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MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – November 18, 2019 – SHARE

Autos and Ongoing Global Weaknesses Pull Manufacturing Production Lower

The Weekly Toplines

- Manufacturing production declined 0.6% in October, extending the 0.5% loss in September and falling for the seventh time year to date. The latest decrease was led by a sharp decline in motor vehicles and parts production, down 7.1% and negatively impacted by the strike at General Motors. Excluding motor vehicles and parts, manufacturing production fell 0.2% for the second straight month.
- With that said, the November manufacturing production data will likely reflect a rebound in both motor vehicle and parts production and in the headline indices, with the GM strike now settled.
- Overall, the data continue to reflect struggles in the manufacturing sector related to weaker global growth and trade uncertainties. Manufacturing production has fallen 1.5% over the past 12 months, for instance, declining on a year-over-year basis for the fourth consecutive month.
- Meanwhile, total industrial production also declined, down 0.8% in October on reduced manufacturing, mining and utilities output. Industrial production has fallen 1.1% over the past 12 months, and total capacity utilization declined from 77.5% to 76.7%, the lowest since September 2017.
- For its part, manufacturing activity in the New York Federal Reserve Bank's district expanded for the fifth straight month in November, although at a slower pace, with survey respondents positive in their outlook for the next six months.
- Retail sales increased 0.3% in October, bouncing back from the 0.3% decline in September, with a modest 3.1% rise over the past 12 months. In addition, spending grew 3.7% year-over-year with motor vehicles and gasoline station sales excluded. As such, consumer spending has continued to be a bright spot

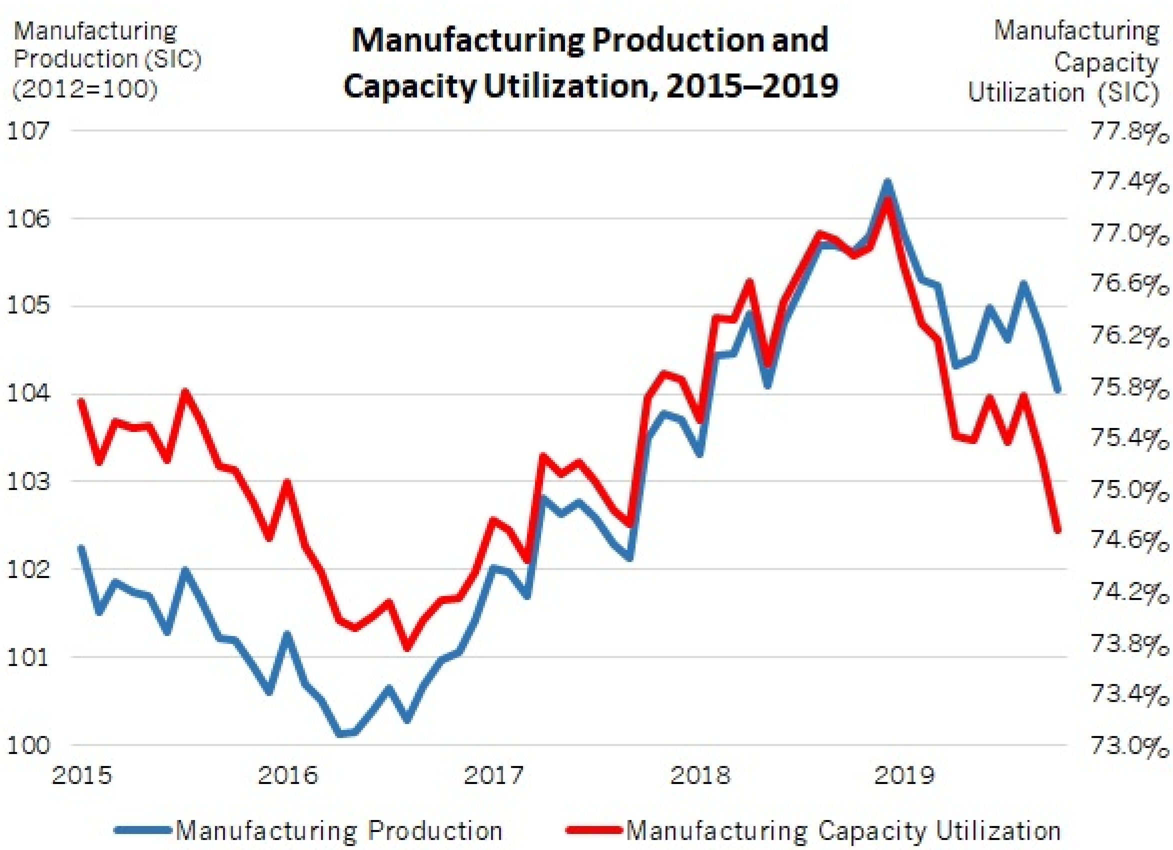
in the economy over the past year, even as it has also been clear that Americans have slowed their spending year to date.

- Federal Reserve Chair Jerome Powell testified before Congress that the Federal Open Market Committee is likely to pause before making additional moves as it assesses incoming data. After reducing short-term interest rates three times over the course of the past three meetings, the FOMC sees “the current stance of monetary policy as likely to remain appropriate as long as incoming information about the economy remains broadly consistent with our outlook of moderate economic growth, a strong labor market and inflation near our symmetric 2 percent objective.”

- On that note, the Federal Reserve’s preferred measure of inflation is the personal consumption expenditures deflator, and using that indicator, core price growth has remained below the FOMC’s stated goal of 2% for nine straight months, up 1.3% year-over-year in September.

- Similarly, producer prices for final demand goods and services have decelerated significantly in recent months, up just 1.0% year-over-year in October and the lowest since September 2016. In addition, core producer prices have grown 1.5% year-over-year, the slowest pace since October 2016.

- In contrast, consumer prices rose 0.4% in October, the fastest monthly pace since March, with 1.8% growth year-over-year. At the same time, core inflation (which excludes food and energy) increased 0.2% in October, with 2.3% growth over the past 12 months.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, November 11
VETERANS DAY HOLIDAY

Tuesday, November 12
NFIB Small Business Survey

Wednesday, November 13
Consumer Price Index

Thursday, November 14
Producer Price Index

Friday, November 15
Industrial Production
New York Fed Manufacturing Survey
Retail Sales

This Week's Indicators:

Monday, November 18
NAHB Housing Market Index

Tuesday, November 19
Housing Starts and Permits
State Employment Report

Wednesday, November 20
None

Thursday, November 21
Conference Board Leading Indicators
Philadelphia Fed Manufacturing Survey

Friday, November 22
IHS Markit Flash U.S. Manufacturing PMI
Kansas City Fed Manufacturing Survey
University of Michigan Consumer Sentiment (Revised)

Deeper Dive

- **Consumer Price Index:** Consumer prices rose 0.4% in October, the fastest monthly pace since March and up from being flat in September. Prices were buoyed by a jump in energy costs, up 2.7% in October, with food prices rising 0.2% for the month. Over the past 12 months, the consumer price index has risen 1.8%, up from 1.7% year-over-year in the prior release. In October 2018, the year-over-year rate was 2.5%, reflecting the deceleration in consumer price growth since then. At the same time, core inflation (which excludes food and energy) increased 0.2% in October, with 2.3% growth over the past 12 months.

  Overall, inflation appears to be stable for now and not far from the Federal Reserve's stated goal of core price inflation around 2%. Over the past year, consumer prices were notably higher for medical care services and shelter expenses, but apparel prices have fallen year-over-year, and the cost for new vehicles has edged up just 0.1% since October 2018.

- **Industrial Production:** Manufacturing production declined 0.6% in October, extending the 0.5% loss in September and falling for the seventh time year to date. The latest decrease was led by a sharp decline in motor vehicles and parts production, down 7.1% and negatively impacted by the strike at General Motors. Excluding motor vehicles and parts, manufacturing production fell 0.2% for the second straight month. Overall, the data continue to reflect struggles in the manufacturing sector related to weaker global growth and trade uncertainties. Manufacturing production has fallen 1.5% over the past 12 months, for instance, declining on a year-over-year basis for the fourth consecutive month.

In addition, durable goods production has plummeted 2.0% since October 2018 and down year-over-year for the second straight month. Nondurable goods output has fallen 0.6% over the past 12 months, declining on a year-over-year basis for the sixth consecutive month. At the same time, manufacturing capacity utilization fell from 75.2% in September to 74.7% in October, the lowest rate since March 2017. To illustrate the decline in capacity in the sector over the past year, utilization registered 76.8% in October 2018.

In October, durable goods production fell 1.2%, with nondurable goods activity flat for the month. Thirteen of the 19 major manufacturing sectors experienced weaker output for the month. The six manufacturing sectors with growth in October were food, beverage and tobacco products; machinery; nonmetallic mineral products; primary metals; printing and support; and wood products. All other sectors experienced declines.

Meanwhile, total industrial production also declined, down 0.8% in October and extending the 0.3% decline in September. In addition to reduced manufacturing output, production also decreased for mining (down 0.7%) and utilities (down 2.6%). Industrial production has fallen 1.1% over the past 12 months, declining on a year-over-year basis for the second straight month. Total capacity utilization declined from 77.5% to 76.7%, the lowest since September 2017.

- **New York Fed Manufacturing Survey:** Manufacturing activity in the New York Federal Reserve Bank's district expanded for the fifth straight month in November, although at a slower pace. The headline index inched down from 4.0 in October to 2.9 in November, with shipments and the average employee workweek softening a little. At the same time, new orders and employment improved somewhat. Nearly one-third of manufacturers in the region said their sales increased for the month, with 27.5% noting declines.

  Meanwhile, respondents to the Empire State Manufacturing Survey remain positive in their outlook for the next six months. The forward-looking index for business conditions increased from 17.1 to 19.4, with stronger growth expected for new orders, shipments, inventories, the average employee workweek and capital expenditures, including technology spending. Respondents predicted hiring to slow somewhat, but with modest growth still anticipated.

  At the same time, input costs—which had decelerated for much of this year—have picked up in the past few months, with 45.2% of manufacturers expecting higher prices moving forward, down from 47.5% in the previous survey.

- **NFIB Small Business Survey:** The National Federation of Independent Business reported that the Small Business Optimism Index rose from 101.8 in

September to 102.4 in October. Small business owners generally remain positive in their outlook despite the slowing global economy and ongoing trade uncertainties. The percentage of respondents saying that now is a “good time to expand” increased from 22% to 23%. Even though this is below the 30% reading in May, it remains a strong one overall. Similarly, sales expectations for the next three months inched higher in the latest survey, up from a net percentage of 16% to 17%, but were off from the elevated pace of 28% in October 2018.

The labor market data remain solid despite some easing. For instance, the net percentage planning to hire in the next three months picked up from 17% to 18%, and respondents cited the quality of labor as the top “single most important problem” for the 19th consecutive month.

Capital spending plans remained healthy, as 29% of firms planned to make a capital expenditure in the next three to six months, the best reading since May. In addition, 59% of respondents made a capital expenditure in the past six months, up from 57% in the prior survey.

- **Producer Price Index:** Producer prices for final demand goods and services rose 0.4% in October, bouncing back after declining 0.3% in September. At the same time, producer prices for final demand goods jumped 0.7% in October, the fastest monthly gain since March, led by strong growth in food and energy costs, which increased 1.3% and 2.8%, respectively. Core inflation for goods, which excludes food and energy, was flat for the month. Meanwhile, producer prices for final demand services increased 0.3% in October after decreasing 0.2% in September.

  Over the past 12 months, producer prices for final demand goods and services have risen just 1.0% (seasonally adjusted), down from 1.4% in the previous release and the lowest since September 2016. In addition, core producer prices have grown 1.5% year-over-year, decelerating from 1.7% year-over-year in September and the slowest pace since October 2016. To illustrate just how much core PPI growth has eased over the past 12 months, the year-over-year rate registered 3.0% in October 2018.

  O verall, the data continue to suggest that inflationary pressures remain low, with core prices well below the Federal Reserve’s stated goal of 2%. The Federal Open Market Committee has moved in recent months to stimulate growth to prolong the economic recovery, comforted but also concerned by the lack of inflation. With that said, the Federal Reserve plans to wait for incoming data before making additional moves.

- **Retail Sales:** Consumer spending increased 0.3% in October, bouncing back from the 0.3% decline in September. The underlying data provided mixed results. Retail spending increased in October for food and beverage stores; gasoline stations; general merchandise stores; motor vehicles and parts; and nonstore retailers. Excluding automotive and gasoline sales, retail spending edged up 0.1% in October. The largest drags in spending came from building materials and garden supplies; clothing and accessories; electronics and appliances; food services and drinking places; furniture and home furnishings; and sporting goods and hobbies.

Retail sales have risen a modest 3.1% over the past 12 months. In addition, spending grew 3.7% year-over-year with motor vehicles and gasoline station sales excluded. As such, consumer spending has continued to be a bright spot in the economy over the past year, even as it has also been clear that Americans have slowed their spending year to date.

Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.

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