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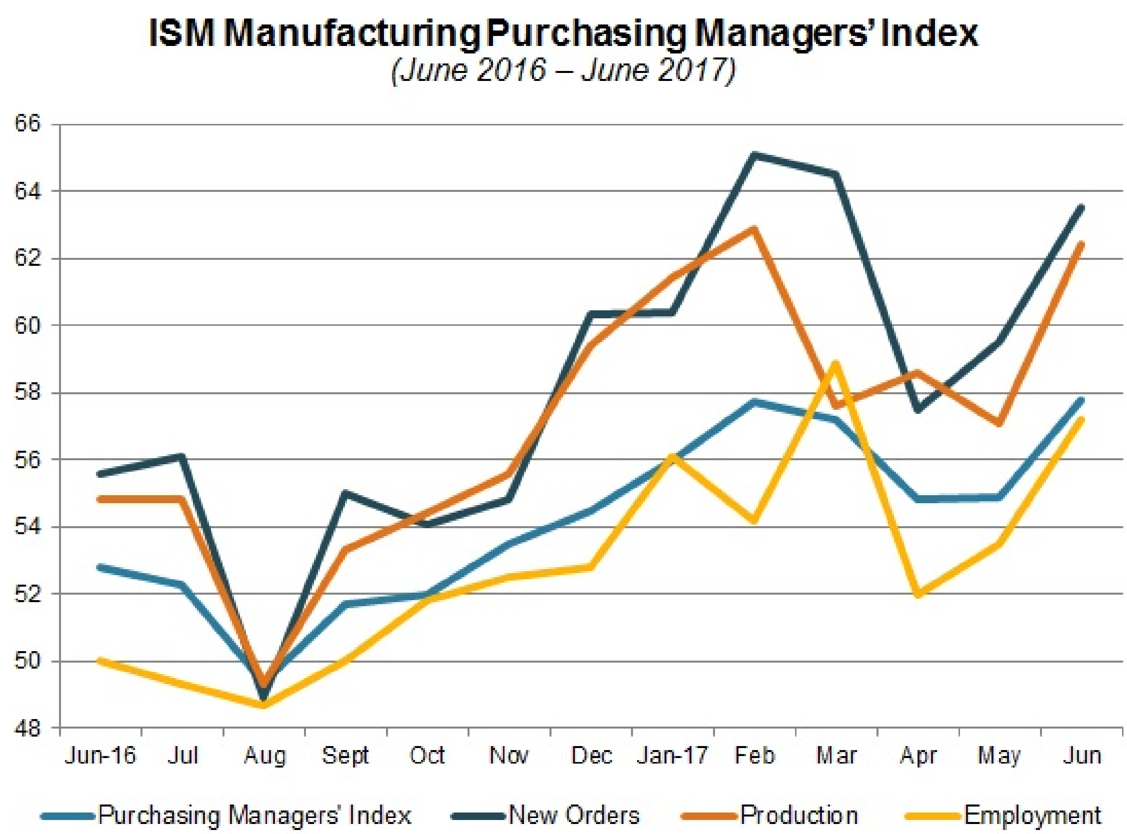
Monday Economic Report

July 10, 2017



As we begin the second half of 2017, indicators continue to provide mixed messages about the current state of the U.S. economy. On the one hand, the labor market continues to show signs of strength, and the overall outlook for the international economy remains strong. The Federal Reserve has focused on those positive developments as it pursues normalization for monetary policy, both in interest rates and in the size of its balance sheet. Yet, other data points suggest that—even with notable progress over the past year—there is a lot of room for improvement for manufacturing activity. While business leaders remain upbeat about demand and output moving forward, that optimism has not always been matched by hard data in economic reports—at least not yet.

On the positive side, the Institute for Supply Management's (ISM) Manufacturing Purchasing Managers' Index rose in June to its strongest reading since August 2014. Most of the key indicators increased sharply, bouncing back from some easing in the springtime months, including new orders, production, exports and employment. The pace of hiring in June grew to a 15-month high, and growth of export orders remained encouraging, especially given the strength of the U.S. dollar and a number of global challenges over the past two years. In addition, prices for raw materials continued to decelerate, pulling back from April's pace, which was the quickest rate since May 2011, mirroring other data.

At the same time, job growth in the U.S. economy rebounded in June, with nonfarm payrolls up by 222,000 and the May data revised higher. In the first half of 2017, nonfarm payrolls have increased by nearly 180,000 on average each month—a decent pace, but off from the 193,167 average in the second half of 2016. The unemployment rate rose from 4.3 percent in May—a 10-year low—to 4.4 percent, with the participation rate inching up from 62.7 percent to 62.8 percent. The employment report was seen mostly in a promising light, with the labor market showing increased signs of job growth. However, manufacturing employment has been soft over the past two months, edging up by 1,000 in June after declining by 2,000 in May. It was the sixth increase in net hiring in the past seven months, with the sector adding 71,000 workers over that time frame. However, the May and June figures were underwhelming nonetheless, especially when compared to sentiment surveys, such as the ISM one discussed above.

Similarly, new factory orders declined for the second straight month, down 0.8 percent in May, pulling back once again from March's fastest pace since November 2014. Much of the decline for durable goods stemmed largely from sharp decreases in defense and nondefense aircraft orders, which can often be quite volatile from month to month. Excluding transportation, manufactured goods orders declined 0.3 percent, but durable goods excluding transportation increased 0.3 percent. Despite the weaker data of late, new factory orders have trended largely in the right direction over the past 12 months, up 4.2 percent since May 2016. Excluding transportation, the gains were slightly larger, up 5.5 percent year-over-year. Moreover, core capital goods—or nondefense capital goods excluding aircraft—rose 0.2 percent in May, with a gain of 5.5 percent over the past 12 months.

Meanwhile, the Census Bureau reported that private manufacturing construction spending eased again in May, down 1.7 percent. The value of construction put in place in the sector declined to its slowest pace since December. While the long-term trend for manufacturing construction remains mostly positive, activity has moved lower since achieving the all-time high in May 2015. Nonetheless, we would expect a turnaround in construction activity in the coming months.

On the trade front, real goods exports (in 2009 dollars) increased in May to a new all-time high, and exports for manufacturers have moved in the right direction through the first five months of the year. This is a welcome development after a number of challenges over the past two years. Using non-seasonally adjusted data, U.S.-manufactured goods exports have risen 3.67 percent year to date relative to the same time period last year. This reflects better year-to-date figures in the top-six markets for U.S.-manufactured goods. In addition, the U.S. trade deficit narrowed somewhat in May on a slight increase in goods exports and a corresponding decline in goods imports. The trade deficit has trended somewhat higher so far in 2017, averaging $46.61 billion per month year to date relative to $42.07 billion for 2016 as a whole. At the same time, the service-sector surplus in May was $20.99 billion, its highest point since August.

After decreasing in two of the past three months, we will be looking this week for a rebound in manufacturing production in June. Output in the sector has improved significantly across the past year, up 1.4 percent since May 2016, even with a springtime lull in the data. It is hoped the better figures in recent surveys translate into stronger (and broad-based) gains in production moving forward. In a similar way, retail sales have also been disappointing in recent months, and manufacturers will be looking for indications in new data that consumer spending has improved this summer. Other highlights include updates on consumer confidence, consumer and producer prices, job openings and small business optimism.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, July 3
Construction Spending
ISM Manufacturing Purchasing Managers' Index

Tuesday, July 4
INDEPENDENCE DAY HOLIDAY

Wednesday, July 5
Factory Orders and Shipments

Thursday, July 6
ADP National Employment Report
International Trade Report

Friday, July 7
BLS National Employment Report

This Week's Indicators:

Monday, July 10
Consumer Credit

Tuesday, July 11
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, July 12
None

Thursday, July 13
Producer Price Index

Friday, July 14
Consumer Price Index
Industrial Production
Retail Sales
University of Michigan Consumer Sentiment

Summaries for Last Week`s Economic Indicators

ADP National Employment Report
ADP reported that manufacturing employment rose by 6,000 in June, increasing for the seventh straight month. Over that time frame (from December through June), the sector added 117,000 net new workers. This was yet another sign that we have turned a corner in the labor market, with employers accelerating their hiring in light of stronger activity and sentiment. In contrast, hiring in 2016 was flat for the year as a whole. It is hoped the trend of stronger job growth is one that continues in the coming months.

Meanwhile, total private employment increased by 158,000 in June, which was well below the 230,000 workers added in May and off from the consensus estimate of around 190,000. Nonetheless, through the first half of 2017, nonfarm private payrolls have risen by 218,043 per month on average, which was notably higher than the 179,327 workers added each month in the second half of 2016. Beyond manufacturing, the largest employment growth in June included professional and business services (up 69,000), trade, transportation and utilities (up 30,000) and education and health services (up 28,000), among others. Construction and mining employment fell by 2,000 and 4,000, respectively, for the month. Small and medium-sized businesses (i.e., those with fewer than 500 employees) accounted for 68.4 percent of all net new workers in June.

BLS National Employment Report
Manufacturing employment edged up by 1,000 in June, stabilizing a little after declining by 2,000 in May. On the positive side, it was the sixth increase in net hiring in the past seven months, with the sector adding 71,000 workers over that time frame. That stands in sharp contrast to the loss of 16,000 workers for all of 2016, and overall, the data suggest an increased willingness among manufacturers to add new workers since

November. Yet, job growth in May and June in the manufacturing sector has been underwhelming, especially when compared to sentiment surveys—such as the one from the Institute for Supply Management released earlier last week (see below)—that have indicated relatively healthy expansions in employment. With that in mind, I would continue to expect better job gains moving forward, particularly given the improved demand and production outlook and stronger economic growth globally.

In June, the underlying manufacturing data were mixed. Employment among durable goods firms rose by 9,000 for the month, but this was nearly offset by a decline of 8,000 jobs for nondurable goods businesses. It was the second straight month with declines in nondurable goods employment growth, led by weaknesses in food manufacturing (down 3,300), paper and paper products (down 2,800) and apparel (down 1,000) in this release. In addition, motor vehicles and parts (down 1,300) has also continued to struggle on softer-than-desired sales year to date. Perhaps notably, employment in the food sector rose in non-seasonally adjusted data, so perhaps its decline could reflect those seasonal adjustments. Indeed, over the past 12 months, food manufacturing notched the fastest job growth in the sector, adding 28,300 since June 2016.

Among the bright spots, manufacturing sectors with the largest job gains in June included machinery (up 3,500), electrical equipment and appliances (up 2,800), primary metals (up 2,300), furniture and related products (up 1,800) and computer and electronic products (up 1,000). In addition to food manufacturing, the largest year-over-year gains from June 2016 to 2017 included the following: miscellaneous nondurable goods (up 16,400), machinery (up 15,000), fabricated metal products (up 14,700) and primary metals (up 7,700).

Average weekly earnings for manufacturing employees were also positive, up from $1,078.14 in May to $1,081.61 in June. That represented a 2.3 percent year-over-year increase in average weekly earnings, up from $1,056.98 in June 2016. Average weekly hours for manufacturing workers edged up from 40.7 to 40.8, but average overtime hours were unchanged at 3.3.

Meanwhile, job growth in the U.S. economy rebounded in June, with nonfarm payrolls up by 222,000. In addition, the May data were revised higher, up from an earlier estimate of 138,000 to 152,000. In the first half of 2017, nonfarm payrolls have increased by nearly 180,000 on average each month—a decent pace, but off the 193,167 average in the second half of 2016. In addition, the unemployment rate rose from 4.3 percent in May—a 10-year low—to 4.4 percent, with the participation rate inching up from 62.7 percent to 62.8 percent.

Overall, the labor market continues to show signs of strength, which should be enough for the Federal Reserve to maintain its policies toward normalization, both in interest rates and in the size of its balance sheet. Yet, the sluggish manufacturing employment growth in manufacturing in May and June should also serve as a reminder that—even with notable progress over the past year—growth in the U.S. economy still has a lot of room for improvement.

Construction Spending

The Census Bureau reported that private manufacturing construction spending eased again in May, down 1.7 percent. The value of construction put in place in the sector declined from $70.59 billion in April to $69.41 billion in May, its slowest pace since December. To further illustrate the recent deceleration in activity, construction spending in the sector has averaged $70.72 billion year to date through May, down from the average of $76.50 billion through the first five months of 2016. While the long-term trend for manufacturing construction remains mostly positive, activity has moved lower since achieving the all-time high of $82.13 billion in May 2015. Nonetheless, we would expect a turnaround in construction activity in the coming months, especially in light of the improved outlook of late.

Overall, private nonresidential construction spending decreased 0.7 percent in May, but it has risen 0.8 percent year-over-year. The religious (up 3.7 percent), amusement and recreation (up 0.9 percent), office (up 0.8 percent) and power (up 0.3 percent) segments each increased their construction spending in May, but declines in other sectors more than offset those gains. The largest drags came from reduced construction spending on projects for educational (down 5.0 percent), transportation (down 2.6 percent), communication (down 2.0 percent) and commercial (down 1.0 percent) enterprises, among others. Nonetheless, there have been some business sectors that have had strong gains in private nonresidential construction spending over the past 12 months, including office (up 15.9 percent), commercial (up 9.4 percent) and amusement and recreation (up 7.0 percent) projects.

Meanwhile, private residential construction spending decreased 0.6 percent in May, but with a healthy 11.2 percent year-over-year gain. For the month, single-family and multifamily construction activity decreased 0.3 percent and 3.3 percent, respectively. Since May 2016, single-family and multifamily construction spending rose 7.9 percent and 3.0 percent, respectively. In addition to those components, public construction spending rose 2.1 percent in May; however, it declined 0.6 percent year-over-year.

Factory Orders and Shipments

The Census Bureau reported that new factory orders declined for the second straight month, down 0.8 percent in May, pulling back once again from March's fastest pace since November 2014. Durable and nondurable goods orders both fell 0.8 percent in May. Yet, much of that decline for durable goods stemmed largely from sharp decreases in defense and nondefense aircraft orders, which can often be quite volatile from month to month. Excluding transportation, manufactured goods orders declined 0.3 percent, but durable goods excluding transportation increased 0.3 percent. Nonetheless, new factory orders, which have struggled mightily over the past few years, have trended largely in the right direction more recently, up 4.2 percent since May 2016. Excluding transportation, the gains were slightly larger, up 5.5 percent year-over-year.

Looking specifically at durable goods activity in May, the data were mixed but mostly higher. Demand grew for machinery (up 1.1 percent), electrical equipment, appliances and components (up 1.0 percent), primary metals (up 0.6 percent) and motor vehicles and parts (up 0.1 percent), with orders for both fabricated metal products and furniture and related products flat for the month. At the same time, computers and electronic products (down 0.2 percent), along with the aircraft and parts segments as discussed above, experienced reduced sales in May. Core capital goods—or nondefense capital goods excluding aircraft—rose 0.2 percent in May, with a gain of 5.5 percent over the past 12 months.

Meanwhile, manufactured goods shipments edged up 0.1 percent in May, slightly improving from being flat in April. Durable goods shipments grew for the month, up 1.0 percent, but activity for nondurable goods fell 0.8 percent. In addition, healthy gains for defense and nondefense aircraft and parts data buoyed the shipments data. Excluding transportation equipment, manufactured goods shipments decreased 0.3 percent, with durable goods minus transportation up a more modest 0.4 percent. On a year-over-year basis, factory shipments have risen 4.9 percent since May 2016, or 5.3 percent excluding transportation.

International Trade Report

The Bureau of Economic Analysis and the Census Bureau reported that the U.S. trade deficit declined from $47.59 billion in April to $46.51 billion in May. The trade deficit has trended somewhat higher so far in 2017, averaging $46.61 billion per month year to date relative to $42.07 billion for 2016 as a whole. In May, the increased trade deficit was the result of a slight rise in goods exports (up from $126.98 billion to $127.21 billion) and a decline in goods imports (down from $195.33 billion to $194.70 billion). In 2009 dollars, real goods exports increased from $123.76 billion to $124.95 billion, a new all-time high. At the same time, real goods imports increased marginally from $187.58 billion to $187.79 billion. Meanwhile, the service-sector surplus edged slightly higher, up from $20.77 billion to $20.99 billion, its highest point since August.

The underlying goods exports data were mixed. Exports increased for consumer goods (up $885 million) and automotive vehicles, parts and engines (up $619 million) but declined for foods, feeds and beverages (down $711 million), nonautomotive capital goods (down $450 million) and industrial supplies and materials (down $118 million). In contrast, there were sizable decreases in goods imports for consumer goods (down $1.47 billion) and automotive vehicles, parts and engines (down $722 million) that were enough to offset increases in nonautomotive capital goods (up $1.25 billion) and industrial supplies and materials (up $104 million).

For manufacturers, exports have trended in the right direction through the first five months of this yearâ€"a welcome development after weaker data in both of the past two years. Using non-seasonally adjusted data, U.S.-manufactured goods exports totaled $445.74 billion year to date in May, up 3.67 percent from $429.97 billion one year ago. This reflects better year-to-date figures in the top-six markets for U.S.-manufactured goods: Canada (up from $110.31 billion to $114.53 billion), Mexico (up from $93.67 billion to $97.44 billion), China (up from $42.40 billion to $49.53 billion), Japan (up from $24.94 billion to $27.17 billion), the United Kingdom (up from $22.62 billion to $22.83 billion) and Germany (up from $20.44 billion to $21.62 billion).

ISM Manufacturing Purchasing Managers' Index

The Institute for Supply Management (ISM) reported that manufacturing activity jumped to nearly a three-year high in June. The ISM Manufacturing Purchasing Managers' Index increased from 54.9 in May to 57.8 in June, its strongest reading since August 2014. As such, the latest survey continued to reflect healthy gains in both demand and output, with improvements in the global economy and a more upbeat outlook helping to lift manufacturing performance in the United States. It was the 10th straight month of manufacturing growth in this report.

In June, most of the key indicators rose sharply, bouncing back from some easing in the springtime months, including new orders (up from 59.5 to 63.5), production (up from 57.1 to 62.4), exports (up from 57.5 to 59.5) and employment (up from 53.5 to 57.2). The pace of hiring in June rose to a 15-month high, and growth of export orders remained encouraging, especially given the strength of the U.S. dollar and a number of global challenges over the past two years.

Prices for raw materials continued to decelerate (down from 60.5 to 55.0), pulling back from April's pace (70.5), which was the quickest rate since May 2011. This mirrors the slower growth in input prices in other data. Meanwhile, inventories contracted in June after expanding for two straight months in April and May (down from 51.5 to 49.0). Overall, stockpiles remain quite low, which should necessitate healthy gains in production moving forward to meet additional demand.

Connect with the Manufacturers

Questions or comments?

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