<

MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – January 21, 2020– SHARE

Housing Starts Soar in December to the Fastest Rate in 13 Years

The Weekly Toplines

- New residential construction soared 16.9%, up from an annualized 1,375,000 units in November to 1,608,000 in December, its strongest reading in 13 years. Multifamily activity jumped to its fastest pace since December 1986, with single-family starts rising to the best reading since June 2007. In addition, overall housing starts increased by a whopping 40.8% year-over-year, boosted by warmer weather, lower mortgage rates and a strong labor market.

- Homebuilder optimism has also been strong, especially for sales of single-family units over the next six months. At the same time, housing permits were more muted, pulling back to 1,416,000 units in December at the annual rate. Those data continue be very encouraging, up 5.6% over the past 12 months and with single-family permitting up a solid 10.8% year-over-year.

- Manufacturing production rose 0.2% in December, but, overall, the data continued to reflect weaknesses for the sector in 2019. Over the past 12 months, output has declined 1.3%, with year-over-year growth negative for six straight months to end the year. Looking at annual averages, manufacturing production declined 0.2% in 2019, pulling back from the 2.3% gain seen in 2018.

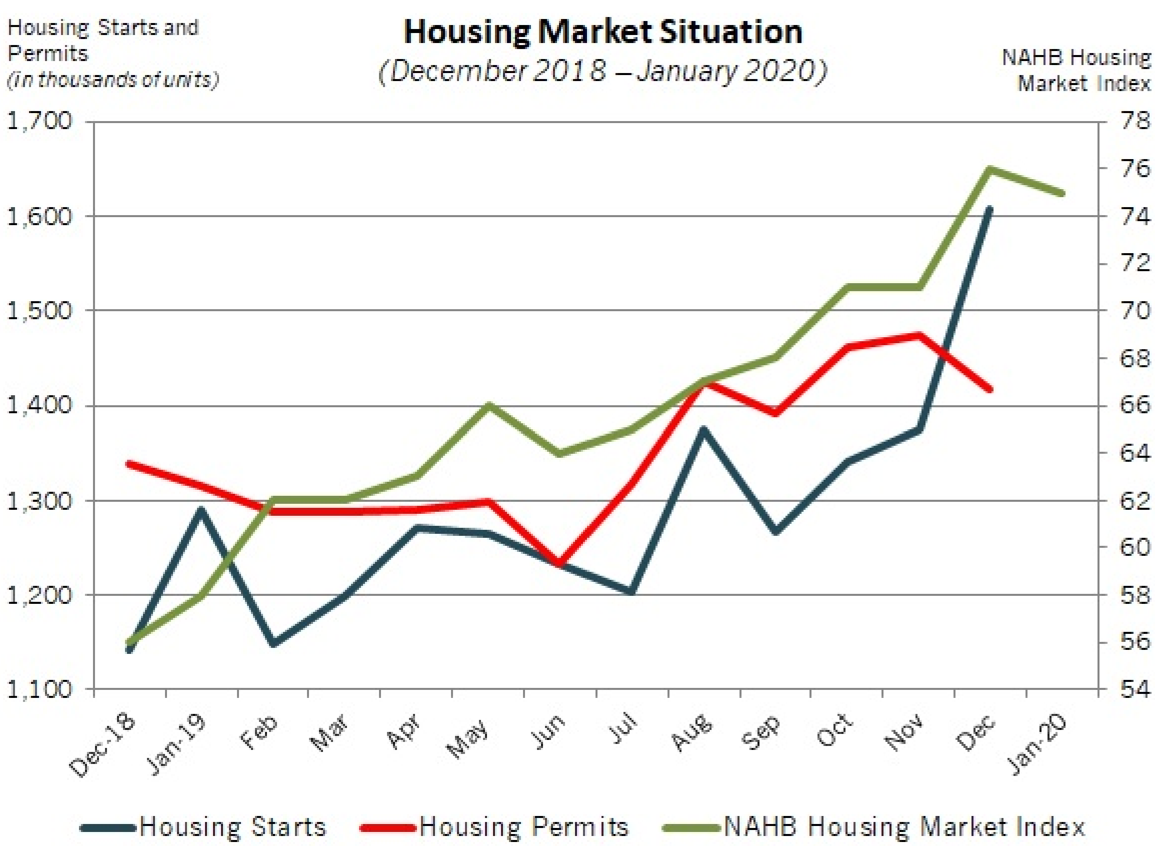
- There have been some signs of stabilization in other data points, especially in global markets and considering recent trade developments. My forecast for manufacturing production growth in 2020 is 0.5%. Along those lines, surveys from the New York and Philadelphia Federal Reserve Banks found expanding activity in January, beginning the year on a positive note.

- Total industrial production declined 0.3% in December. Utilities output fell 5.6%, largely because there was less spent on heating costs due to warmer temperatures, pulling the headline measure lower. Overall, industrial production fell 1.0% over the past 12 months, declining on a year-over-year basis for the fourth straight month.

- Job openings in the manufacturing sector fell to just 388,000 in November, the slowest pace since December 2017. Nonetheless, manufacturing job postings remained elevated over much of 2019, averaging more than 472,000 per month year to date, including the all-time high reached in June (515,000). The overall labor market remains solid, even with softer net hiring, with job openings continuing to outpace unemployment by nearly one million.

- Meanwhile, retail spending increased 0.3% in December, with a 0.7% gain if motor vehicles and parts sales were excluded. This suggests that Americans ended the year with healthy gains in spending—a notable contrast to the data in 2018 that disappointed retailers. Retail sales were up a very robust 5.8% year-over-year, but that speaks as much to the weaknesses of the 2018 data as it does to the strength of 2019 retail sales.

- Consumer and producer prices were each up slightly in December, buoyed by higher energy costs. Inflation appears to be largely under control, especially for producers, with core PPI up 1.4% over the past 12 months and reflecting decelerated growth over the past year.



Last Week's Indicators:
(Summaries Appear Below)

Monday, January 20
None

Tuesday, January 21
Consumer Price Index
NFIB Small Business Survey

Wednesday, January 22
New York Fed Manufacturing Survey
Producer Price Index

Thursday, January 23
NAHB Housing Market Index
Philadelphia Fed Manufacturing Survey
Retail Sales

Friday, January 24
Housing Starts and Permits
Industrial Production
Job Openings and Labor Turnover Survey
University of Michigan Consumer Sentiment (Preliminary)

This Week's Indicators:

Monday, January 27
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Tuesday, January 28
None

Wednesday, January 29
Chicago Fed National Activity Index
Existing Home Sales

Thursday, January 30
Conference Board Leading Indicators
Kansas City Fed Manufacturing Survey

Friday, January 31
IHS Markit Flash U.S. Manufacturing PMI
State Employment Report

Deeper Dive

- **Consumer Price Index:** Consumer prices rose 0.2% in December, slowing slightly from the 0.3% gain in November. Prices were buoyed by a jump in energy costs, up 1.4% in December, with food prices increasing by 0.2% for the month. Over the past 12 months, the consumer price index has risen 2.3%, up from 2.0% year-over-year in the prior release. At the same time, core inflation (which excludes food and energy) inched up 0.1% in December, also with 2.3% growth over the past 12 months.

  Overall, inflation appears to be stable and not far from the Federal Reserve’s stated goal of core price inflation around 2%. Over the past year, consumer prices were notably higher for medical care and shelter expenses, but prices for apparel and used cars and trucks have fallen year-over-year.

- **Housing Starts and Permits:** New residential construction soared 16.9%, up from an annualized 1,375,000 units in November to 1,608,000 in December, its strongest reading in 13 years. The data suggest that multifamily activity jumped to its fastest pace since December 1986, up from 426,000 to 553,000 units, with single-family activity rising to the best reading since June 2007, up from 949,000 to 1,055,000 units. Over the past 12 months, new residential construction has increased by a whopping 40.8%, with single-family and multifamily housing starts jumping 28.6% and 68.6% since December 2018, respectively.

This suggests that homebuyers continue to respond positively to lower mortgage rates, with the overall housing market bouncing back after being in the doldrums over much of the past year. Homebuilder optimism also reflects that positivity (see below).

The housing permits data remained encouraging, but more muted and with some easing in the latest figures. Housing permits pulled back from the fastest rate since May 2007, declined 3.9% from 1,474,000 units at the annual rate in November to 1,416,000 units in December. Single-family (down from 921,000 to 916,000 units) and multifamily (down from 553,000 to 500,000 units) activity were both lower for the month. Overall, new residential construction permits have risen 5.6% year-over-year, with single-family permitting up a solid 10.8% over the past 12 months.

- **Industrial Production:** Manufacturing production rose 0.2% in December, but overall, the data continued to reflect weaknesses for the sector in 2019. Over the past 12 months, output has declined 1.3%, with year-over-year growth negative for six straight months to end the year. Looking at annual averages, manufacturing production declined 0.2% in 2019, pulling back from the 2.3% gain seen in 2018. (Using NAICS codes instead of SIC codes, the 2018 and 2019 paces were 2.7% and unchanged, respectively.) Manufacturing capacity utilization inched up from 75.1% in November to 75.2% in December. This was dramatically lower than the high-water mark seen one year ago, 77.3%, which had been the best reading since March 2008.

  There have been some signs of stabilization in other data points, especially in global markets and considering recent trade developments. My forecast for manufacturing production growth in 2020 is 0.5%.

  In December, nondurable goods production increased 0.6%, but durable goods output fell by 0.2%. Thirteen of the 19 major sectors experienced better output for the month, including computer and electronic products, food, beverage and tobacco products, nonmetallic mineral products, petroleum and coal products, primary metals and wood products, among others. In contrast, there was reduced output for fabricated metal products, miscellaneous durable goods, motor vehicles and parts, printing and support and textile and product mills, with production for chemicals flat in December.

  Meanwhile, total industrial production declined 0.3% in December, falling for the third time in the past four months. Utilities output fell 5.6%, largely on warmer temperatures, pulling the headline measure lower. Mining production edged up 0.2%. Overall, industrial production fell 1.0% over the past 12 months, declining on a year-over-year basis for the fourth straight month. Total capacity utilization eased from 77.4% to 77.0%. Much like the manufacturing data, capacity was well below the rate seen in December 2018, when utilization was 79.5%.

- **Job Openings and Labor Turnover Survey:** Job openings in the manufacturing sector disappointed in the latest data, down from 447,000 in October to 388,000 in November, the slowest pace since December 2017. In the latest report, job openings were sharply lower for both durable and nondurable goods. Despite softer data in recent months, manufacturing job postings remained elevated over much of 2019, averaging more than 472,000 per month year to date, including the all-time high reached in June (515,000). I would not be surprised to see a rebound in job openings among manufacturing in upcoming data, especially as these figures can be highly volatile from month to month.

  In the larger economy, nonfarm business job openings declined from 7,361,000 in October to 6,800,000 in November. From the manufacturing perspective, firms continue to cite the inability to find talent as a top concern. Indeed, for the 21st straight month, the U.S. economy reported more nonfarm job openings than the number of people looking for work (5,811,000 in November). That statistic suggests there were nearly one million more job postings than there were unemployed people to fill them.

  Manufacturers hired 334,000 workers in November, up from 321,000 in October. At the same time, separations also increased, up from 324,000 to 330,000. As a result, net hiring (or hires minus separations) rose by 4,000 in November, the first increase since August. Overall, net hiring averaged 5,360 per month year-to-date.

  Digging a little deeper into the separations data, quits in the manufacturing sector increased from 198,000 to 213,000. This was not far from the record high seen in April, which was 224,000. Quits can be a proxy for churn in the labor market, especially in the tight labor market, and these data have been quite elevated. Moreover, manufacturing layoffs, which would normally be associated with a weak economy, are not yet an issue. There were 95,000 layoffs in the sector in November, the lowest since August 2017.

- **NAHB Housing Market Index:** The National Association of Home Builders and Wells Fargo reported that confidence pulled back slightly in January from December's reading, which was the best since June 1999. The Housing Market Index edged down from 76 in December to 75 in January, but sentiment has trended sharply higher over the course of the past year. The HMI was just 58 in January 2019, for instance, and builder confidence was boosted in recent months by lower mortgage rates and the strong labor market. The index for expected single-family sales over the next six months remained at 79, which was nearly a two-year high.

  With that said, the NAHB cites slowing economic growth and ongoing supply issues as challenges, including the shortage of skilled labor, a lack of buildable lots and rising costs that hurt affordability for would-be homebuyers.

- **New York Fed Manufacturing Survey:** Manufacturing activity in the New York Federal Reserve Bank's district expanded very modestly for the seventh straight month in January, beginning the year on a positive note. The headline index inched up from 3.3 in December to 4.8 in January, led by stronger growth in new orders and an ever-so-slight improvement in the average workweek. At the same time, the expansions for shipments and employment slowed somewhat. Pricing pressures picked up in December, with one-third of respondents citing higher costs, up from 19.6 percent in the November survey and the fastest pace in 10 months.

  Meanwhile, respondents to the Empire State Manufacturing Survey remain positive in their outlook for the next six months, albeit with some easing for a few key measures. The forward-looking index for business conditions decreased from 26.1 in December to 23.6 in January. New orders, shipments, inventories and hiring were expected to strengthen over the coming months, but with slower increases for capital and technology spending and the average workweek.

- **NFIB Small Business Survey:** The National Federation of Independent Business reported that the Small Business Optimism Index dipped from 104.7 in November to 102.9 in December. The headline measure averaged 103.0 in 2019, down from 106.7 in 2018, but small business owners remained mostly positive in their outlook last year despite the slowing global economy and ongoing trade uncertainties.

  The percentage of respondents saying that now is a "good time to expand" decreased from 29% to 25%. Meanwhile, the sales data provided mixed results. Small business owners said that sales over the past three months slowed, with the net percentage citing increases easing from 12% to 9%. Yet those completing the survey were more upbeat in their expectations for the next three months, with the net percentage rising from 13% to 16%. On the capital spending front, small firms noted stronger growth in expenditures over the past six months, up from 60% to 63%, the best reading since February 2018.

  The labor market data remained solid despite some slowing in December. The net percentage planning to hire in the next three months edged down from 21% to 19%, and one-third of small business owners reported job openings, down from 38% in the previous survey. In addition, respondents cited the quality of labor as the top "single most important problem" for the 21st consecutive month.

- **Philadelphia Fed Manufacturing Survey:** Manufacturing activity accelerated in January, an encouraging sign of growth to begin the new year. The composite index of general business activity jumped from 2.4 in December to 17.0 in January, its best reading since May, boosted by stronger growth for new orders, shipments and employment. Input costs also picked up a bit. At the same time, the average employee workweek narrowed somewhat and inventories declined.

Meanwhile, manufacturers in the district remain very positive in their outlook for the next six months. The forward-looking composite index rose from 34.8 to 38.4, a 20-month high. Nearly 54% of respondents expect new orders to rise in the coming months, with 33.3% and 39.1% predicting increases in employment and capital expenditures, respectively.

In special questions, 44.1% of manufacturers noted increased demand for their products over the past several months, with 30.5% seeing declines. Encouragingly, 62.0% said that they expect total production to rise in the first quarter of 2020 relative to the fourth quarter of 2019, with roughly one-third suggesting that output might decline. The increase in output will come from increased productivity (36.1%), additional work hours for existing staff (33.3%) and more hiring (25.0%).

- **Producer Price Index:** Producer prices for final demand goods and services edged up 0.1% in December after being flat in November. At the same time, producer prices for final demand goods rose 0.3% for the second straight month. Energy costs increased 1.5% in December, but food prices were off by 0.2%. Core inflation for goods, which excludes food and energy, inched up 0.1% for the month. Meanwhile, producer prices for final demand services were unchanged in December, following a decline of 0.3% in November.

  Over the past 12 months, producer prices for final demand goods and services have risen 1.3%, up from 1.1% in the previous release. In addition, core producer prices have grown 1.4% year-over-year (seasonally adjusted), up from 1.3% year-over-year in November. To illustrate just how much core PPI growth has eased over the past 12 months, the seasonally adjusted year-over-year rate registered 2.9% in December 2018.

  Overall, the data continue to suggest that inflationary pressures remain low, with core prices well below the Federal Reserve's stated goal of 2%. The Federal Open Market Committee moved last year to stimulate growth to prolong the economic recovery, comforted but also concerned by the lack of inflation. With that said, the Federal Reserve is unlikely to make additional moves unless economic conditions deteriorate further.

- **Retail Sales:** Consumer spending increased 0.3% in December, mirroring the revised gain seen in November. Motor vehicles and parts dealers, however, reported a decline of 1.3% in sales for the month. Excluding motor vehicles and parts, retail spending was up a solid 0.7% in December, bouncing back after being essentially flat in the prior release. This suggests that Americans ended the year with healthy gains in spending—a notable contrast to the data in 2018, which disappointed retailers.

  The year-over-year data were impacted by this contrast, speaking as much to the weakness of the 2018 data as it does about strength of 2019 retail sales. Along those lines, retail spending was up a very robust 5.8% over the past 12 months, up from 3.3% year-over-year in November. Likewise, retail sales excluding motor vehicles and parts increased 6.3% since December 2018, up from 2.5% year-over-year in the previous report.

The underlying data reflected mostly encouraging news. The largest increases in retail spending in December were for building material and garden supplies stores; clothing and accessories stores; gasoline stations and sporting goods and hobby stores, among others. At the same time, department store sales were off by 0.8% in December, with 5.5% declines year-over-year, highlighting the changing dynamics of the sector. Nonstore retailers had sales jump 19.2% over the past 12 months, in contrast.

- **University of Michigan Consumer Sentiment:** The Index of Consumer Sentiment edged down from 99.3 in December to 99.1 in January, according to preliminary data from the University of Michigan and Thomson Reuters. Americans felt slightly more upbeat in their assessments of current economic conditions, but the outlook measure was off slightly. Overall, consumer confidence remains strong. The Index of Consumer Sentiment averaged 96.0 in 2019, off from 96.8 and 98.4 in 2017 and 2018, respectively. The current reading for January 2020 is above each of those averages.

Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.

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