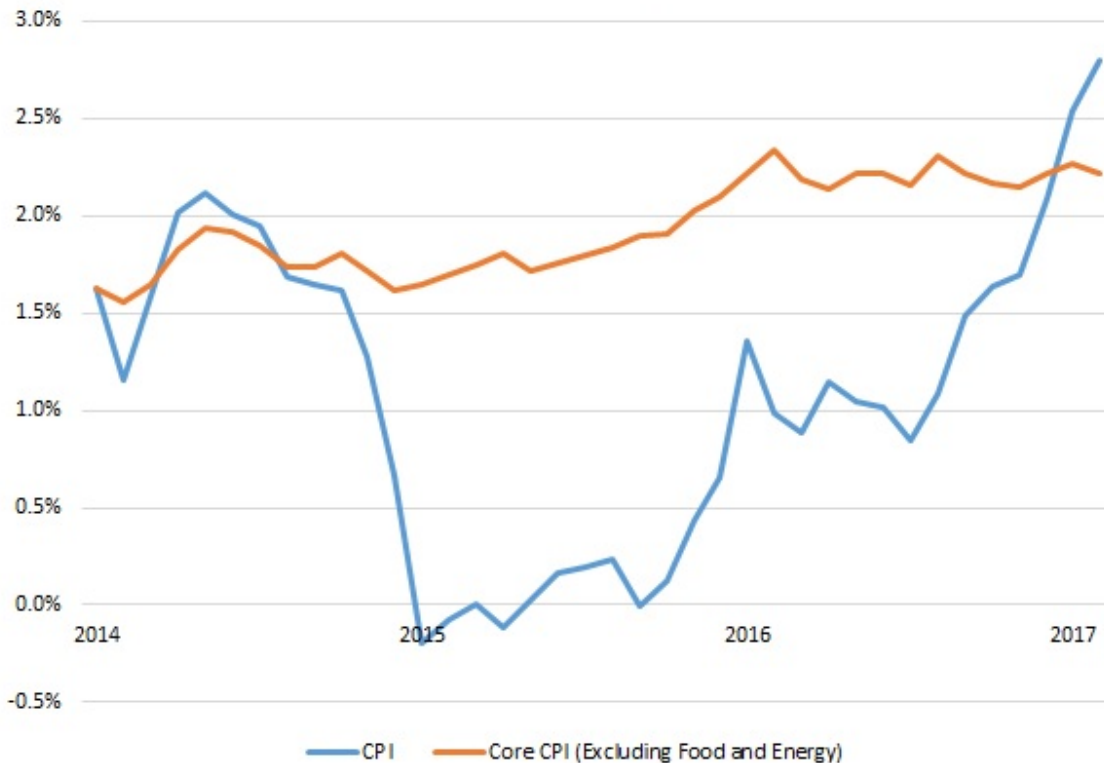




March 20, 2017

Consumer Price Index, 2014–2017



If anyone is looking for further signs that the U.S. economy appears to be turning a corner, look no further than the fact that many of the indicators released last week hit multiyear highs. In addition, the Federal Reserve has sent a strong signal that it sees accelerating growth in the economy. As expected, the Federal Open Market Committee (FOMC) voted to [raise short-term interest rates](#) by 25 basis points, upping them just three months after the last action. In doing so, the Federal Reserve noted better economic data and increased pricing pressures. The Federal Reserve will continue its process toward normalized rates, and according to the latest [economic projections](#), participants still see three rate hikes—or two more after this one—in 2017. Of course, future Federal Reserve moves will hinge on incoming data, and more aggressive action might be necessary if the U.S. economy and/or inflation accelerate beyond current expectations.

Data released last week show that pricing pressures have accelerated. The [consumer price index](#) increased 2.8 percent year-over-year in February, up from 0.9 percent in July and a pace not seen since February 2012. Likewise, [producer prices](#) for final demand goods and services have increased 2.2 percent since February 2016, its highest year-over-year rate since May 2014. Core consumer and

producer prices, which exclude food and energy, have also trended higher in recent months, with year-over-year growth rates of 2.2 percent and 1.7 percent, respectively. While inflation is picking up, the FOMC predicts that prices “will stabilize around 2 percent over the medium term.” Nonetheless, it wants to stay ahead of such pressures while inflation is still at acceptable ranges.

For its part, [manufacturing production](#) expanded for the sixth consecutive month, up 0.5 percent in February. Moreover, output in the sector has increased 1.2 percent over the past 12 months, the fastest pace since April 2015. To put the recent progress in perspective, the year-over-year rate was -0.5 percent just six months ago. Likewise, there was more encouraging news from March surveys released by the [New York](#) and [Philadelphia](#) Federal Reserve Banks. While both measures pulled back from robust gains in February, they noted continued strengthening in new orders, shipments, employment and the average workweek. Manufacturing business leaders remain very upbeat about the next six months, with the Philadelphia Federal Reserve’s forward-looking composite index up to a 31-month high in March. We would hope that stronger activity will lead to more robust hiring. In that regard, [manufacturing job openings](#) in January ticked higher and remained elevated, even as net hiring was weaker than desired.

In a similar manner, the [Small Business Optimism Index](#) was not far from its 12-year high, averaging 105.7 over the past three months. It was 94.1 as recently as September, illustrating improving perceptions since then, largely on predictions of more pro-growth policies post-election. Homebuilders have also become more upbeat in the past few months, with the [Housing Market Index](#) rising to its highest level since June 2005. This includes healthy assessments about single-family home sales over the next six months. Along those lines, new [housing starts](#) rose 3.0 percent in February, and it has now exceeded 1.2 million for the fourth time in the past five months—a psychological threshold that we appear to have finally sustained. In addition, single-family housing starts jumped from 819,000 to 872,000, a pace not seen since October 2007. On a year-over-year basis, new residential construction has risen 6.2 percent.

Beyond businesses, consumers have also been more positive recently. The University of Michigan and Thomson Reuters reported that the [Index of Consumer Sentiment](#) in March remained not far from January’s best reading in 13 years, according to preliminary data. (They also note that confidence data has remained sharply divided along partisan lines since the election.) With improved assessments of the economy, including the strongest reading of current conditions since 2000, it should not be a surprise that Americans have been more willing to open their pocketbooks. While [retail sales](#) eased in February, it was the sixth consecutive monthly increase in retail spending. At this point last year, Americans were much more cautious in their willingness to make purchases. Along those lines, over the past 12 months, retail sales have jumped 5.7 percent, off just slightly from January’s 6.0 percent year-over-year pace, which was the highest since March 2012.

This week, the NAM’s Manufacturers’ Outlook Survey will be released, providing a glimpse at what manufacturing leaders are thinking about activity in the first quarter. There will also be new surveys from the Kansas City Federal Reserve Bank and from Markit for the United States and the Eurozone. Other highlights this week include the latest figures for durable goods orders and shipments, existing and new home sales and state employment.

Chad Moutray, Ph.D., CBE
Chief Economist
National Association of Manufacturers

Note: On March 22 at 1:00 p.m. EDT, I am moderating a webinar on how manufacturing executives can use business intelligence to optimize their supply chain strategy. I hope you can join! Click [here](#) to register.

Economic Indicators

Last Week's Indicators:

(Summaries Appear Below)

Monday, March 13

State Employment Report

Tuesday, March 14

NFIB Small Business Survey

Producer Price Index

Wednesday, March 15

Consumer Price Index

FOMC Monetary Policy Statement

NAHB Housing Market Index

New York Fed Manufacturing Survey

Retail Sales

Thursday, March 16

Housing Starts and Permits

Job Openings and Labor Turnover Survey

Philadelphia Fed Manufacturing Survey

Friday, March 17

Conference Board Leading Indicators

Industrial Production

University of Michigan Consumer Sentiment

This Week's Indicators:

Monday, March 20

Chicago Fed National Activity Index

Tuesday, March 21

None

Wednesday, March 22

Existing Home Sales

NAM Manufacturers' Outlook Survey

Thursday, March 23

Kansas City Fed Manufacturing Survey

New Home Sales

Friday, March 24

Durable Goods Orders and Shipments

Markit Flash Manufacturing PMIs for the United States and Eurozone

State Employment Report



Summaries for Last Week's Economic Indicators

Conference Board Leading Indicators

The Conference Board's [Leading Economic Index](#) (LEI) increased 0.6 percent in February, mirroring the strong pace in both December and January. Over the past six months, the LEI rose 2.3 percent, up from 1.6 percent in the previous report and accelerating from prior months where growth was more sluggish. New orders in the manufacturing sector added 0.21 percentage points to headline growth, with demand expanding for the third consecutive month. Moreover, a longer average workweek for production workers added another 0.07 percent. Most of the other components of the LEI were also positive, including the interest rate spread, average weekly unemployment claims, consumer confidence and the S&P 500. The only drag on the LEI came from housing permits, which were slightly lower in February (see below).

Meanwhile, the Coincident Economic Index (CEI), which assesses current conditions, rose 0.3 percent in February. All of the components of the CEI—industrial production, nonfarm payrolls, personal income, and manufacturing and trade sales—positively contributed to the index for the month.

Consumer Price Index

The Bureau of Labor Statistics reported that [consumer prices](#) edged up 0.1 percent in February, slowing from a 0.6 percent gain in January, which was the fastest monthly pace in more than four years. The

decelerated figure came from a reduction in energy costs, down 1.0 percent, including a 3.0 percent decline in gasoline prices. With that said, gasoline costs have jumped 30.7 percent over the past 12 months. At the same time, food prices increased 0.2 percent in February, its highest monthly rate since September 2015. Overall, the consumer price index increased 2.8 percent year-over-year in February, up from 0.9 percent in July and a pace not seen since February 2012.

Core consumer prices increased 0.2 percent in February. There were higher prices for apparel, medical care and transportation services in this release, which were enough to offset reduced costs for household furnishings, medical care commodities and new and used vehicles. Excluding food and energy costs, consumer prices have increased 2.2 percent over the past 12 months, pulling back a little from 2.3 percent in the prior report. Even though core consumer price inflation has exceeded the Federal Reserve's stated goal of 2 percent for 16 consecutive months, overall pricing pressures remain modest and under control for now.

FOMC Monetary Policy Statement

As expected, the Federal Open Market Committee (FOMC) voted to [raise short-term interest rates](#) by 25 basis points, upping them just three months after the last action. In doing so, the Federal Reserve noted better economic data and increased pricing pressures. Specifically, the statement cited a strengthening labor market, moderate growth in consumer spending and business investment that has "firmed somewhat." While inflation is picking up, the FOMC predicts that prices "will stabilize around 2 percent over the medium term." Nonetheless, it wants to stay ahead of such pressures while inflation is still at acceptable ranges. Hence, the Federal Reserve will continue its process toward normalized rates, and according to the latest [economic projections](#), participants still see three rate hikes—or two more after this one—in 2017. Assuming those increases in the federal funds rate were also 25 basis points, the target range would be at 1.25 percent to 1.50 percent by year's end (up from 0.75 percent to 1.00 percent after this action).

Of course, future Federal Reserve moves will hinge on incoming data, and more aggressive action might be necessary if the U.S. economy and/or inflation accelerate beyond current expectations. Along those lines, the economic forecasts did not change much from December. Participants see 2.1 percent growth on average in real GDP in 2017, with the unemployment rate falling to 4.5 percent. They also predict core inflation of 1.9 percent. Looking to 2018, FOMC members anticipate three additional federal funds rate hikes, with real GDP growth of 2.1 percent once again. They forecast core inflation to be 2 percent.

Neel Kashkari, president of the Minneapolis Federal Reserve Bank, was the only dissenter. He preferred to keep short-term interest rates unchanged, at least for now.

Housing Starts and Permits

The Census Bureau and the U.S. Department of Housing and Urban Development reported that new [housing starts](#) rose 3.0 percent in February. More importantly, it has now exceeded 1.2 million for the fourth time in the past five months—a psychological threshold that we appear to have finally sustained. New residential construction activity increased from an annualized 1,251,000 in January to 1,288,000 in February, its highest level in four months. In addition, single-family housing starts jumped from 819,000 to 872,000, a pace not seen since October 2007. Yet, the multifamily segment, which is often quite volatile month to month, eased from 432,000 to 416,000.

On a year-over-year basis, new residential construction has risen 6.2 percent, up from 1,213,000 in February 2016. Single-family and multifamily activity was up 3.2 percent and 13.0 percent, respectively, over the past 12 months.

Meanwhile, housing permits declined somewhat in this release, down from 1,293,000 to 1,213,000. Despite the easing, there was some good news to report. First, it was the sixth consecutive month with permits exceeding 1.2 million; much like we see above in the starts figures, it looks like that threshold has been largely sustained. Second, single-family permitting was higher in February, up from 807,000 to 832,000, its fastest rate since September 2007. Indeed, it was a decline in multifamily residential permits—down from 486,000 to 381,000—that pulled the headline number lower.

Much like the earlier figures, new residential construction permits have moved higher over the longer term. Over the past 12 months, housing permits have risen 4.4 percent, up from 1,162,000 units in February 2016, with single-family activity up 13.5 percent. Multifamily permitting was off 11.2 percent year-over-year, mostly from large swings month to month.

Overall, this was an encouraging report, with a slower-than-desired but somewhat steady upward trend in the data, especially in the single-family segment. It builds on strong homebuilder confidence, which soared to its highest level since 2005 in recent data (see below).

Industrial Production

The Federal Reserve reported that [manufacturing production](#) expanded for the sixth consecutive month. Output in the sector increased 0.5 percent in February, mirroring the gain in January. The data continue to reflect an improving manufacturing sector, with activity turning a corner after struggling for much of the past two years from a number of economic headwinds. Indeed, manufacturing production has increased 1.2 percent over the past 12 months, up from 0.6 percent in the prior report. To put the recent progress in perspective, the year-over-year rate was -0.5 percent just six months ago. The year-over-year number was also the fastest pace since April 2015. Similarly, manufacturing capacity utilization rose from 75.3 percent to 75.6 percent, a 16-month high.

Looking more closely at the February manufacturing data, durable and nondurable goods production increased 0.6 percent and 0.4 percent, respectively. The largest gains included nonmetallic mineral products (up 1.6 percent), paper (up 1.4 percent), plastics and rubber products (up 1.3 percent), fabricated metal products (up 1.2 percent), machinery (up 1.1 percent), miscellaneous durable goods (up 0.9 percent), food, beverage and tobacco products (up 0.8 percent), motor vehicles and parts (up 0.8 percent), printing and support (up 0.8 percent) and computer and electronic products (up 0.7 percent), among others.

On the other hand, electrical equipment and appliances (down 1.5 percent), furniture and related products (down 1.4 percent), textile and products mills (down 1.4 percent), aerospace and other transportation equipment (down 0.3 percent), chemicals (down 0.3 percent) and wood products (down 0.3 percent) each had lower production in February.

Meanwhile, total industrial production was unchanged in February after edging down 0.1 percent in January. The lower figure stemmed largely from a sharp decline in utilities output, down 5.7 percent, likely due to warmer-than-normal winter temperatures. In contrast, mining production increased for the second straight month, up 2.7 percent in February. Over the past 12 months, total industrial production grew 0.3 percent, with mining output up 1.8 percent but utilities production off 7.0 percent year-over-year. Capacity utilization was also lower, down from 75.5 percent to 75.4 percent. For comparison purposes, capacity utilization was 75.6 percent one year ago.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics reported that [manufacturing job openings](#) ticked higher, up from 342,000 in December to 364,000 in January, its highest level since July's 15-year high (394,000). Job postings rose for both durable (up from 194,000 to 207,000) and nondurable (up from 148,000 to 157,000) goods firms. This report is encouraging from an openings standpoint, as elevated levels of postings should lead to better hiring numbers down the line.

For now, however, net hiring has remained weak. Total hiring edged up from 293,000 to 294,000 for the month, its fastest pace since October 2008. An increase in hiring for nondurable goods firms (up from 122,000 to 126,000) was just enough to offset fewer hires for durable goods manufacturers (down from 171,000 to 168,000). At the same time, total separations, which include quits, layoffs and retirements, increased from 287,000 to 301,000, an 11-month high. Separations were higher for both durable (up from 163,000 to 168,000) and nondurable (up from 124,000 to 132,000) goods businesses.

The jump in separations takes away from the otherwise positive release. Net hiring (or hires minus separations) fell from 6,000 in December to a decline of 7,000 in January. It was the fifth time in the past six months that net hiring has been negative, but we would expect that stronger economic growth would reduce the separations component moving forward.

In the larger economy, nonfarm job openings rose slightly, up from 5,539,000 in December to 5,626,000 in January. In addition to manufacturing, there were more openings in the latest release for construction, financial activities, information and professional and business services. In addition, net hiring in the overall economy eased somewhat, down from 219,000 in December to 182,000 in January.

NAHB Housing Market Index

The National Association of Home Builders (NAHB) and Wells Fargo reported that the [Housing Market Index](#) (HMI) rose to its highest level since June 2005. The HMI increased from 65 in February to 71 in March. Index values greater than 50 indicate strong builder confidence, with numbers greater than 70 suggesting very robust expectations for activity. Along those lines, NAHB Chairman Granger MacDonald said, “Builders are buoyed by President Trump’s actions on regulatory reform, particularly his recent executive order to rescind or revise the waters of the U.S. rule that impacts permitting.”

In this release, builders made healthy assessments about single-family home sales over the next six months. Mirroring the headline number, the index for expected sales increased from 73 to 78, matching the level in December. In the March data, sentiment increased in every part of the country, including notable progress in the Northeast, which has struggled more than other regions.

New York Fed Manufacturing Survey

The [Empire State Manufacturing Survey](#) reported that manufacturing activity continued to expand at a healthy pace, even as it pulled back in March from the fastest pace in 30 months in February. The composite index of general business conditions eased from 18.7 in February to 16.4 in March, expanding for the fifth straight month. In the latest data, there were signs of notable improvements in activity in the district, including new orders (up from 13.5 to 21.3), employment (up from 2.0 to 8.8) and the average workweek (up from 4.1 to 15.0). The orders index was at its highest point since April 2011, with 39.4 percent of respondents indicating increased sales in March relative to February’s levels.

At the same time, shipments decelerated somewhat in this report but remained relatively strong (down from 18.2 to 11.3), and inventories returned to negative territory following two months of gains (down from 3.1 to -2.7). Pricing pressures also remained elevated (down from 37.8 to 31.0) despite a lower index reading for the prices paid index. This trend is expected to continue over the coming months.

Along those lines, manufacturers in the New York region were very upbeat about the next six months, even with some easing for the second consecutive month from January’s five-year high (49.7). The forward-looking composite index decreased from 41.7 in February to 37.4 in March, but it continues to suggest robust growth moving forward. Indeed, at least half of respondents anticipate stronger growth for new orders and shipments in the months ahead, with 24.8 percent and 31.0 percent expecting increased hiring and capital spending, respectively. Most of these measures reflected some easing over the past two months, but that does not take away from the larger positive trend.

NFIB Small Business Survey

The National Federation of Independent Business reported that sentiment among small business owners remained near a 12-year high, even as it eased slightly from January’s reading. The [Small Business Optimism Index](#) declined from 105.9 in January to 105.3 in February. Respondents have been upbeat in the aftermath of the election, hoping that the new administration will bring about needed changes on the tax and regulatory front, with the headline index averaging 105.7 over the past three months. It was 94.1 as recently as September.

That said, many of the measures pulled back a bit in February, even as they remained encouraging. For instance, the percentage of respondents suggesting the next three months would be a “good time to expand” eased from 25 percent in January—its fastest pace since the Great Recession—to 22 percent. In addition, while the percentage expecting sales to increase over the next three months remained elevated, it eased in this report, from 29 percent to 26 percent. It was zero one year ago, however, continuing to illustrate how much the environment has changed. While actual employment changes remained soft (but positive) in February, the net percentage planning to add workers in the next three months edged down

from 18 percent—a post-recessionary high—to 15 percent. Similarly, capital spending plans for the next three to six months dipped from 27 percent to 26 percent.

The “single most important problem” was taxes (22 percent), highlighting the need for comprehensive tax reform. The quality of labor (17 percent), government regulations (15 percent), poor sales (12 percent) and the cost and availability of insurance (10 percent) also topped the list.

Philadelphia Fed Manufacturing Survey

The Federal Reserve Bank of Philadelphia reported that [manufacturing activity](#) remained strong in March, even as headline growth pulled back from its strongest pace since November 1983. The composite index of general business activity decreased from 43.3 in February to 32.8 in March, which continued to be quite elevated. Despite the easing in the composite measure, many of the underlying data points expanded at a faster rate in March, including new orders (up from 38.0 to 38.6), shipments (up from 28.6 to 32.9), employment (up from 11.1 to 17.5) and the average workweek (up from 13.6 to 18.5). Indeed, 53.4 percent of respondents said that sales were higher in March than in February, which should bode well for activity down the line. On the downside, faster growth appears to be leading to increased pricing pressures (up from 29.9 to 40.7), its highest level since May 2011.

Manufacturers in the district were also very optimistic in the outlook for the next six months. The forward-looking composite index rose from 53.5 to 59.5, a 31-month high. Nearly 70 percent of respondents felt that new orders would increase over the next six months, with 63.2 percent predicting more shipments. More importantly, especially given the cautious hiring and capital spending across the past year, half of respondents see more employment growth moving forward, with 39.3 percent expecting more capital expenditures.

Speaking of hiring, in a series of special questions, respondents were asked about their challenges with finding workers. Just more than 60 percent said they have had labor shortages, with two-thirds citing skills mismatches and 47.1 percent stating their firm has had job vacancies of more than three months.

Producer Price Index

[Producer prices](#) rose 0.3 percent in February, slowing somewhat from the 0.6 percent gain in January, which was the fastest pace of growth since September 2012. For manufacturers, producer prices for final demand goods also eased, down from 1.0 percent in January to 0.3 percent in February. The deceleration stemmed largely from slower growth in energy costs for the month, down from 4.7 percent to 0.6 percent. Still, on a year-over-year basis, final demand energy prices have risen 19.8 percent. At the same time, food prices increased 0.3 percent in February, picking up after being unchanged in January. Higher costs for fresh and dry vegetables, grains and oilseeds, among other food items, were enough to offset lower prices for beef and veal, chickens, coffee, eggs and fish. Despite the higher prices for the month, food prices have dropped 1.8 percent since February 2016.

Excluding food and energy, final demand goods prices for producers edged up 0.1 percent in February, its slowest pace in four months. Overall, producer prices for final demand goods and services have increased 2.2 percent since February 2016, its highest year-over-year rate since May 2014. Moreover, it represents a notable pickup in inflationary pressures after being unchanged in August. Meanwhile, core producer prices, which exclude food, energy and trade services, grew 1.7 percent year-over-year in February, up from 1.5 percent in January.

Retail Sales

The Census Bureau reported that [retail sales](#) rose 0.1 percent in February, extending the upwardly revised 0.6 percent gain in January. (The prior month's increase was originally reported to be 0.4 percent.) More importantly, it was the sixth 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 during this time last year. Indeed, over the past 12 months, retail sales have jumped 5.7 percent, off just slightly from January's 6.0 percent year-over-year pace, which was the highest since March 2012. To put that figure in perspective, in February 2016, year-over-year growth was 3.5 percent, or 2.5 percent excluding motor vehicle sales.

Retail spending figures were mixed in February. Building materials and garden supplies (up 1.8 percent), nonstore retailers (up 1.2 percent), furniture and home furnishings (up 0.7 percent) and health and personal care stores (up 0.7 percent) were among the segments posting gains for the month. In contrast, the closely watched automotive segment fell slightly, with sales at motor vehicles and parts dealers down 0.2 percent in February. In addition, sales declined for electronics and appliance stores (down 2.8 percent), miscellaneous store retailers (down 0.8 percent), gasoline stations (down 0.6 percent), clothing and clothing accessories stores (down 0.5 percent) and sporting goods and hobby stores (down 0.4 percent), among others.

Since February 2016, the largest gains in retail spending include gasoline stations (up 19.6 percent), nonstore retailers (up 13.0 percent), building materials and garden supplies (up 7.3 percent), health and personal care stores (up 7.0 percent), motor vehicle and parts dealers (up 5.6 percent) and furniture and home furnishing stores (up 4.9 percent). The gasoline station increase stemmed largely from higher prices. To illustrate this, the [average price](#) of regular conventional gasoline grew from \$1.64 per gallon on February 15, 2016, to \$2.23 a gallon on February 27, 2017, according to the Energy Information Administration.

State Employment Report

Texas created the most net new [manufacturing jobs](#) in January, according to the Bureau of Labor Statistics, adding 7,300 workers for the month. Florida (up 4,000), Kentucky (up 2,500), New Jersey (up 2,500), Louisiana (up 2,000), Ohio (up 1,900) and Michigan (up 1,800) also topped the list of manufacturing employment gains for the month. In addition, Florida saw the greatest job gains over the past 12 months, with manufacturing employment in the state up 11,200 since January 2016. Other states with the fastest manufacturing job growth year-over-year included Kentucky (up 7,600), Georgia (up 6,800), Tennessee (up 5,700), Alabama (up 5,500) and Michigan (up 5,200).

The national [unemployment rate](#) was 4.8 percent in January. (It fell to 4.7 percent in February, but the state data have been released with a slight lag.) New Hampshire had the lowest unemployment rate in the country at 2.7 percent. A number of states were not far behind, including Hawaii (2.8 percent), South Dakota (2.9 percent), Colorado (2.9 percent), North Dakota (3.0 percent), Utah (3.1 percent), Vermont (3.1 percent), Massachusetts (3.2 percent), Iowa (3.3 percent) and Nebraska (3.3 percent). In contrast, New Mexico (6.7 percent), Alaska (6.5 percent), Alabama (6.4 percent), the District of Columbia (5.7 percent), Illinois (5.7 percent) and West Virginia (5.6 percent) had the highest unemployment rates.

University of Michigan Consumer Sentiment

The University of Michigan and Thomson Reuters reported that consumer confidence accelerated somewhat in March after pulling back slightly in February, according to preliminary data. The [Index of Consumer Sentiment](#) rose from 96.3 in February to 97.6 in March. That was not far from the 98.5 reading in January, which was the survey's best number in 13 years. Indeed, over the past four months, the headline number has averaged 97.7, with Americans more confident than earlier in 2016. For instance, the Index of Consumer Sentiment measured 87.2 as recently as October. With that said, Richard Curtin, the Surveys of Consumers chief economist, said that confidence has remained sharply divided along partisan lines since the election.

Looking specifically at the March data, the public was more upbeat in their assessments of both the current (up from 111.5 to 114.5) and future (up from 86.5 to 86.7) economic conditions. The index for current conditions was the highest since 2000.

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Questions or comments?

Contact Chief Economist Chad Moutray at cmoutray@nam.org.

