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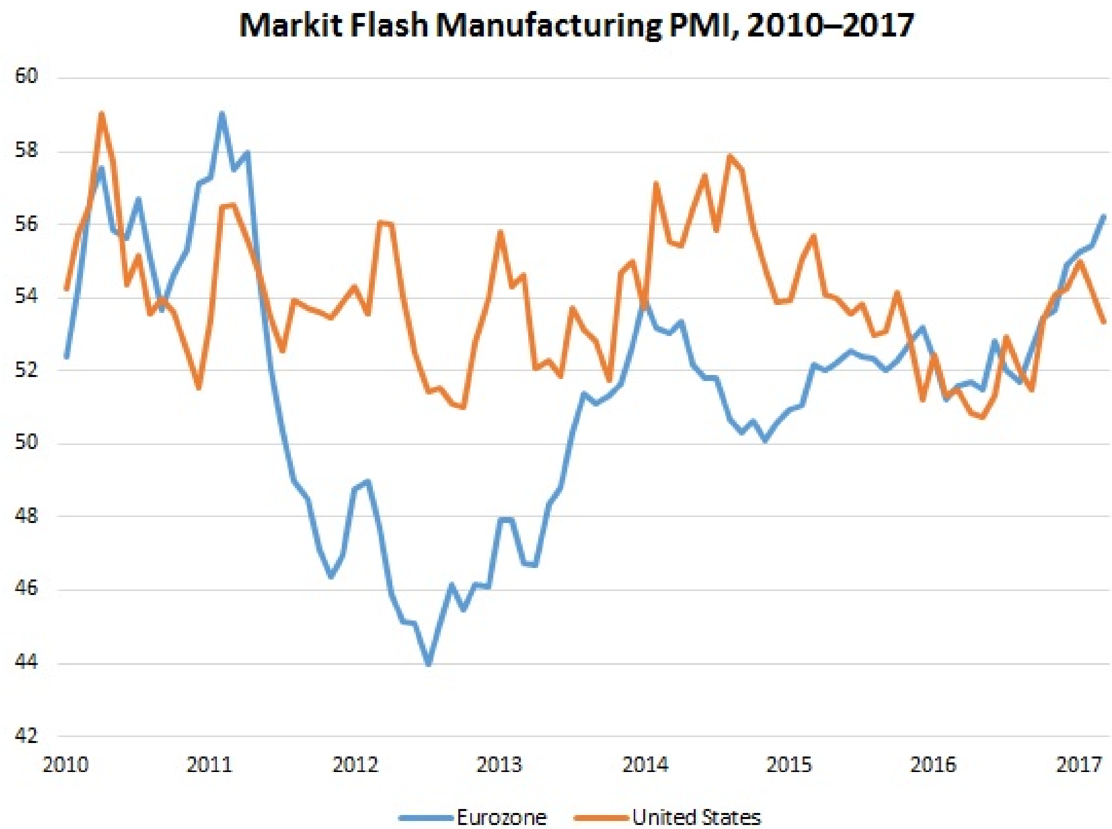
Monday Economic Report

March 27, 2017



Last week's economic reports continued to reflect a global manufacturing sector that has trended in the right direction in recent months. This included a number of sentiment surveys, including one from the Kansas City Federal Reserve Bank, which found that manufacturing activity expanded in March at its fastest rate since May 2011. The district saw robust gains in demand and output, and more importantly, business leaders were very upbeat in their outlook, with 63 percent of respondents expecting more production over the course of the next six months. Nonetheless, the Markit Flash U.S. Manufacturing PMI eased to its slowest growth rate since October. Despite the reduced headline number in March, the data continue to represent improvements since the autumn months, with firms optimistic about future output over the next 12 months.

The better survey data have also begun to trickle over to indicators on the "real" economy. Along those lines, new durable goods orders expanded for the second straight month, rising to a four-month high. Overall, new durable goods demand has continued to move higher after stalling for much of the past couple years. For instance, new durable goods orders have increased 5.1 percent since February 2016. Similarly, durable goods shipments have risen modestly year-over-year, up 2.7 percent. In addition, shipments of core capital goods (or nondefense capital goods excluding aircraft) have also improved over the past 12 months, up 2.1 percent—its first positive year-over-year reading since July 2015. Such readings have helped to advance the Chicago Federal Reserve Bank's National Activity Index to 0.34 in February, suggesting that the U.S. economy has returned to growing above its historical trend once again after a couple years of subpar performance.

In a similar way, there has also been progress internationally. For instance, the Markit Flash Eurozone Manufacturing PMI rose in March to its fastest rate since April 2011. The underlying data were mostly higher in March, and respondents continued to be upbeat about future activity. More than anything, business leaders in Europe appear to be brushing off political uncertainties, with manufacturers focusing on better economic performance instead. Along those lines, activity in Germany also reached its highest level since April 2011, mirroring the Eurozone data, with stronger data across the board. At the same time, manufacturing in France expanded for the sixth consecutive month, marking definite progress, boosted in February by stronger output and exports.

Meanwhile, residential sales had mixed reports last week. On the positive side, new home sales rose 6.1 percent in February, extending the 5.3 percent gain seen in January. Sales of new single-family homes increased from an annualized rate of 558,000 in January to 592,000 in February—a seven-month high. In contrast, existing home sales fell 3.7 percent in February, declining for the second time in the past three months. Sales decreased from an annualized 5.69 million in January to 5.48 million in February. With that said, existing home sales have continued to trend higher over the longer term, up 5.4 percent over the past 12 months. One challenge, though, has been fewer homes for sale.

This week, the Dallas and Richmond Federal Reserve Banks will release new manufacturing surveys, which we hope will show continued growth in activity in their districts. We will also get another update on fourth quarter real GDP growth, likely changing little from the previous 1.9 percent estimate. Other highlights this week include the latest figures for consumer confidence, international trade in goods and personal spending and income.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, March 20
Chicago Federal Reserve Bank National Activity Index

Tuesday, March 21
None

Wednesday, March 22
Existing Home Sales

Thursday, March 23
Kansas City Federal Reserve Bank Manufacturing Survey
New Home Sales

Friday, March 24
Durable Goods Orders and Shipments

This Week's Indicators:

Monday, March 27
Dallas Federal Reserve Bank Manufacturing Survey

Tuesday, March 28
Conference Board Consumer Confidence
International Trade in Goods (Preliminary)
Richmond Federal Reserve Bank Manufacturing Survey

Wednesday, March 29
NAM Manufacturers' Outlook Survey

Thursday, March 30
Gross Domestic Product (Second Revision)

Friday, March 31
Personal Spending and Income

Markit Flash Manufacturing PMIs for the United States and Eurozone
State Employment Report

University of Michigan Consumer Sentiment (Revised)

Summaries for Last Week`s Economic Indicators

Chicago Federal Reserve Bank National Activity Index

The Chicago Federal Reserve Bank reported that the U.S. economy accelerated in February. The National Activity Index (NAI) increased from -0.02 in January to 0.34 in February. Index readings below zero suggest the economy is growing below its historical trend, with positive readings indicating the opposite. February's data point was not far from the 0.41 reading seen in December, which was the highest level since November 2014. As such, this report continues to reflect that overall economic conditions have begun to move in the right direction after more than two years of subpar performance. This was consistent with the three-year moving average, which improved from 0.07 to 0.25 in this release.

For its part, production-related indicators added 0.09 to the headline number in February, up from 0.04 in January. While industrial production fell by 0.1 percent for the month, mainly from reduced utilities output, manufacturing production rose for the sixth straight month, up 0.5 percent in February. Employment-related indicators were one of the brighter spots in this report, contributing 0.21 to the NAI. In contrast, personal consumption and housing had a small negative contribution, primarily because the residential market remains below its historical average, even with progress of late. With that said, retail sales and housing starts have also trended upward in recent months.

Durable Goods Orders and Shipments

According to the Census Bureau, new durable goods orders expanded for the second straight month, up 1.7 percent in February after rising by 2.3 percent in January. New orders increased from $231.53 billion in January to $235.39 billion in February, a four-month high. However, much of the gain in February could be explained by a large jump in nondefense aircraft and parts orders, up 47.6 percent, which can often be quite volatile from month to month. Excluding transportation, new orders for durable goods rose 0.3 percent for the month, up from $154.41 billion to $154.99 billion. Overall, new durable goods demand has continued to trend in the right direction after stalling for much of the past couple years. New durable goods orders have increased 5.1 percent since February 2016's $224.08 billion pace; excluding transportation, orders grew 4.6 percent year-over-year, up from $148.14 billion.

Looking more closely at the various durable goods sectors, the data were mixed. Sales reportedly increased for primary metals (up 2.3 percent), electrical equipment and appliances (up 2.2 percent), other durable goods (up 0.1 percent) and machinery (up 0.1 percent). At the same time, Orders contracted in February for motor vehicles and parts (down 0.8 percent), fabricated metal products (down 0.4 percent) and computers and electronic products (down 0.2 percent), among others. The bottom line is that new orders for core capital goods (or nondefense capital goods excluding aircraft) decreased 0.1 percent in February, falling for the first time since September. On a year-over-year basis, core capital goods have risen 2.7 percent, up from 0.5 percent in the prior report and positive for just the third straight month.

Meanwhile, durable goods shipments edged up 0.3 percent. Much like the new orders data described above, the long-term picture has stabilized and is trending higher. Since February 2016, durable goods shipments have risen quite modestly, up 2.7 percent, with year-over-year growth of 4.5 percent when excluding transportation equipment shipments. In addition, shipments of core capital goods have also improved over the past 12 months, up 2.1 percent—its first positive year-over-year reading since July 2015.

Existing Home Sales

According to the National Association of Realtors (NAR), existing home sales fell 3.7 percent in February, declining for the second time in the past three months. Sales decreased from an annualized 5.69 million in January to 5.48 million in February, with reduced activity in every region except for the South. With that said, existing home sales have continued to trend higher over the longer term, up 5.4 percent over the past 12 months. Lawrence Yun, NAR's chief economist, noted the year-over-year growth in the press release, but he also cited low inventories for sale. Along those lines, he added, "Newly listed properties are being snatched up quickly so far this year and leaving behind minimal choices for buyers trying to reach the market."

Indeed, there were 3.8 months of supply on the market in February, up from 3.5 months in January but well below the 4.8 months of supply seen as recently as July. The median price for an existing home sold in February was $228,400, up 7.7 percent from one year ago.

Kansas City Federal Reserve Bank Manufacturing Survey

The Kansas City Federal Reserve Bank reported that manufacturing activity expanded in March at its fastest rate since May 2011. The composite index of general business conditions rose from 14 in February to 20 in March, expanding for the fourth straight month. As such, manufacturing conditions have continued to improve after notable challenges over the past two years from global headwinds and reduced commodity prices, especially for crude oil. Outside of the headline number, the underlying indices also suggested very robust gains in new orders (up from 26 to 32), production (up from 11 to 37) and shipments (up from 16 to 35). There was some easing for employment (down from 17 to 13), the average workweek (down from 15 to 13) and exports (down from 9 to 2), but each of these indices remained promising overall. Exports, for instance, remained positive for only the second time in the past 16 months.

At the same time, manufacturers continue to be optimistic about the next six months, mirroring sentiments seen in other recent regional reports. The forward-looking composite index edged up from 29 to 32, its highest reading in the survey's history. To illustrate the figure, 63 percent of respondents expect production to be higher moving forward, with 14 percent seeing declines in output. More than half also anticipate increased sales and shipments, with 43 percent predicting more hiring and 37 percent planning more capital spending. The future employment figure (up from 30 to 43) also reached an all-time high. Exports (down from 13 to 9) slowed a little, with modest growth moving forward, but pricing pressures (up from 53 to 59) accelerated at its quickest pace in just over four years.

Markit Flash Manufacturing PMIs for the United States and Eurozone

The Markit Flash Eurozone Manufacturing PMI rose from 55.4 in February to 56.2 in March, its fastest rate since April 2011. As such, the continent's economy continues to move in the right direction, with activity accelerating at a modest rate. The headline PMI has trended higher since bottoming out at 51.6 in early 2016. The underlying data were mostly higher in March. New orders (up from 56.1 to 56.9), exports (up from 55.5 to 56.2) and employment (up from 54.3 to 55.1) each accelerated in the latest survey. In addition, output (down from 57.3 to 57.2) continued to expand rather strongly despite easing a little in this survey. Likewise, respondents remained upbeat about future output (down from 66.7 to 66.3) even though that measure has pulled back for the second straight month from January's three-year high.

More than anything, sentiment in the Eurozone appears to be brushing off political uncertainties, with manufacturers focusing instead on better economic performance. Along those lines, activity in Germany (up from 56.8 to 58.3) also reached its highest level since April 2011, mirroring the Eurozone data, with stronger data across-the board. At the same time, manufacturing in France (up from 52.2 to 53.4), expanded for the sixth consecutive month, marking definite progress, boosted in February by stronger output and exports.

Meanwhile, the Markit Flash U.S. Manufacturing PMI eased to its slowest growth rate since October, down from 54.2 in February to 53.4 in March. It marks the second straight monthly decline, down from 55.0 in

January—the fastest growth rate in nearly two years. Despite the reduced headline number in March, the data continue to represent improvements since the autumn months. In March, exports (up from 50.4 to 51.4) strengthened while other key indices were somewhat lower, but still expanding at decent rates. This included new orders (down from 56.2 to 55.0), output (down from 55.7 to 54.4) and hiring (down from 53.2 to 51.4). Looking ahead 12 months, manufacturers in the United States continued to be optimistic about future output (down from 67.8 to 65.7) even with some easing.

Overall, both of these reports provide some reassurance for manufacturers, many of whom have been rather cautious in their economic outlook for much of the past two years.

New Home Sales

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development said that new home sales rose 6.1 percent in February, extending the 5.3 percent gain seen in January. Sales of new single-family homes increased from an annualized rate of 558,000 in January to 592,000 in February, a seven-month high and well above the consensus estimate of around 565,000. The higher figure in February stemmed from progress in every region except for the Northeast, particularly in the Midwest and the South.

Inventories have tightened in the past two months, down from 5.8 months of supply in December to 5.4 months in February. With that said, inventories of new homes for sale had been at 5.2 months of supply just six months ago. The median sales price was $296,200 in this release, down 4.9 percent from an average of $311,300 in February 2016.

State Employment Report

Indiana created the most net new manufacturing jobs in February, according to the Bureau of Labor Statistics, adding 4,200 workers in February. Texas (up 3,900), New York (up 3,800), Pennsylvania (up 2,500), New Jersey (up 2,400) and Tennessee (up 2,200) 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 11,900 since February 2016. Other states with the fastest manufacturing job growth year-over-year included Indiana (up 9,500), Tennessee (up 8,100), Alabama (up 6,200), South Carolina (up 6,200) and Ohio (up 5,700).

The national unemployment rate declined from 4.8 percent in January to 4.7 percent in February. 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 (2.8 percent), Colorado (2.9 percent), North Dakota (2.9 percent), Vermont (3.0 percent), Utah (3.1 percent), Iowa (3.2 percent) and Nebraska (3.2 percent). In contrast, New Mexico (6.8 percent), Alaska (6.4 percent), Alabama (6.2 percent), Louisiana (5.8 percent) and the District of Columbia (5.7 percent) had the highest unemployment rates.

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Questions or comments?

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