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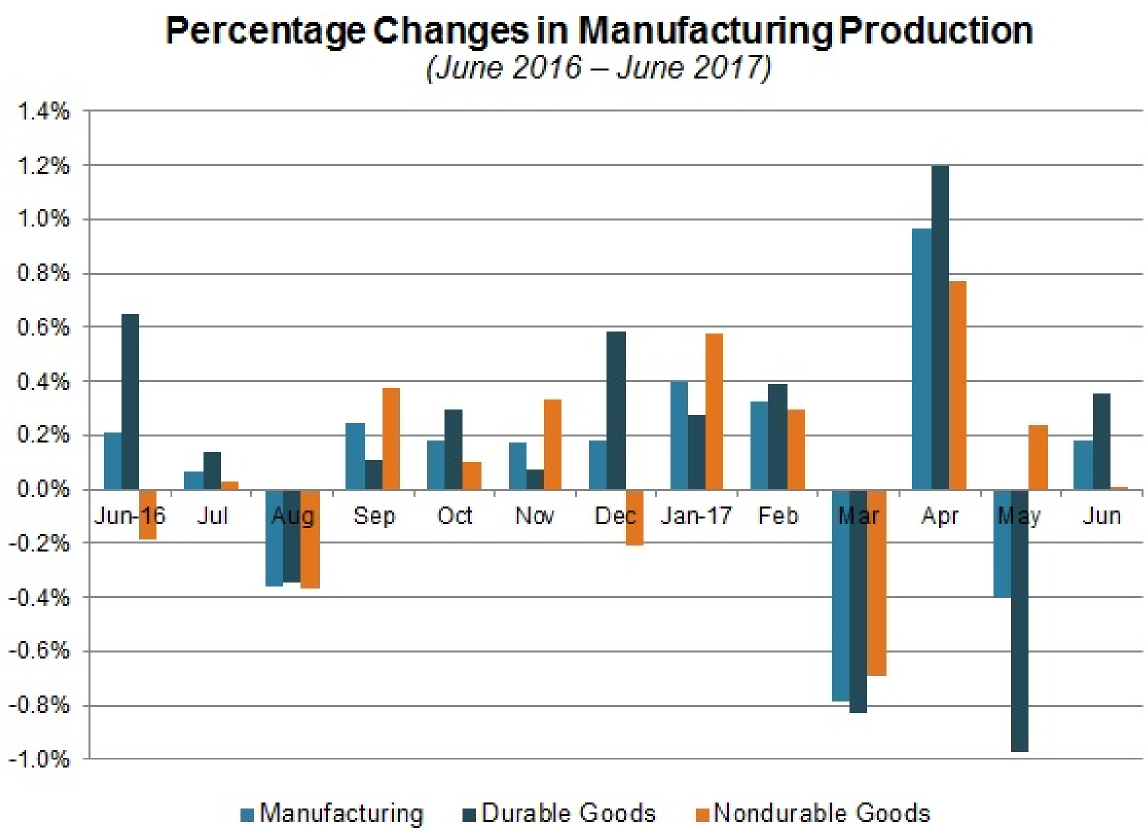
# Monday Economic Report

July 17, 2017




The Federal Reserve reported that manufacturing production rebounded in June, up 0.2 percent, after falling in two of the three prior months. Overall, springtime production in the sector was choppier than expected, especially given the more robust outlook in other data sources. Yet, even with some disappointment in recent months, the longer-term trend for output among manufacturers has been quite positive. Across the past 12 months, manufacturing production has risen 1.2 percent. It was the eighth consecutive positive year-over-year reading for manufacturing output and progress from the 0.2 percent year-over-year gain in June 2016. In addition, total industrial production jumped 0.4 percent in June, up from 0.1 percent in May and rising for the fifth straight month. Industrial production has risen 2.0 percent year-over-year, matching the pace in May, with both being the best readings since January 2015.

Meanwhile, there were mixed messages about consumer behavior last week. On the one hand, U.S. consumer credit outstanding rose 5.8 percent at the annual rate in May, boosted by an 8.7 percent jump in revolving credit, which includes credit cards and credit lines. This suggests that Americans were more willing to take on credit card debt in May, recovering from the more cautious approach to credit in the prior release.

With that said, consumer confidence fell in July, according to preliminary data from the University of Michigan and Thomson Reuters. The Index of Consumer Sentiment dropped from 95.1 in June to 93.1 in July, its lowest reading since the election. Americans were more upbeat about current conditions, with that measure at its highest point in 12 years. Yet, the decline in July stemmed from a weakening in expectations for the future, largely on political anxieties. As noted in past reports, there remained significant differences in perceptions based on political affiliation, with the steepest declines in this latest survey from Republicans, who are frustrated about the lack of movement on the policy front. In a similar way, the Small Business Optimism Index slipped in June, largely on those same frustrations, even as sentiment remained quite elevated and not far from January's 12-year high.

With that in mind, retail sales figures once again disappointed in June, falling for the second straight month. Spending at retailers decreased 0.2 percent in June, extending the 0.1 percent decline in May and below consensus estimates for a slight gain. (On the positive side, the May number was revised higher, as it was originally down 0.3 percent.) Americans had been more willing to open their pocketbooks, especially relative to the caution seen at the beginning of 2016. This culminated in 5.6 percent year-over-year growth in January, its fastest pace since March 2012, but the year-over-year rate has eased since then. Since June 2016, retail spending has increased a more modest 2.8 percent. Excluding autos, the year-over-year pace was 2.4 percent.

More positively, the rate of hiring in the manufacturing sector in May grew to its fastest pace since November 2007. According to the latest Job Openings and Labor Turnover Survey data, manufacturers hired 332,000 workers in May, up from 314,000 in April. Expressed as a percentage of the total manufacturing workforce, that meant the hiring rate in the sector jumped from 2.5 percent to 2.7 percent, or nearly a 10-year high. Hiring has trended upward across the past nine months since it bottomed out at 268,000 in August. Nonetheless, manufacturing job openings pulled back for the second straight month, even as the data continues to reflect slow-but-steady progress from last year. We would expect stronger job openings data moving forward, especially given recent improvements in the economic outlook for the sector, and this should lead to continued growth in hiring.

Beyond those data points, some of the larger economic headlines last week came from Federal Reserve Chair Janet Yellen's semiannual testimony to Congress. She cited recent progress in the economy, noting the Federal Open Market Committee's desire to continue to "gradually reduce the amount of monetary accommodation" in the economy. The Federal Reserve is widely expected to raise short-term rates one more time this year and to begin reducing the size of its balance sheet, perhaps doing both as soon as the September 19–20 meeting.

Participants at those meetings have been given more breathing room by decelerating pricing pressures over the past few months, both at the consumer and producer levels. Reduced energy prices have helped, particularly in the June data. The consumer price index increased 1.6 percent year-over-year in June, its lowest rate since October, and producer prices for final demand goods and services have increased 2.0 percent since May 2016, continuing to ease from April's 2.5 percent year-over-year pace, which was the fastest rate since February 2012.

The housing market has been softer than desired for much of this year, even as homebuilders continue to report a positive outlook for sales moving forward. This week will bring new data on housing starts and permits, which it is hoped will show a rebound from softness during the springtime. In addition, there will be new reports on manufacturing activity from the New York and Philadelphia Federal Reserve Banks. Other highlights this week include the latest figures for GDP by industry, leading indicators and state employment.

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## Economic Indicators

**Last Week's Indicators:**
(Summaries Appear Below)

**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

**This Week's Indicators:**

**Monday, July 17**
New York Fed Manufacturing Survey

**Tuesday, July 18**
NAHB Housing Market Index

**Wednesday, July 19**
Housing Starts and Permits

**Thursday, July 20**
Conference Board Leading Indicators
Philadelphia Fed Manufacturing Survey

**Friday, July 21**
Gross Domestic Product by Industry
State Employment Report

## Summaries for Last Week`s Economic Indicators

### Consumer Credit

The Federal Reserve Board reported that U.S. consumer credit outstanding rose 5.8 percent at the annual rate in May, up from the 4.1 percent gain in April. Total consumer credit was $3.843 trillion in May, with $1.019 trillion in revolving credit and $2.824 trillion in nonrevolving credit. Across the past 12 months, consumer credit has increased 5.8 percent, with revolving and nonrevolving credit up 5.7 percent and 6.1 percent year-over-year, respectively.

Revolving credit, which includes credit cards and credit lines, jumped an annualized 8.7 percent in May, rebounding strongly after rising by just 1.4 percent in April. This suggests that Americans were more willing to take on credit card debt in May, recovering from the more cautious approach to credit in the prior release. Meanwhile, nonrevolving credit, which includes auto and student loans, rose 4.7 percent in May, easing slightly from 5.0 percent growth in April.

### Consumer Price Index

The Bureau of Labor Statistics reported that consumer prices were flat in June. Energy prices decreased 1.6 percent, falling for the fourth time in the past five months, with gasoline prices off 2.8 percent in June. This was largely consistent with data from the Energy Information Administration, which noted that the weekly average price for regular conventional gasoline was $2.308 on May 29 but fell to $2.201 on June 26. In contrast, food prices were flat for the month, with higher costs for meats, poultry, fish and eggs offset by lower prices in other categories. Over the past 12 months, food and energy costs have increased 0.9 percent and 2.3 percent, respectively.

Overall, the consumer price index increased 1.6 percent year-over-year in June, its lowest rate since October. This suggests that the acceleration in pricing pressures that peaked at a 2.8 percent year-over-year rate in February has slowed since then. With that said, year-over-year consumer inflation was 1.0 percent in June 2016, suggesting that overall prices have still trended slightly higher over the past year despite some deceleration in that pace over the past few months.

Core consumer prices, which exclude food and energy costs, edged up 0.1 percent in June, mirroring its increases in both April and May. Excluding food and energy costs, consumer prices have risen 1.7 percent over the past 12 months, pulling back from the recent peak of 2.3 percent in January. As such, overall pricing pressures remain modest and mostly under control for now, and the latest easing in pricing pressures should give the Federal Reserve some breathing room on monetary policy.

### Industrial Production

The Federal Reserve reported that manufacturing production rebounded in June, up 0.2 percent, after falling in two of the three prior months. Overall, springtime production in the sector was choppier than expected, especially given the more robust outlook in other data sources. Yet, even with some disappointment in recent months, the longer-term trend for output among manufacturers has been quite positive. Across the past 12 months, manufacturing production has risen 1.2 percent. It was the eighth consecutive positive year-over-year reading for manufacturing output and progress from the 0.2 percent year-over-year gain in June 2016. Similarly, manufacturing capacity utilization inched up from 75.3 percent in May to 75.4 percent in June. For comparison purposes, utilization in the sector was 75.1 percent one year ago.

Durable goods production increased 0.4 percent in June, with output for nondurable goods firms flat. Twelve of the 19 major manufacturing sectors experienced growth in the latest report. The largest monthly gains included wood products (up 1.4 percent), plastics and rubber products (up 1.1 percent), motor vehicles and parts (up 0.7 percent), machinery (up 0.6 percent), primary metals (up 0.6 percent) and furniture and related products (up 0.5 percent), among others. In contrast, apparel and leather (down 1.4 percent), food, beverage and tobacco products (down 0.5 percent), petroleum and coal products (down 0.4 percent), fabricated metal products (down 0.2 percent) and textile and product mills (down 0.2 percent) were some of the sectors with reduced output in June.

Meanwhile, total industrial production jumped 0.4 percent in June, up from 0.1 percent in May and rising for the fifth straight month. In addition to the increase in output in the manufacturing sector, mining production was also higher, up 1.6 percent. Utilities production was flat. Over the past 12 months, industrial production has risen 2.0 percent, matching the pace in May, with both being the best readings since January 2015. The year-over-year pace improved from the 0.8 percent year-over-year decline in June 2016. Mining production rose 9.9 percent year-over-year, with utilities production down 2.2 percent over the past 12 months. In addition, capacity utilization increased from 76.4 percent to 76.6 percent, a reading not seen since August 2015.

### Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics reported that the rate of hiring in the manufacturing sector in May grew to its fastest pace since November 2007. According to the latest Job Openings and Labor Turnover Survey data, manufacturers hired 332,000 workers in May, up from 314,000 in April. Expressed as a percentage of the total manufacturing workforce, that meant the hiring rate in the sector jumped from 2.5 percent to 2.7 percent, or nearly a 10-year high. Hiring has trended upward across the past nine months since it bottomed out at 268,000 in August. With that said, total separations—including layoffs, quits and retirements—also rose, up from 317,000 to 327,000, with the separations rate unchanged at 2.6 percent. As a result, net hiring (or hires minus separations) increased by 5,000 in May, rebounding from a loss of 3,000 workers in April.

Meanwhile, manufacturing job openings pulled back for the second straight month, down from 404,000 in March, to 365,000 in April, to 343,000 in May. In the most recent data, job postings fell for both durable (down from 207,000 to 199,000) and nondurable (down from 158,000 to 144,000) firms. Nonetheless, job openings among manufacturers have averaged 367,000 year to date in 2017, an improvement from the average of 342,000 for all of 2016. We would expect stronger job openings data moving forward, especially given recent improvements in the economic outlook for the sector, and this should lead to better hiring figures.

Similar trends occurred in the larger economy. Nonfarm payroll hiring jumped from 5,043,000 in April to 5,472,000 in May, its highest level since November 2006. The hiring rate rose to 3.7 percent, up from 3.5 percent, with growth in every major industry. Total separations increased from 5,008,000 to 5,259,000, suggesting net hiring of 213,000 in May. Beyond those figures, nonfarm job openings declined from 5,967,000 to 5,666,000 in this report, mirroring the deceleration in the manufacturing data.

### NFIB Small Business Survey

The National Federation of Independent Business (NFIB) reported that the outlook among small business owners slipped in June, even as it remained elevated. The Small Business Optimism Index dropped from 104.5 in May to 103.6 in June. While sentiment has eased from January's 105.9 reading, which was a 12-year high, small firm leaders continue to express confidence in their overall economic outlook. In the first half of 2017, the headline index averaged 104.8, well above the 93.6 average in the first half of 2016 and illustrating the uptick in optimism since November. Yet, much of the improvement in the economic outlook is based on expectations that pro-growth policies will get enacted, and on that note, the NFIB warned, "More substantial progress is needed on these major issues if owner optimism is to be sustained."

Many of the underlying data points in June eased, mirroring the main index, but continued to reflect improvements since last autumn. The percentage of respondents suggesting that the next three months would be a "good time to expand" edged down from 23 percent to 21 percent, and the percentage of respondents expecting sales to increase over the next three months dropped from 22 percent to 17 percent. In addition, 15 percent have plans to add workers over the next three months, down from 18 percent. On the positive side, those planning to make a capital expenditure over the next three to six months rose from 28 percent to 30 percent, its best reading since September 2007.

Respondents cited taxes as the top "single most important problem" (22 percent), highlighting the need for comprehensive business tax reform. Government regulations and red tape (19 percent) and the quality of labor (15 percent) also topped the list.

### Producer Price Index

The Bureau of Labor Statistics reported that producer prices for final demand goods and services edged up 0.1 percent in June, accelerating ever so slightly after being unchanged in May. For manufacturers, producer prices for final demand goods rose 0.2 percent, rebounding from a decline of 0.1 percent in the prior release. The gain stemmed largely from increased food prices, up 1.2 percent, led by higher costs for dairy, grains and meats. At the same time, energy prices pulled back for the second straight month, down 0.6 percent. On a year-over-year basis, final demand food and energy costs have risen 1.2 percent and 4.3 percent, respectively. Excluding food and energy, producer prices for final demand goods increased 0.1 percent.

Overall, producer prices for final demand goods and services have increased 2.0 percent since May 2016, continuing to ease from April's 2.5 percent year-over-year pace, which was the fastest rate since February 2012. That represents a notable acceleration in inflationary pressures after being unchanged in August, and yet, this latest figure suggests that the pickup has stabilized, at least for now. In a similar way, core producer prices, which exclude food, energy and trade services, have grown 2.1 percent over the past 12 months, the same rate as in both April and May.

### Retail Sales

The U.S. consumer appears to be more cautious than we would expect, with disappointing retail sales figures once again in June, falling for the second straight month, according to the Census Bureau. Spending at retailers decreased 0.2 percent in June, extending the 0.1 percent decline in May and below consensus estimates for a slight gain. (On the positive side, the May number was revised higher, as it was originally down 0.3 percent.) Americans had been more willing to open their pocketbooks, especially relative to the caution seen at the beginning of 2016. This culminated in 5.6 percent year-over-year growth in January, its fastest pace since March 2012, but the year-over-year rate has eased since then. Since June 2016, retail spending has increased a more modest 2.8 percent. Excluding autos, the year-over-year pace was 2.4 percent.

Looking at the June report, the data were mixed. Businesses with increased sales for the month included building materials and garden supply stores (up 0.5 percent), general merchandise stores (up 0.4 percent), nonstore retailers (up 0.4 percent) and health and personal care stores (up 0.3 percent), among others. In contrast, spending fell for miscellaneous store retailers (down 3.1 percent), gasoline stations (down 1.3 percent), department stores (down 0.7 percent), food services and drinking places (down 0.6 percent), sporting goods and hobby stores (down 0.6 percent) and food and beverage stores (down 0.4 percent).

Since June 2016, the largest gains in retail spending included nonstore retailers (up 9.2 percent), building material and garden supply stores (up 5.1 percent), motor vehicles and parts dealers (up 4.7 percent) and furniture and home furnishings stores (up 2.5 percent). At the same time, there were significant year-over-year declines for sporting goods and hobby stores (down 8.9 percent) and department stores (down 3.9 percent). It is worth noting the contrast between nonstore retailers and department stores in this report, as retailers continue to grapple with the structural shifts taking place between online and brick-and-mortar spending habits.

**University of Michigan Consumer Sentiment**

Consumer confidence slipped in July, according to preliminary data from the University of Michigan and Thomson Reuters. The Index of Consumer Sentiment dropped from 95.1 in June to 93.1 in July, its lowest reading since the election. With that said, the underlying data were quite mixed. Americans were more upbeat about current conditions (up from 112.5 to 113.2), with that measure at its highest point in 12 years. Yet, the decline in July stemmed from a weakening in expectations for the future (down from 83.9 to 80.2), largely on political anxieties. As noted in past reports, there remained significant differences in perceptions based on political affiliation, with the steepest declines in this latest survey from Republicans, who are frustrated about the lack of movement on the policy front.

According to Richard Curtin, the Surveys of Consumers chief economist, the latest data are consistent with GDP growth of 2 percent in 2017, with personal consumption increasing by 2.4 percent. Final data from this survey will be released on July 28.

## Connect with the Manufacturers

### Questions or comments?

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

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