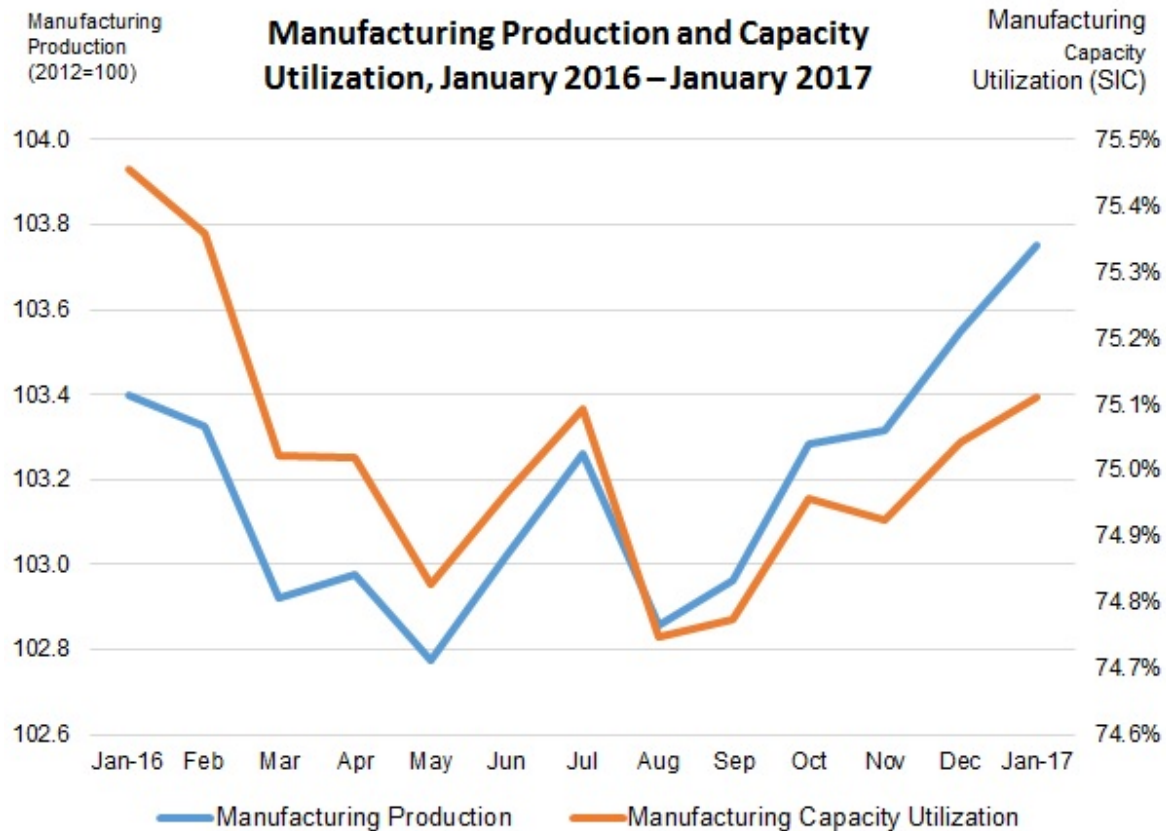




February 21, 2017



[Manufacturing production](#) expanded for the fourth consecutive month. Output in the sector was up 0.2 percent in January, extending the 0.2 percent gain seen in December. The recent improvements suggest that manufacturers are beginning to recover from notable weaknesses over the past two years, with a strong dollar and global headwinds dampening overall activity. In that regard, manufacturing production grew just 0.3 percent year-over-year in January, highlighting the significant challenges seen over the past 12 months in growing production. Similarly, manufacturing capacity utilization edged up from 75.0 percent to 75.1 percent, which, despite some progress, remained below the 75.5 percent utilization rate observed one year ago. Meanwhile, total industrial production returned to negative territory, down 0.3 percent in January, after jumping 0.6 percent in December, largely from swings in utilities production.

Sentiment surveys have also continued to be encouraging, including the most recent reports from the [New York](#) and [Philadelphia](#) Federal Reserve Banks. In the latter release, the headline index in February soared to its highest level since November 1983, and in both surveys, new orders and shipments expanded strongly. Hiring growth had lagged behind in recent Empire State Manufacturing Surveys, but in the current data, employment and the average workweek shifted into positive territory. Hopefully, we

will continue seeing stronger labor market data in the coming months, particularly if demand remains strong. Along those lines, regional surveys reflect a mostly upbeat manufacturing sector regarding the next six months, with more than half of respondents predicting higher sales and shipments moving forward. In addition, the [Small Business Optimism Index](#) from the National Federation of Independent Business rose to levels not seen since December 2004.

Turning to residential construction, home builders made healthy assessments about single-family home sales over the next six months, as the [Housing Market Index](#) remained quite elevated despite easing for the second straight month. This survey mirrored slightly weaker [housing starts](#) data, down 2.6 percent in January, which nonetheless continued to indicate relative health in the market. Housing starts have risen 10.5 percent over the past 12 months, which was quite encouraging. Indeed, much of the recent volatility has come from the multifamily segment; whereas, single-family housing starts have more consistently drifted higher, even with a slight lull in both November and December. Moreover, permitting for new residential units increased to a 14-month high. It was also the fifth straight month with permits exceeding 1.2 million units, which was reassuring.

Meanwhile, [retail sales](#) rose 0.4 percent in January, extending the 1.0 percent gain seen in December. Americans have been more willing to open their pocketbooks after being more cautious with their purchases at this time last year. Over the past 12 months, retail sales have jumped 5.6 percent, a healthy rebound from a year-over-year pace of just 2.2 percent in August. Motor vehicles and parts sales have been a relative bright spot of late, but a 1.4 percent decline in auto sales held back the January data slightly. To be fair, this drop was likely a response to a larger-than-normal jump in December in motor vehicle purchases, up 3.2 percent. Excluding automobiles, retail sales rose 0.8 percent in January, with year-over-year growth of 5.3 percent.

One of the larger economic headlines last week came from Federal Reserve Board Chair Janet Yellen's [testimony](#) to Congress on February 14–15. Her comments about “waiting too long to remove accommodation” were widely perceived as “hawkish,” perhaps telegraphing a possible short-term rate hike at the upcoming March 14–15 Federal Open Market Committee (FOMC) meeting. Yet, she also cited economic uncertainties, providing some wiggle room if the FOMC opts to wait until the May 2–3 or June 13–14 meetings before acting. For its part, inflationary pressures appear to be accelerating, even as they remain mostly modest for now. Core [consumer prices](#) have increased 2.3 percent over the past 12 months; whereas, [producer prices](#) for final demand goods and services have increased 1.7 percent since January 2016, its highest year-over-year rate since August 2014. In January, a fair share of the boost in prices came from increased energy costs, both for consumers and producers.

We will get additional clues about the health of the manufacturing sector this week, including new surveys from IHS Markit and the Kansas City Federal Reserve Bank. We are hopeful that the Markit reports will show continued improvements in sentiment in both the United States and Eurozone in February, building on multiyear highs in the January data. Other highlights include the latest figures for consumer confidence, existing and new home sales, and the Chicago Federal Reserve's National Activity Index.

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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 22-question survey will help us gauge how manufacturing sentiment has changed since December. The survey includes special questions on monetary policy, the benefits of trade, the outcome of the election, regulatory relief, and hiring and capital spending plans. To complete the survey, [click here](#). Responses are due by Tuesday, February 28, at 5:00 p.m. EST. As always, all responses are anonymous.

## Economic Indicators

### Last Week's Indicators:

(Summaries Appear Below)

#### Monday, February 13

None

#### Tuesday, February 14

NFIB Small Business Survey

Producer Price Index

#### Wednesday, February 15

Consumer Price Index

Industrial Production

NAHB Housing Market Index

New York Fed Manufacturing Survey

Retail Sales

#### Thursday, February 16

Housing Starts and Permits

Philadelphia Fed Manufacturing Survey

#### Friday, February 17

Conference Board Leading Indicators

### This Week's Indicators:

#### Monday, February 20

PRESIDENTS DAY HOLIDAY

#### Tuesday, February 21

Markit Flash Manufacturing PMIs for United States and Eurozone

#### Wednesday, February 22

Existing Home Sales

#### Thursday, February 23

Chicago Fed National Activity Index

Kansas City Fed Manufacturing Survey

#### Friday, February 24

New Home Sales

University of Michigan Consumer Sentiment

(Revision)

## Summaries for Last Week's Economic Indicators

### Conference Board Leading Indicators

The Conference Board's [Leading Economic Index](#) (LEI) increased 0.6 percent in January, extending the 0.5 percent gain seen in December. Over the past six months, the LEI rose 1.6 percent, accelerating from prior months where growth was more sluggish. Manufacturing provided a small contribution to headline growth, with new orders adding 0.1 percentage points to the top line for the second straight month. That represented a turnaround from reports earlier in the year where manufacturing activity served as a drag on the leading indicators measure. Other components of the LEI were also positive, with the largest contributions coming from the interest rate spread, building permits, average weekly unemployment claims, consumer confidence and the S&P 500.

Meanwhile, the Coincident Economic Index (CEI), which assesses current conditions, rose 0.1 percent in January. In this case, industrial production subtracted 0.04 percentage points from the CEI, with output down for the month, mostly from utilities (*see below*). The other three components of the CEI—nonfarm payrolls, personal income, and manufacturing and trade sales—positively contributed to the index in January.

### Consumer Price Index

The Bureau of Labor Statistics reported that [consumer prices](#) rose 0.6 percent in January, its fastest month pace in more than four years. It also marks the sixth straight monthly increase, with the larger figure in January due largely to higher energy costs, climbing 4.0 percent in this report. For its part, gasoline costs jumped 7.6 percent in January, with a 20.3 percent gain over the past 12 months. At the same time, food prices edged up 0.1 percent in January, with a decline of 0.2 percent since January 2016. Overall, the consumer price index increased 2.5 percent year-over-year in January, up from 0.9 percent in July and hitting its highest level since March 2012.

Core consumer prices ticked up 0.3 percent in January, its fastest rate in five months. While prices for apparel, household furnishings, medical care new vehicles, transportation services and shelter went up, prices for used cars and trucks decreased slightly in this release. Excluding food and energy costs, consumer prices have increased 2.3 percent over the past 12 months, up from 2.2 percent in the prior report. Even though core consumer price inflation has exceeded the Federal Reserve's stated goal of 2 percent for 15 consecutive months, overall price pressures remain modest and under control for now.

### **Housing Starts and Permits**

New [housing starts](#) declined 2.6 percent in January, pulling back a bit after rebounding by 11.3 percent in December, according to the Census Bureau and the U.S. Department of Housing and Urban Development. New residential construction activity dropped from an annualized 1,279,000 in December to 1,246,000 in January. Another positive sign was the fact that housing starts have now exceeded 1.2 million in three of the past four months—a psychological threshold that we have struggled to maintain each time. Despite the easing in this report, housing market data remains mostly encouraging, up 10.5 percent over the past 12 months from 1,128,000 in January 2016. Indeed, much of the recent volatility has come from the multifamily segment, ranging from 271,000 units in September to 471,000 in December. In this release, multifamily starts decreased to 423,000 units, up 19.8 percent year-over-year from 353,000 units one year ago.

On the other hand, single-family housing starts have more consistently drifted higher, even with a slight lull in both November and December. Single-family starts rose from 808,000 in December to 823,000 in January. While this fell below the 868,000 units started in October, its fastest pace since October 2007, the current data represent progress from 775,000 units in January 2016, a year-over-year gain of 6.2 percent.

The latest housing permits figures also show promise. Permitting for new residential units rose from 1,228,000 units at the annual rate in December to 1,285,000 in January, a 14-month high. It also marks the fifth straight month with permits exceeding 1.2 million units, which was reassuring. With that said, the increase in permits in January came from the multifamily segment, up from 398,000 to 477,000. In contrast, single-family permits declined from 830,000 to 808,000. New residential construction permits have continued to move upward over the past year. Over the course of the past 12 months, housing permits have risen 8.2 percent, up from 1,188,000 units in January 2016, with single-family and multifamily activity up 11.1 percent and 3.5 percent, respectively.

### **Industrial Production**

According to the Federal Reserve, [manufacturing production](#) expanded for the fourth consecutive month. (To be fair, November's increase was essentially stagnant, up 0.03 percent.) Output in the sector was up 0.2 percent in January, extending the 0.2 percent gain seen in December. The recent improvements suggest that manufacturers are beginning to recover from notable weaknesses over the past two years, with a strong dollar and global headwinds dampening overall activity. In that regard, manufacturing production grew just 0.3 percent year-over-year in January, highlighting the significant challenges seen over the past 12 months in growing production. Similarly, manufacturing capacity utilization edged up from 75.0 percent to 75.1 percent, which, despite some progress, remained below the 75.5 percent utilization rate observed one year ago.

Looking more closely at the January manufacturing data, nondurable goods production increased by 0.6 percent, but output among durable goods firms decreased by 0.1 percent. The largest monthly gains were seen in the petroleum and coal products (up 1.8 percent), textile and product mills (up 1.8 percent), chemicals (up 1.0 percent), machinery (up 0.9 percent), computer and electronic products (up 0.7 percent), food, beverage and tobacco products (up 0.6 percent) and primary metals (up 0.6 percent), among others. On the other hand, motor vehicles and parts (down 2.9 percent), apparel and leather (down 1.7 percent), aerospace and other miscellaneous transportation equipment (down 0.5 percent), plastics and rubber products (down 0.3 percent), printing and support (down 0.3 percent) and wood products (down 0.3 percent) each had lower production in January.

Meanwhile, total industrial production returned to negative territory, down 0.3 percent in January after jumping 0.6 percent in December. The lower figure stemmed largely from a sharp decline in utilities output, down 5.7 percent after rising significantly, by 5.1 percent, in December. In contrast, mining production

strengthened, up 2.8 percent. Over the past 12 months, total industrial production held steady, with mining output up 0.4 percent but utilities production down 2.6 percent year-over-year. Capacity utilization also fell, down from 75.6 percent to 75.3 percent. For comparison purposes, capacity utilization was 75.7 percent on January 2016.

### **NAHB Housing Market Index**

The National Association of Home Builders (NAHB) and Wells Fargo reported that the [Housing Market Index](#) edged down for the second straight month, even as sentiment remained quite elevated. It has dropped from 69 in December, its highest level of confidence since July 2005, to 67 in January to 65 in February. Note that the current reading is consistent with the average index reading over the past six months. Index values greater than 50 indicate strong builder confidence, with numbers greater than 60 suggesting strong expectations for activity. Respondents were optimistic about pro-business policy changes, according to the press, which specifically mentioned the need for reducing regulatory burdens.

Along those lines, builders made healthy assessments about single-family home sales over the next six months. Mirroring the headline number, the index for expected sales has fallen from 78 in December to 73 in February, but the outlook remained quite encouraging. NAHB Chief Economist Robert Dietz added, "... the overall housing market fundamentals remain strong and we expect to see continued growth this year...."

### **New York Fed Manufacturing Survey**

Manufacturing activity expanded at the fastest pace since September 2014, rising for the fourth straight month in February in the latest [Empire State Manufacturing Survey](#). The composite index of general business conditions jumped from 6.5 in January to 18.7 in February, with nearly one-third of respondents reporting a better environment today than last month. The survey also reflected notable improvements in new orders (up from 3.1 to 13.5) and shipments (up from 7.3 to 18.2). Indeed, the percentage of respondents saying that their sales were higher rose from 29.1 percent to 36.3 percent in this survey.

While other measures had made progress in recent months, employment had lagged behind. In this release, however, that started to change. Indices for the number of employees (up from -1.7 to 2.0) and the average workweek (up from -4.2 to 4.1) each shifted into positive territory, with hiring expanding for the first time since May 2016. Hopefully, we will continue seeing stronger labor market data in the coming months, particularly if demand remains strong.

Along those lines, manufacturers in the New York region were very upbeat about the next six months. The forward-looking composite index decreased from 49.7 in January, its highest level in five years, to 41.7 in February, but it remains quite elevated. In fact, more than half of those completing the survey anticipate stronger growth for new orders and shipments in the months ahead, with 35.7 percent and 28.6 percent expecting increased hiring and capital spending, respectively. Some of these measures reflected slight easing in February from the robust gains seen in January, but that does not take away from the larger positive trend.

### **NFIB Small Business Survey**

The National Federation of Independent Business (NFIB) reported that sentiment among small business owners remained at a 12-year high in January. The [Small Business Optimism Index](#) edged up from 105.8 in December to 105.9 in January, with both at levels not seen since December 2004. Respondents have responded quite positively in the aftermath of the election, hoping that the new Administration will bring about needed changes on the tax and regulatory front. Along those lines, the percentage of respondents suggesting that the next three months would be a "good time to expand" has risen from 11 percent in November to 23 percent in December to 25 percent in January, its fastest pace since the Great Recession. In addition, the percentage expecting sales to increase over the next three months remained elevated, but eased in this report, from 31 percent in December, its largest level since October 2005, to 29 percent in January.

While actual employment changes remained soft (but positive) in January, the net percentage planning to add workers in the next three months edged up from 16 percent to 18 percent, a post-recessionary high. On the investment front, 59 percent of small business owners said they had made a capital expenditure in the



last six months, down from the three-year high of 63 percent in the prior report. Similarly, capital spending plans for the next three to six months dipped from 29 percent to 27 percent.

Respondents ranked taxes as the “single-most important problem” (21 percent), highlighting the need for comprehensive tax reform. Government regulations (19 percent), the quality of labor (15 percent) and poor sales (10 percent) also topped the list.

### **Philadelphia Fed Manufacturing Survey**

According to the Federal Reserve Bank of Philadelphia, [manufacturing activity](#) expanded in February at its strongest rate since November 1983. The composite index of general business activity rose from 23.6 in January to 43.3 in February, with 48.2 percent of survey respondents, suggesting that conditions had improved this month. Just 4.8 percent said that conditions had worsened. Other measures uplifting measures included new orders (up from 26.0 to 38.0), shipments (up from 20.5 to 28.6) and the average employee workweek (up from 6.8 to 13.6). Growth in hiring (down from 12.8 to 11.1) continued to expand modestly despite some easing in the current release.

Manufacturers in the Philadelphia Federal Reserve district were also very optimistic in the outlook for the next six months. While the forward-looking composite index slipped a little, down from 56.6 to 53.5, the survey continued to report strong growth in the months ahead. In fact, more than 58 percent of those completing the survey felt that new orders and shipments would increase over the next six months, and more than 30 percent anticipate additional hiring and capital spending. At the same time, manufacturers expect pricing pressures to accelerate, with 53.4 percent suggesting that input prices should rise moving forward.

Along those lines, respondents were asked about expected price changes over the next year in a series of special questions. Manufacturing leaders anticipate consumer prices rising by 2.2 percent at the annual rate over the next year, and they see compensation (including wages and benefits) increasing by 3.0 percent.

### **Producer Price Index**

[Producer prices](#) jumped 0.6 percent in January, its fastest monthly pace of growth since September 2012. For manufacturers, producer prices for final demand goods accelerated in the latest report, up 1.0 percent and increasing for the fifth straight month. This largely reflected a significant rise in energy costs, up 4.7 percent. In particular, gasoline prices rose 14.5 percent for producers in January, which was also coincidentally the year-over-year growth rate. At the same time, food prices held steady in January. Higher costs for dairy products, eggs, grains, pork, and shortening and cooking oils were offset by lower prices for beef and veal, chickens, confectionary end products, fish and pasta products, among others. Despite the flat month, food prices have dropped 2.2 percent since January 2016.

Excluding food and energy, final demand goods prices for producers increased by 0.4 percent in January, continuing to accelerate and up for the sixth straight month. Overall, producer prices for final demand goods and services have increased 1.7 percent since January 2016, its highest year-over-year rate since August 2014. Moreover, it represents a notable pickup in inflationary pressures after remaining unchanged in August. Meanwhile, core producer prices—which exclude food and energy—grew 1.2 percent year-over-year in January, dropping from 1.6 percent in December.

The bottom line is that pricing pressures have continued to accelerate, even as they remain largely in check, at least for now. Core inflation on a year-over-year basis has stayed below the Federal Reserve’s stated goal of 2 percent for 32 straight months (since May 2014). Prices are likely to accelerate somewhat moving forward, likely exceeding the 2 percent threshold in the coming months.

Nonetheless, it should remain in an acceptable range for the FOMC, which continues to balance the need for accommodation in its monetary policy with a desire to normalize rates on the basis of economic progress. Indeed, a short-term rate increase is likely forthcoming, perhaps as soon as its March meeting.

### **Retail Sales**

The Census Bureau said that [retail sales](#) rose 0.4 percent in January, extending the 1.0 percent gain seen

in December. It marks the fifth consecutive monthly increase in retail spending, illustrating once again that Americans have been willing to open their pocketbooks after being more cautious with their purchases at this time last year. Indeed, over the past 12 months, retail sales have jumped 5.6 percent, a healthy rebound from a year-over-year pace of just 2.2 percent in August. Motor vehicles and parts sales have been a relative bright spot of late, but a 1.4 percent decline in auto sales held back January data somewhat. To be fair, this drop was likely a response to a larger-than-normal jump in December in motor vehicle purchases, up 3.2 percent. Excluding automobiles, retail sales rose 0.8 percent in January, with year-over-year growth of 5.3 percent.

Beyond motor vehicles, retail spending in January was mostly higher. Retail segments with increased spending for the month included gasoline stations (up 2.3 percent), sporting goods and hobby stores (up 1.8 percent), electronics and appliance stores (up 1.6 percent), food services and drinking places (up 1.4 percent), clothing and clothing accessory stores (up 1.0 percent) and general merchandise stores (up 0.9 percent), among others. In contrast, miscellaneous store retailers experienced a 0.2 percent decrease in sales in January, with flat spending for furniture and home furnishings stores and nonstore retailers.

Since January 2016, the largest gains in retail spending were for gasoline stations (up 14.2 percent), nonstore retailers (up 12.0 percent), health and personal care stores (up 8.5 percent), motor vehicle and parts dealers (up 6.8 percent), food services and drinking places (up 5.6 percent) and miscellaneous store retailers (up 4.1 percent). The gasoline station increase stemmed largely from higher prices. To illustrate this, the [average price](#) of regular conventional gasoline climbed from \$1.75 per gallon on Jan. 25, 2016, to \$2.33 a gallon on Jan. 9, 2017, according to the Energy Information Administration.

## Connect with the Manufacturers



Questions or comments?

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