biggest concern. This was closely followed by rising health care and insurance costs at 72.3 percent.

Manufacturers are optimistic about the chance that long-sought-after comprehensive business tax reform will be enacted into law. Just more than three-quarters of respondents said they supported the current tax proposals being debated in Congress, with 16.4 percent unsure. In general, the survey results and comments indicate that a simpler, modern tax code would help manufacturers be more competitive in the global marketplace. Nearly 63 percent said comprehensive business tax reform would encourage their company to increase capital spending, and more than half would expand their business (57.9 percent) and hire more workers (53.8 percent), while a significant proportion would increase employee wages and benefits (48.8 percent) and invest more in the community (34.7 percent).

New York Fed Manufacturing Survey

Manufacturing activity in the New York Federal Reserve Bank's district eased a little in December but remained strong overall. In the latest Empire State Manufacturing Survey, the composite index of general business conditions declined from 19.4 in November to 18.0 in December. While this was the second straight deceleration in the headline index, off from the three-year high of 30.2 in October, the pace of expansion has remained robust, averaging 21.0 over the past seven months. The underlying indicators provided somewhat mixed results. On the positive side, shipments strengthened in December (up from 18.4 to 22.4), with growth in new orders slowing slightly but still expanding at a healthy pace (down from 20.7 to 19.5). Hiring also grew at its weakest rate since July (down from 11.5 to 5.1), with the average employee workweek improving to neutral in this survey (up from -0.8 to 0.0).

Meanwhile, manufacturers in the New York region remained very upbeat about the next six months, even with some easing. The expectations composite index declined from 49.9 in November, its highest point since January 2012, to 46.6 in December. At least 56 percent of respondents predict higher new orders and shipments over the next six months, and encouragingly, those individuals expect faster paces of growth for employment (up from 20.8 to 29.0), capital expenditures (up from 25.4 to 34.1) and technology spending (up from 10.8 to 22.5). More than 39 percent anticipate increased hiring, suggesting that the labor market for workers should continue to tighten.

NFIB Small Business Survey

The National Federation of Independent Business reported that the Small Business Optimism Index jumped from 103.8 in October to 107.5 in November. This was the highest level since the monthly series began in 1986 and not far from the record high in July 1983 (108.0). Note that readings above 100 are consistent with strong growth among small business owners, and the robust data seen for much of the past year would suggest a healthy economic outlook overall. Through the first 11 months of 2017, the headline index has averaged 104.8, up from 94.3 in the same time frame in 2016. In addition, the percentage of respondents suggesting the next three months would be a “good time to expand” rose from 23 percent to 27 percent, and the net percentage feeling that sales would be higher over the next three months increased from 21 percent to 34 percent.

The labor market also remains strong. The net percentage planning to add workers in the next three months rose from 18 percent to 24 percent. With that said, those with positions not able to be filled right now pulled back from 35 percent to 30 percent. November’s pace matched the rate in July, which was the highest reading since December 1999. As such, the level of job postings overall remained elevated even with some easing in November. Similarly, capital expenditure plans for the next three to six months remained promising despite decreasing slightly, down from 27 percent in October to 26 percent in November.

Respondents cited taxes as the “single most important problem” (22 percent), highlighting the need for comprehensive business tax reform. Nonetheless, the very upbeat assessment in this survey reflects optimism about the passage of tax reform. The quality of labor (18 percent) and government regulations and red tape (16 percent) also topped the list.

Producer Price Index

The Bureau of Labor Statistics reported that producer prices for final demand goods and services rose 0.4 percent in November for the third straight month. For manufacturers, producer prices for final demand goods jumped 1.0 percent in November, the fastest monthly pace since January. The gain in the latest data stemmed largely from a sharp acceleration in energy prices, up 4.6 percent in November after being flat in October. The increase in the spot price for West Texas Intermediate crude oil over this time frame helps to illustrate this rise, up from $50.59 per barrel on October 2 to $57.40 on November 30. Meanwhile, food prices grew a more modest 0.3 percent in November. On a year-over-year basis, final demand food and energy costs have risen 3.5 percent and 12.4 percent, respectively. Excluding food and energy, producer prices for final demand goods increased 0.3 percent in November for the third consecutive month.

Overall, producer prices for final demand goods and services have increased 3.0 percent since November 2016, up from 2.7 percent year-over-year last month and a pace not seen since January 2012. Raw material costs have accelerated across the past 12 months, as the year-over-year rate registered 1.3 percent one year ago. Nonetheless, core producer prices, which exclude food, energy and trade services, continue to be modest at 2.4 percent, up from 2.2 percent in October. For comparison purposes, core producer prices registered 1.7 percent year-over-year in November 2016.

Retail Sales

Retail spending grew at a robust 0.8 percent pace in November, extending the 2.0 percent and 0.5 percent rates in September and October, respectively. Overall, the data show that consumers are accelerating their purchases after slowing down somewhat during the summer. On a year-over-year basis, retail sales have risen 5.8 percent since November 2016, up from 4.9 percent in the previous report. With that said, sales of motor vehicles and parts—one of the largest retail segments—declined 0.2 percent in November. Excluding automobiles, retail sales increased 1.0 percent in November, with year-over-year growth of 5.7 percent.

Beyond automobiles, the retail spending figures increased for the most part in November. The largest increases included gasoline stations (up 2.8 percent), nonstore retailers (up 2.5 percent), electronics and appliance stores (up 2.1 percent), building material and garden supply stores (up 1.2 percent) and furniture and home furnishings stores (up 1.2 percent). Increased prices boosted sales at gasoline stations, and post-hurricane repairs likely spurred more spending at building material and furniture stores. In addition, it is noteworthy to discuss the dramatic changes occurring right now in the sector, especially with all-important holiday sales taking place in November. While modest gains in spending occurred at nonstore retailers, retail sales did not change for the month at general merchandise stores.

Over the past 12 months, the fastest growth in retail sales included gasoline stations (up 12.2 percent), building material and garden supply stores (up 10.7 percent), nonstore retailers (up 10.4 percent), furniture and home furnishings stores (up 8.4 percent) and motor vehicles and parts dealers (up 6.3 percent). Department store sales have risen 1.7 percent year-over-year.

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Questions or comments?

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