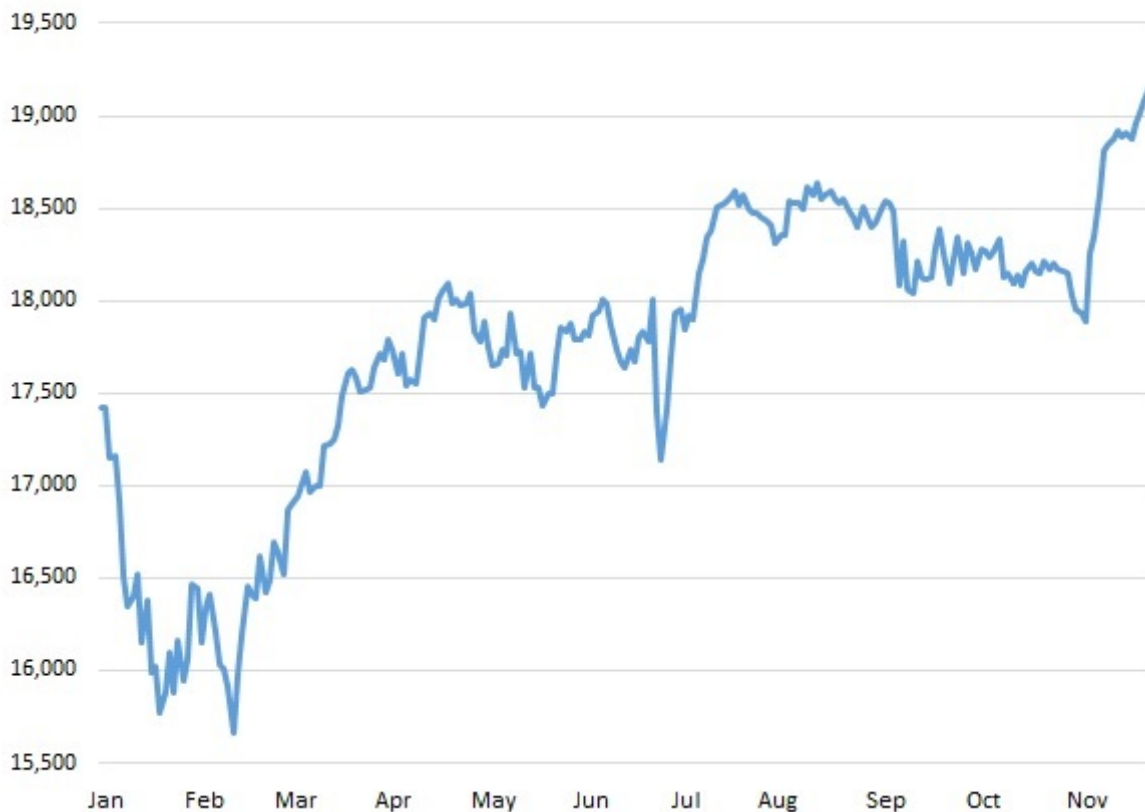




November 28, 2016

Dow Jones Industrial Average, 2016



There was a lot to be thankful for last week, with a number of positive economic indicators to report. Americans appear to be cautiously optimistic about growth moving forward, with [consumer confidence](#) rising to a six-month high in November. Respondents to that survey were hopeful in their outlook post-election, giving President-elect Donald Trump a “honeymoon” of sorts in terms of goodwill, at least in the University of Michigan’s survey. Financial markets have also received a significant boost since Election Day, with the Dow Jones Industrial Average (DJIA) surpassing 19,000 for the first time—a new all-time high. This was good news for our portfolios, with the DJIA up nearly 10 percent year to date, or 4.4 percent since the election.

Manufacturing data were also quite promising. This included new [durable goods orders](#), which jumped 4.8 percent in October and have increased 2.1 percent over the past 12 months. With that said, the data were skewed by strong growth in aircraft sales in October, which can be highly volatile from month to month. Excluding transportation, new orders for durable goods increased 1.0 percent in October, but over the past 12 months, growth in activity has been more minimal, up just 0.3 percent. Nonetheless, the healthy gains in this latest report provide some encouragement that the sector has continued on a path toward stabilization.

Along those lines, the [Markit Flash U.S. Manufacturing PMI](#) rose to a 13-month high in November, boosted by strong growth in output. New orders, exports and hiring also improved. Given that many manufacturers were rather cautious in their economic outlook over the past two years, this was welcome news. Looking more regionally, the Richmond Federal Reserve Bank reported that [manufacturing activity](#) in its district rebounded modestly in November after contracting in four of the prior five months. This largely came from better new orders data. There were positive developments in the labor market as well, with hiring accelerating for the second consecutive month. In addition, respondents were very optimistic about the next six months. This positive growth in activity in November followed similar progress in the [Kansas City](#), [New York](#) and [Philadelphia](#) districts the week before.

Moreover, this trend was not just in the United States. The [Markit Flash Eurozone Manufacturing PMI](#) expanded at its fastest pace since January 2014. As such, the continent's economy continues to move in the right direction, improving from earlier in the year, with activity accelerating at a modest pace. With that said, manufacturers in [Germany](#) and [France](#) reported some easing in growth in November, even as the underlying data continue to be quite positive for both.

Meanwhile, there was mixed news on housing last week. [Existing home sales](#) rose 2.0 percent in October, extending the 3.6 percent gain in September. There was increased sales in every region of the country, with activity up 5.9 percent over the past 12 months, largely from strength in the single-family segment. Inventories remain low, which is helping to boost median sales prices. In contrast, [new single-family home sales](#) declined 1.9 percent in October, with softer sales in every region except for the West. Still, the longer-term trend has been somewhat more encouraging, up 17.8 percent since October 2015.

This week, we will get new jobs market data on Friday. Manufacturing employment growth has been disappointing of late, with hiring down for three straight months and the sector losing 62,000 workers on net year to date. As such, we will be looking for signs of improvement in November. Likewise, we would hope to see stronger growth in demand and production in the latest Institute for Supply Management survey of manufacturers, especially given the jump in confidence in the competing Markit survey described above. The Dallas Federal Reserve Bank will also release its latest results. Other highlights this week include the latest data on construction spending, consumer confidence, personal income and spending and second quarter real GDP.

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P.S.: If you have not already done so, please take a moment to complete the latest NAM Manufacturers' Outlook Survey. This 25-question survey will help us gauge how manufacturing sentiment has changed since September's [survey](#). The survey includes special questions on monetary policy, shareholder activism, infrastructure, supply chain management and your company's get-out-the-vote efforts. To complete the survey, click [here](#). Responses are due by Wednesday, November 30, at 12:00 p.m. EST. As always, all responses are anonymous.

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, November 21
Chicago Fed National Activity Index

This Week's Indicators:

Monday, November 28
Dallas Fed Manufacturing Survey

Tuesday, November 22

Existing Home Sales
Richmond Fed Manufacturing Survey

Wednesday, November 23

Durable Goods Orders and Shipments
Markit Flash PMIs for the United States and Eurozone
New Home Sales
University of Michigan Consumer Sentiment (Revision)

Thursday, November 24

THANKSGIVING DAY HOLIDAY

Friday, November 25

None

Tuesday, November 29

Conference Board Consumer Confidence
Gross Domestic Product (Revision)

Wednesday, November 30

ADP National Employment Report
Personal Income and Spending

Thursday, December 1

Construction Spending
ISM Manufacturing Purchasing Managers' Index

Friday, December 2

BLS National Employment Report



Summaries for Last Week's Economic Indicators

Chicago Fed National Activity Index

The Chicago Federal Reserve Bank reported that the U.S. economy stabilized further in October for the second straight month after weakening significantly in August. The [National Activity Index](#) (NAI) increased from -0.23 in September to -0.08 in October. Index readings below zero suggest the economy is growing below its historical trend, with positive readings indicating the opposite. As such, this report continues to reflect overall economic conditions that are subpar relative to the trend. For its part, production-related indicators subtracted 0.04 from the headline number in October, with industrial production unchanged for the month. On the positive side, manufacturing production expanded modestly in October for the second consecutive month. There were also small negative contributions from personal consumption and housing, with employment being neutral.

Meanwhile, the three-month moving average edged down from -0.20 in September to -0.27 in October. The three-month moving average has been negative for 21 consecutive months, illustrating the sluggishness in the U.S. economy since the beginning of 2015. However, the three-month moving average has yet to cross -0.70, the threshold at which the NAI would start to indicate an increased recession risk.

Durable Goods Orders and Shipments

The Census Bureau reported that new [durable goods orders](#) jumped 4.8 percent in October. New orders rose from an upwardly revised \$228.4 billion in September to \$239.4 billion in October. On a year-over-year basis, sales have increased 2.1 percent since October 2015, up from \$234.5 billion. However, the data have been skewed by volatility in the transportation equipment segment. In October, transportation equipment orders soared 12.0 percent higher on strong sales for defense and nondefense aircraft and parts. Excluding transportation, new orders for durable goods increased 1.0 percent in October, but over the past 12 months, growth in activity has been more minimal, up just 0.3 percent.

Therefore, even with the healthy gains in demand in October, new orders growth for durable goods continues to be weak on a year-over-year basis, highlighting lingering challenges in the sector. Along those lines, core capital goods orders (or nondefense capital goods excluding aircraft) increased 0.4 percent in October, but have fallen 4.0 percent over the past 12 months.

Looking more closely at the various durable goods sectors, the data were mostly higher in this report. The largest gains in new orders included electrical equipment and appliances (up 2.3 percent), fabricated metal products (up 2.2 percent), other durable goods (up 1.0 percent), computers and electronic products (up 0.9 percent) and machinery (up 0.2 percent). At the same time, there were reduced orders in October for motor vehicles and parts (down 0.6 percent) and primary metals (down 0.1 percent).

Meanwhile, durable goods shipments edged marginally higher, up 0.1 percent in October and slowing from the 0.8 percent increase in September. Shipments figures were pulled lower by reduced transportation equipment, which fell 1.4 percent for the month. Excluding transportation, shipments of durable goods rose 0.9 percent in October. However, much like the new orders data described above, the longer-term trend has been quite soft. Since October 2015, durable goods shipments have inched up 0.2 percent, with year-over-year growth of 0.6 percent when excluding transportation equipment.

Existing Home Sales

The National Association of Realtors reported that [existing home sales](#) rose 2.0 percent in October, extending the 3.6 percent gain in September. There were 5.60 million existing homes sold in October, up from 5.49 million in September. All regions of the country saw gains for the month, which was encouraging. Existing home sales have risen 5.9 percent over the past 12 months. Digging deeper into the data, existing single-family home sales increased from 4.88 million units in September to 4.99 million units in October, up 2.3 percent, whereas condo and co-op sales were unchanged at 610,000 units. Single-family sales were up 6.6 percent year-over-year.

Inventories remain low, with 4.3 months of supply on the market in October, down from 4.7 months in July. The median price for an existing home sold in October was \$232,200, up 6.0 percent over the past year.

Markit Flash PMIs for the United States and Eurozone

The [Markit Flash U.S. Manufacturing PMI](#) rose from 53.4 in October to 53.9 in November, a 13-month high. More importantly, output grew at its strongest rate since March 2015 (up from 55.3 to 56.0), a sign that U.S. manufacturing activity has continued to stabilize from softness earlier in the year. Indeed, the headline index bottomed out in 2016 at 50.7 in May, and it has averaged 52.0 year to date through the first 11 months. Beyond production, other key indices were also stronger in November, including new orders (up from 54.7 to 55.5), exports (up from 50.9 to 51.0) and hiring (up from 51.6 to 52.4). Overall, this report provides some encouragement for manufacturers, many of whom have been rather cautious in their economic outlook for much of the past two years.

Meanwhile, the [Markit Flash Eurozone Manufacturing PMI](#) increased from 53.5 to 53.7, its fastest pace since January 2014. As such, the continent's economy continues to move in the right direction, with activity accelerating at a modest pace. Overall, the headline PMI has trended higher since bottoming out at 51.2 in February. New orders (up from 53.8 to 54.5) and exports (up from 53.4 to 54.1) were both stronger in this report. Yet, output (down from 54.6 to 54.1) and employment (down from 53.7 to 53.5) both pulled back slightly despite expanding at a still decent rate. In addition, manufacturers in [Germany](#) (down from 55.0 to 54.4) and [France](#) (down from 51.8 to 51.5) also reported some easing in growth in November, even as the underlying data continue to be quite positive for both.

New Home Sales

The Census Bureau and the U.S. Department of Housing and Urban Development reported that [new single-family home sales](#) declined 1.9 percent, down from 574,000 units at the annual rate in September to 563,000 units in October. New home sales were higher in the West for the month but somewhat softer in other regions of the country. Despite easing somewhat in this report, the longer-term trend has been more encouraging, up 17.8 percent from the 478,000 pace in October 2015.

Inventories of new single-family homes for sale edged higher, up from 5.0 months of supply on the market in September to 5.2 months in October. Nonetheless, that figure was 5.5 as recently as March, illustrating the notable decline in supply since then. The median sales price was \$304,500 in October, up 1.9 percent from 12 months earlier.

Richmond Fed Manufacturing Survey

The Richmond Federal Reserve Bank reported that [manufacturing activity](#) in its district rebounded modestly in November after contracting in four of the prior five months. The composite index of general business activity increased from -4 in October to 4 in November. The shift in this month's report came largely from better new orders data (up from -12 to 7), with shipments expanding ever so slightly (down from 2 to 1). At the same time, there are lingering weaknesses in the backlog of orders (down from -11 to -12) and capacity utilization (up from -5 to -1). Beyond those measures, the labor market data were promising. Hiring accelerated for the second consecutive month (up from 3 to 5), and the average workweek widened again (up from -3 to 4).

In addition, respondents were very optimistic about the next six months. A number of key indicators regarding the economic outlook in the region for the sector remained strong, including new orders (up from 32 to 38), shipments (up from 35 to 41), capacity utilization (unchanged at 28) and capital expenditures (up from 19 to 27). The forward-looking index for orders was at its fastest pace since March, and the capital spending measure was at a 14-month high. Employment growth was also expected to increase at a decent rate despite some easing in this release (down from 20 to 15), and the average workweek was anticipated to expand modestly (unchanged at 6).

Meanwhile, inflationary pressures remained largely under control. Manufacturers in the district said that prices paid for raw materials decreased from 1.17 percent at the annual rate in October to 1.00 percent in November. Raw material prices are expected to grow 1.17 percent at the annual rate six months from now, down from 1.51 percent in the previous report.

University of Michigan Consumer Sentiment (Revision)

The University of Michigan and Thomson Reuters reported that consumer confidence rose to a six-month high in November. The [Index of Consumer Sentiment](#) rebounded from 87.2 in October, its lowest level in 13 months, to 93.8 in November. That was up from a preliminary figure of 91.6 two weeks prior, with the shift coming post-election. As noted in the press release, "The initial reaction of consumers to [President-elect Donald] Trump's victory was to express greater optimism about their personal finances as well as improved prospects for the national economy." With that said, Richard Curtin, the survey's chief economist, warned that "no surge in economic expectations can long be sustained without actual improvements in economic conditions." For now, President-elect Trump is getting a "honeymoon" in terms of goodwill, at least in this survey.

The November data reflected more upbeat assessments of both current (up from 103.2 to 107.3) and future (up from 76.8 to 85.2) economic expectations, with the latter bouncing back from a two-year low in October. Overall, the data are largely consistent with real personal spending growth of 2.5 percent in 2017, according to the University of Michigan.

Connect with the Manufacturers



Questions or comments?

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