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MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE � February 11, 2019 � SHARE

Weaker Factory Orders in November ? Trade Deficit Eased from 10-Year High

The Weekly Toplines

- New orders for manufactured goods fell by 0.6 percent in November, extending the 2.1 percent decline seen in October. In addition, new orders for core capital goods (or nondefense capital goods excluding aircraft)�a proxy for capital spending in the U.S. economy�continued to pull back from the all-time high reached in July. This suggests some softness in capital spending in the economy, which is disappointing.

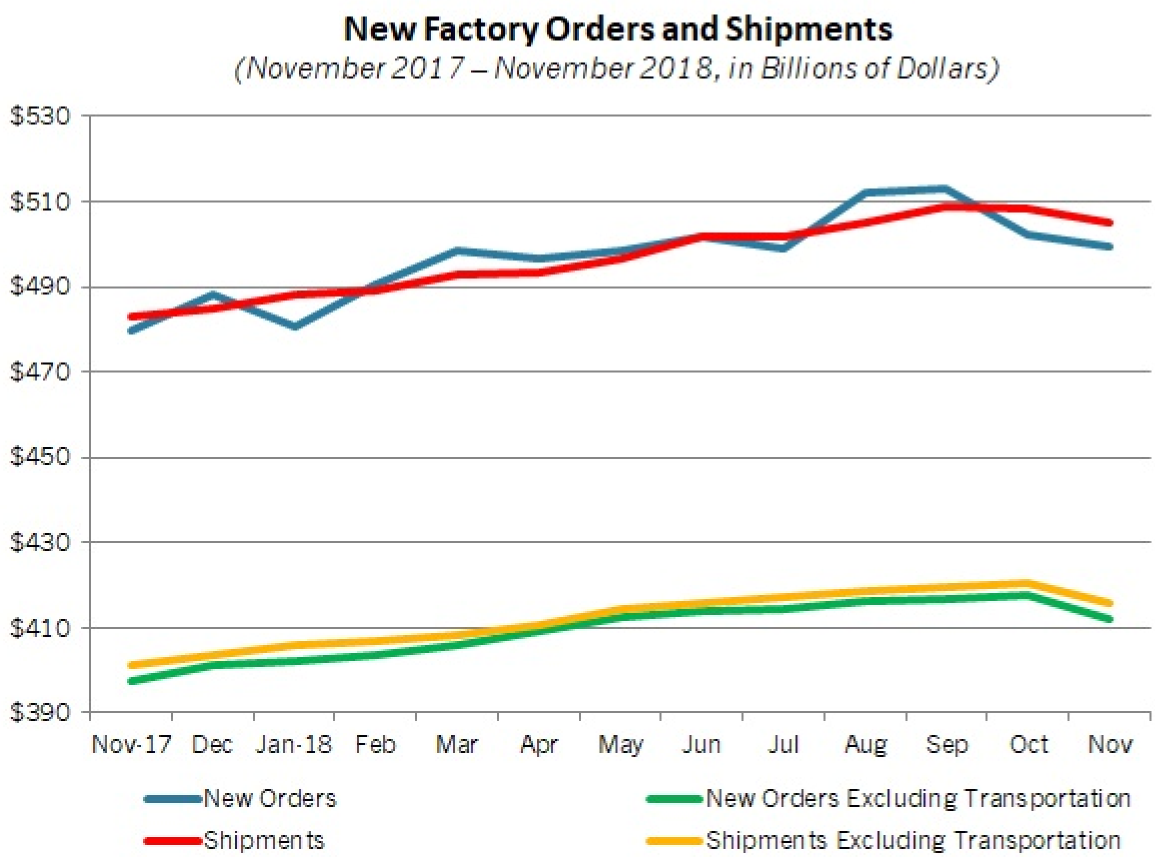
- However, core capital goods spending has increased by a relatively healthy 6.1 percent over the past 12 months, and overall, factory orders rose a modest 4.1 percent year-over-year.

- The U.S. trade deficit eased from its highest rate in 10 years, down from $55.70 billion in October to $49.31 billion in November. Considerable decreases in imports for cell phones and other household goods and petroleum products helped to explain the sharp decline in goods imports in November, with each factor rather volatile from month to month.

- More importantly, U.S.-manufactured goods exports rose 5.9 percent through the first 11 months of 2018 relative to the pace at the same timeframe in 2017. That suggests that manufacturing exports have continued to build on the rebound in international demand that started last year.

- Manufacturing labor productivity grew 1.3 percent in the fourth quarter, expanding for the third straight month. With that said, output in the sector slowed from 4.1 percent growth in the third quarter to 2.3 percent in the fourth quarter. Labor productivity in the sector rose 0.6 percent in 2018, or just slightly above the average seen over the past three years (0.5 percent). This remained less than desired and certainly below the rates seen in prior economic recoveries.

- Some developments of note regarding economic data releases in light of the recent partial government shutdown:
  - *Retail trade* � December retail sales data will be released next week on February 14.
  - *Fourth quarter real GDP* � Preliminary data were to have been released on January 30. Instead, the Bureau of Economic Analysis (BEA) will completely forego that release, and instead, produce an "initial" read on February 28. This would have previously been the first revision. (I continue to expect this to be around 2.6 percent.)
  - *Real GDP by industry* � This will now be released on February 21 for the third quarter. Manufacturing had value-added output of $2.33 trillion in the second quarter of 2018, an all-time high.
  - *Personal income and spending* � BEA will now release this data, along with the personal consumption expenditures (PCE) deflator, on March 1. That release will include personal income data for both December and January.
  - *International trade in goods* � The December trade data will now come out on March 6, about a month later than normal. This will give us our first read on U.S.-manufactured goods exports for 2018, with updated seasonal adjusted data released on [TradeStats Express](#) subsequent to that.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, February 4
Factory Orders and Shipments

Tuesday, February 5
None

Wednesday, February 6
International Trade Report
Productivity and Costs (Fourth Quarter)

Thursday, February 7
Consumer Credit

Friday, February 8
None

This Week's Indicators:

Monday, February 11
None

Tuesday, February 12
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, February 13
Consumer Price Index

Thursday, February 14
Producer Price Index
Retail Sales

Friday, February 15
Industrial Production
New York Fed Manufacturing Survey
University of Michigan Consumer Sentiment

Deeper Dive

- **Consumer Credit:** U.S. consumer credit outstanding increased 5.0 percent in December, extending the solid gain of 6.8 percent in November. Total consumer credit registered $4.010 trillion in December, with $1.045 trillion in revolving credit and $2.966 trillion in nonrevolving credit. Nonrevolving credit (including auto and student loans) rose 6.0 percent in December, with revolving credit (including credit cards and other lines of credit) slowing to just 2.0 percent growth. The latter might suggest a little hesitancy on the willingness to incur more credit card debt in December, but it also followed robust gains in both October and November. As such, the overall narrative remains positive. Indeed, consumer credit has increased 4.7 percent over the past 12 months, with revolving credit up a solid 5.6 percent year-over-year.

- **Factory Orders and Shipments:** New orders for manufactured goods fell by 0.6 percent in November, extending the 2.1 percent decline seen in October. With that said, there were sizable aircraft and parts sales, which helped boost the headline number. Excluding transportation equipment, factory orders were down 1.3 percent. In addition, new orders for core capital goods (or nondefense capital goods excluding aircraft)�a proxy for capital spending in the U.S. economy�were also off by 0.6 percent to $69.3 billion in November, decreasing for the third time in the past four months and continuing to pull back from the all-time high reached in July ($69.9 billion). This suggests some softness in capital spending in the economy, which is disappointing.

However, core capital goods spending has increased by a relatively healthy 6.1 percent over the past 12 months, and overall, factory orders rose a modest 4.1 percent year-over-year. Meanwhile, shipments declined by 0.6 percent for the month, but increased 4.5 percent since November 2017.

- **International Trade Report:** The U.S. trade deficit pulled back from its highest rate in 10 years, down from $55.70 billion in October to $49.31 billion in November. This was largely the result of a sizable drop in goods imports to a six-month low, with goods exports also off somewhat. Considerable decreases in imports for cell phones and other household goods and petroleum products helped to explain the sharp decline in goods imports in November, with each factor rather volatile from month to month. At the same time, exports of non-automotive capital goods soared to a new all-time high ($48.38 billion), buoyed by strength in civilian aircraft and telecommunications equipment sales abroad.

  Encouragingly, U.S.-manufactured goods exports rose 5.9 percent through the first 11 months of 2018 relative to the pace at the same timeframe in 2017. That suggests that manufacturing exports have continued to build on the rebound in international demand that started last year.

- **Productivity and Costs:** Manufacturing labor productivity grew 1.3 percent in the fourth quarter, expanding for the third straight month. With that said, output in the sector slowed from 4.1 percent growth in the third quarter to 2.3 percent in the fourth quarter. Unit labor cost data were unavailable due to the partial government shutdown. Labor productivity for durable and nondurable goods firms increased 2.6 percent and 1.2 percent, respectively, in the fourth quarter, with durable goods output jumping 5.7 percent but nondurable goods output falling by 1.2 percent.

  Manufacturing labor productivity in the sector rose 0.6 percent in 2018, or just slightly above the average seen over the past three years (0.5 percent). This remained less than desired. The average growth rate for manufacturing labor productivity registered 3.9 percent and 4.6 percent in the 1990�2000 and 2002�2008 timeframes, respectively, or the two prior economic recoveries.

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