



October 16, 2017

University of Michigan and Thomson Reuters Consumer Sentiment Index, 2004–2017



The University of Michigan and Thomson Reuters reported that [consumer confidence](#) soared in October, rising to its highest point since January 2014, according to preliminary data. Overall, the report was encouraging and a sign that consumers felt more upbeat in their views on the economy and in their expectations for spending in the months ahead. Along those lines, [retail spending](#) rose sharply, up 1.6 percent in September, buoyed by hurricane-related purchases of motor vehicles and home repair supplies and by higher gasoline prices. Beyond the monthly acceleration in activity, Americans have been generally more willing to open their pocketbooks this year than last. Retail sales have risen a relatively strong 4.4 percent over the past 12 months.

The labor market has also been encouraging so far this year, with signs that the job market continues to tighten. Along those lines, [manufacturing hiring](#) remained robust in August. The sector hired 352,000 workers in August, edging down from 353,000 in July. The pace of hiring in both months was the best since November 2007. At the same time, total separations, including layoffs, quits and retirements, fell from 320,000 to 304,000, a six-month low. As a result, net hiring (or hires minus separations) jumped from 33,000 in July to 48,000 in August. Meanwhile, manufacturing job openings pulled back again from June’s

16-and-a-half-year high but largely trending higher over the past 12 months. Similar trends occurred in the larger economy, with job openings for nonfarm payroll businesses in August just shy of the survey's all-time high recorded in July.

Most of the other headlines last week centered on prices and monetary policy. Notable pickups occurred in both [consumer](#) and [producer](#) prices in September, largely from higher energy costs. The consumer price index increased 2.2 percent year-over-year in September, up from 1.9 percent in August and a five-month high. Similarly, producer prices for final demand goods and services have increased 2.5 percent since September 2016, up from 2.4 percent year-over-year last month and returning to the pace in April. A fair share of this increase was related to recent hurricanes and likely transitory in nature. Core consumer prices, which exclude food and energy costs, inched up 0.1 percent in September, or 1.7 percent year-over-year. Core producer price inflation was somewhat higher at 2.1 percent year-over-year. Yet, both measures suggest mostly modest inflation right now, even with the recent acceleration.

Nonetheless, the Federal Open Market Committee is still likely to raise short-term interest rates at its December 12–13 meeting, mostly on improvements in the macroeconomy and from general tightening in labor markets. The [minutes](#) from its September 19–20 meeting appear to confirm this. While the decision whether or not to hike rates for the third time this year will still hinge on incoming data, “many participants thought that another increase in the target [federal funds rate] range later this year was likely to be warranted if the medium-term outlook remained broadly unchanged.”

Turning to the week ahead, manufacturers saw the beginning of the impact of the recent hurricanes in the August manufacturing production data, which declined 0.3 percent for the month. While that trend will likely continue in the September figures due out this week, industry leaders remain mostly upbeat in their outlook as output in the sector has risen 1.5 percent year-over-year. The latest surveys from the New York and Philadelphia Federal Reserve Banks will highlight manufacturers' current thinking in those districts. Other highlights this week include new data on housing starts and permits, leading indicators and state employment.

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P.S. – Please join me at a one-day health care policy conference, “The Price of Good Health: How to Bend the Health Cost Curve,” on November 1 at the Newseum. This event is sponsored by the Council for Affordable Health Coverage and the American Action Forum. The NAM has secured our members special access to this invite-only event, which will feature Sen. Bill Cassidy (R-LA), House Ways and Means Committee Chairman Kevin Brady (R-TX), Congressional Budget Office Director Keith Hall and others. To learn more and to register for the event, click [here](#).

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, October 9
COLUMBUS DAY HOLIDAY

Tuesday, October 10
NFIB Small Business Survey

This Week's Indicators:

Monday, October 16
New York Fed Manufacturing Survey

Tuesday, October 17
Industrial Production
NAHB Housing Market Index

Wednesday, October 11

Job Openings and Labor Turnover Survey

Thursday, October 12

Producer Price Index

Friday, October 13

Consumer Price Index

Retail Sales

University of Michigan Consumer Sentiment

Wednesday, October 18

Housing Starts and Permits

Thursday, October 19

Conference Board Leading Indicators

Philadelphia Fed Manufacturing Survey

Friday, October 20

Existing Home Sales

State Employment Report

Summaries for Last Week's Economic Indicators

Consumer Price Index

The Bureau of Labor Statistics reported that [consumer prices](#) rose 0.5 percent in September, extending the 0.4 percent gain in August and rising at the fastest monthly rate since January. The uptick over the past two months has come primarily from higher energy costs, up 2.8 percent and 6.1 percent in August and September, respectively. Gasoline prices led the increases, rising 6.3 percent in August and 13.1 percent in September, with recent hurricanes helping to accelerate those costs. At the same time, food prices edged up 0.1 percent, primarily from food purchased away from home. Since September 2016, food and energy costs have increased 1.2 percent and 10.1 percent, respectively.

Overall, the consumer price index increased 2.2 percent year-over-year in September, up from 1.9 percent in August and a five-month high. Pricing pressures had picked up earlier in the year but had waned over the summer months. As noted above, the pickup in inflation has come mostly from the uptick in energy costs. Core consumer prices, which exclude food and energy costs, inched up 0.1 percent in September, or 1.7 percent year-over-year. As such, overall pricing pressures remain modest—even with the recent pickup—and mostly under control for now. Nonetheless, the Federal Open Market Committee is still likely to raise short-term interest rates at its December 12–13 meeting, mostly on improvements in the macroeconomy and from general tightening in labor markets.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics [reported](#) that manufacturing hiring remained robust in August, according to the latest Job Openings and Labor Turnover Survey figures. The sector hired 352,000 workers in August, edging down from 353,000 in July. The pace of hiring in both months was the best since November 2007. In August, increased hiring at durable goods firms (up from 205,000 to 212,000, the highest level since November 2007) was essentially offset by reduced hiring for nondurable goods businesses (down from 148,000 to 140,000). At the same time, total separations, including layoffs, quits and retirements, fell from 320,000 to 304,000, a six-month low. As a result, net hiring (or hires minus separations) jumped from 33,000 in July to 48,000 in August.

Meanwhile, manufacturing job openings pulled back again from June's 16-and-a-half-year high of 419,000 to 414,000 in July and 397,000 in August. Despite some easing, job postings in the sector have trended largely higher, up from 339,000 one year ago. Indeed, durable goods manufacturers posted 238,000 job openings in August, up from 207,000 in July and the fastest pace since July 2007. Yet, the decline in manufacturing job openings in August came mostly from a deceleration among nondurable goods firms (down from 207,000 to 159,000). This could suggest some negative impacts from Hurricane Harvey, making it a temporary decline. Stronger job openings data would be expected moving forward, especially given recent improvements in the economic outlook for the sector, and this should lead to better hiring figures.

Turning to the larger economy, nonfarm payroll businesses also had healthy job openings activity, even with a slight pullback from 6,140,000 in July to 6,082,000 in August. July's job posting level was an all-time high in the survey's 17-year history. In the latest data, the largest monthly increases in postings included construction; education and health services; financial activities; government; information; and trade,

transportation and utilities. Moreover, net hiring in the nonfarm sector increased from 159,000 in July to 202,000 in August.

NFIB Small Business Survey

The National Federation of Independent Business reported that the [Small Business Optimism Index](#) dropped from 105.3 in August to 103.0 in September, its lowest level since the election. Indeed, the percentage of respondents suggesting that the next three months would be a “good time to expand” fell from 27 percent to 17 percent, and the net percentage feeling that sales would be higher over the next three months declined from 27 percent to 15 percent. Even with some easing in the latest survey, small business owners remain mostly upbeat, with the headline index averaging 104.8 over the past 10 months. In comparison, it was 94.1 one year ago.

Despite some anxieties in the latest report, small firms continue to invest in their businesses at a decent clip. The net percentage planning to add workers in the next three months inched up from 18 percent to 19 percent. This matched the pace in July, which was the strongest reading since December 1999. In addition, 59 percent of those surveyed said they had made a capital expenditure over the past six months, off just slightly from 60 percent in the prior release. Nonetheless, capital expenditure plans weakened somewhat, down from 32 percent in August who noted they intended to spend on capital over the next three to six months to 27 percent in September.

Respondents cited taxes as the top “single most important problem” (21 percent), highlighting the need for comprehensive business tax reform. The quality of labor (19 percent) and government regulations and red tape (16 percent) also topped the list.

Producer Price Index

The Bureau of Labor Statistics reported that [producer prices](#) for final demand goods and services rose 0.4 percent in September, the fastest pace since April. For manufacturers, producer prices for final demand goods increased 0.2 percent for the second straight release. The gain in September stemmed largely from an acceleration in energy prices, up 3.4 percent, extending the 3.3 percent increase in August. Indeed, the cost of West Texas Intermediate crude rose from \$47.26 per barrel on August 31 to \$51.67 a barrel on September 29, helping to illustrate the recent increases in energy costs for producers. A fair share of the pickup in energy prices stems from recent hurricanes, perhaps making them transitory in nature.

In contrast, food prices were flat in the latest data. On a year-over-year basis, final demand food and energy costs have risen 1.2 percent and 10.6 percent, respectively. Excluding food and energy, producer prices for final demand goods increased 0.3 percent in September.

Overall, producer prices for final demand goods and services have increased 2.5 percent since September 2016, up from 2.4 percent year-over-year last month and returning to the pace in April. Raw material costs have accelerated across the past 12 months, as the year-over-year rate was 0.7 percent one year ago. Nonetheless, core producer prices, which exclude food, energy and trade services, continue to be modest, hovering around the Federal Reserve’s target rate of 2 percent. In this report, core producer inflation was 2.1 percent year-over-year in September, edging up from 2.0 percent in August. For comparison purposes, core producer prices were 1.4 percent year-over-year in September 2016.

Retail Sales

[Retail spending](#) rebounded strongly, up 1.6 percent in September after edging down 0.1 percent in August. The recent hurricanes influenced the decline in August and the corresponding uptick in September, and in the latest figures, this can be seen in robust spending growth at motor vehicle and parts dealers (up 3.6 percent) and building material and garden supply stores (up 2.1 percent) as Americans in the affected areas replaced and repaired their damaged homes and automobiles in mass. In addition, gasoline prices have moved higher, pushing retail sales at gasoline stations up 5.8 percent in September. Illustrating this point, the Energy Information Administration reports that the [average price of regular gasoline](#) rose from \$2.399 per gallon during the week of August 28 to \$2.583 during the week of September 25.

In general, consumer spending remains a bright spot in the economy, with Americans more willing to open their pocketbooks this year than last, especially compared to the beginning months of 2016. Over the past 12

months, spending has risen 4.4 percent, up from 3.5 percent in the prior release. This has drifted higher over the past three months, up from 3.0 percent in June. Excluding motor vehicles, retail sales increased 4.6 percent year-over-year in September, up from 2.4 percent in June and 4.1 percent in August.

Looking at other businesses in the September report, the data were mixed. Segments with higher spending for the month included food and beverage stores (up 0.8 percent), food services and drinking places (up 0.8 percent), nonstore retailers (up 0.5 percent) and clothing and accessory stores (up 0.4 percent). In contrast, miscellaneous store retailers (down 0.6 percent), department stores (down 0.4 percent), furniture and home furnishings stores (down 0.4 percent), health and personal care stores (down 0.4 percent) and sporting goods and hobby stores (down 0.2 percent) all saw weaker activity.

University of Michigan Consumer Sentiment

The University of Michigan and Thomson Reuters reported that consumer confidence soared in October, rising to its highest point since January 2014, according to preliminary data. The [Index of Consumer Sentiment](#) jumped from 95.1 in September to 101.1 in October. This was well above the consensus estimate, which was for the measure to be unchanged from the prior month. Richard Curtin, the Surveys of Consumers chief economist, writes, “The October gain was broadly shared, occurring among all age and income subgroups and across all partisan viewpoints. The data indicate a robust outlook for consumer spending that extends the current expansion to at least mid-2018...”

Overall, the report was encouraging and a sign that consumers felt more upbeat in their views on the economy and in their expectations for spending in the months ahead. Indices for current (up from 111.7 to 116.4) and future (up from 84.4 to 91.3) conditions rose sharply higher. Final data for this survey will be released on October 27.

Connect with the Manufacturers



Questions or comments?

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