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MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – October 19, 2020– SHARE

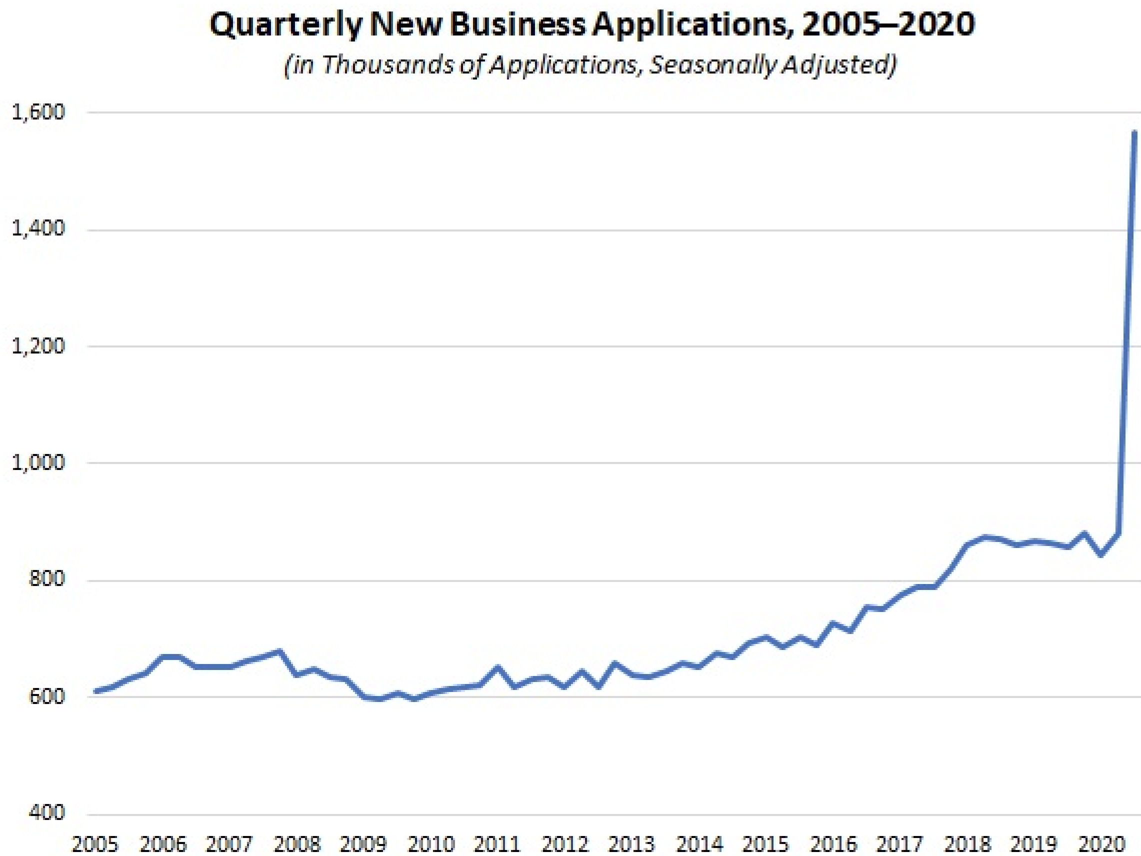
Entrepreneurial Wave: New Business Applications Soar in Q3

The Weekly Toplines

- Total new business applications soared from 883,018 in the second quarter to 1,566,373 in the third quarter. This suggests that the number of employer business formations jumped sharply, with Americans likely pursuing entrepreneurial ventures as a means of supplementing their income, especially in a challenging economy and labor market.
- Manufacturing production declined 0.3% in September. This suggests that production slowed after progress over the past four months following the 20.1% decline in manufacturing production experienced between February and April due to the COVID-19 pandemic. Despite progress in recent months, output remained 6.4% below the pre-pandemic pace in February.
- Manufacturing capacity utilization edged down from 70.7% in August to 70.5% in September. For comparison purposes, it registered 75.2% in February.
- Manufacturing activity expanded once again in the New York and Philadelphia Federal Reserve Bank districts, with stronger growth for new orders and shipments in both regions. Respondents felt upbeat in their outlook for the next six months.
- Consumer spending at retailers rose 1.9% in September, up from the 0.6% gain in August and the best monthly increase in three months. More importantly, retail sales have now risen for five straight months following historic declines in the spring due to COVID-19-related retail closures. Over the past 12 months, retail sales have risen 5.4%.
- Consumer confidence rose to the highest point since March, according to preliminary data from the University of Michigan and Thomson Reuters. Americans felt more upbeat in their outlook for the future, but their assessment of current conditions slipped somewhat. Despite progress in recent months, sentiment remains well below the levels before the COVID-19 outbreak.
- The Small Business Optimism Index increased to the highest reading since February, as small business owners have become more upbeat in their

assessments of the economy. Hiring and capital spending plans both improved, with respondents once again citing difficulties in obtaining enough labor as the top "single most important problem."

- Initial unemployment claims totaled 898,000 for the week ending Oct. 10, up from 845,000 for the week ending Oct. 3, rising for the first time in three weeks. Meanwhile, continuing claims declined from 11,183,000 for the week ending Sept. 26 to 10,018,000 for the week ending Oct. 3, consistent with 6.8% of the workforce.
- Consumer and producer prices both increased in September, but core inflation remains largely in check for now. Excluding food and energy, consumer prices have risen 1.7% over the past 12 months, and core producer prices have risen 0.7% year-over-year.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, October 12
COLUMBUS DAY HOLIDAY

Tuesday, October 13
Consumer Price Index
NFIB Small Business Survey

This Week's Indicators:

Monday, October 19
NAHB Housing Market Index

Tuesday, October 20
Housing Starts and Permits
State Employment Report

Wednesday, October 14
Producer Price Index

Thursday, October 15
New York Fed Manufacturing Survey
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, October 16
Industrial Production
Retail Sales
University of Michigan Consumer Sentiment (Preliminary)

Wednesday, October 21
None

Thursday, October 22
Conference Board Leading Indicators
Existing Home Sales
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, October 23
IHS Markit Flash U.S. Manufacturing PMI

Deeper Dive

- **Consumer Price Index**: Consumer prices rose 0.2% in September, increasing for the fourth straight month but slowing from a 0.4% gain in August. Energy prices have helped to buoy growth in the headline index over the past four months, rising 0.8% in September, but with gasoline costs edging up just 0.1%. Despite recent increases, energy prices remain 7.7% lower than one year ago, with gasoline prices down 15.4% year-over-year. At the same time, food prices were flat in September, with 3.9% growth year-over-year.

  Excluding food and energy, consumer prices rose 0.2% in September, the slowest pace since June but also increasing for the fourth consecutive month. Prices for used cars and trucks soared 6.7%, with new vehicles and shelter costs up 0.3% and 0.1%, respectively. In contrast, prices declined in September for transportation services (down 0.9%), apparel (down 0.5%) and household furnishings (down 0.2%).

  Over the past 12 months, the consumer price index has risen 1.4%, up from 1.3% in August and the highest rate since March. Meanwhile, core inflation (which excludes food and energy) has risen 1.7% since September 2019, the same pace as in the previous report. Overall, consumer costs have ticked higher since the spring months, but inflationary pressures remain largely in check for now.

- **Industrial Production**: Manufacturing production declined 0.3% in September, falling for the first time since April. Durable goods production decreased 0.5% for the month, with nondurable goods output flat. This suggests that production slowed after progress over the past four months following the 20.1% decline in manufacturing production experienced between February and April due to the COVID-19 pandemic. Despite progress in recent months, output remained 6.4% below the pre-pandemic pace in February. Expressed on a year-over-year basis, manufacturing production has declined 6.0% since September 2019, with durable and nondurable goods output down 7.1% and 4.2%, respectively.

Manufacturing capacity utilization registered 60.1% in April, the lowest rate in the data's history, which goes back to January 1948. There has been progress since then, but capacity utilization in the sector edged down from 70.7% in August to 70.5% in September. For comparison purposes, it registered 75.2% in February.

In September, the largest declines in manufacturing production occurred in motor vehicles and parts (down 4.0%), petroleum and coal products (down 3.5%), computer and electronic products (down 2.6%), apparel and leather goods (down 2.1%) and miscellaneous durable goods (down 1.9%), among other sectors. In contrast, output increased for aerospace and miscellaneous transportation equipment (up 4.6%), textiles and products (up 4.5%), fabricated metal products (up 1.7%), primary metals (up 1.7%), printing and related support activities (up 1.3%) and chemicals (up 0.7%).

Even with gains in output in recent months, all but two of the 19 major sectors in manufacturing have experienced reduced production on a year-over-year basis, with computer and electronic products (up 1.7%) and motor vehicles and parts (up 0.4%) being the exceptions. The biggest year-over-year declines occurred in primary metals (down 17.8%), petroleum and coal products (down 16.9%), aerospace and miscellaneous transportation equipment (down 14.5%), printing and support (down 13.7%), apparel and leather goods (down 12.7%), furniture and related products (down 11.8%) and electrical equipment and appliances (down 10.3%).

Meanwhile, total industrial production decreased 0.6% in September, ending four straight monthly increases. Mining production increased 1.7% for the month, but utilities output declined 5.6%. Over the past 12 months, industrial production has dropped 7.3%. Total capacity utilization increased from a record low 64.2% in April to 72.0% in August, but it declined to 71.5% in September. Total capacity utilization registered 76.9% in February.

- **New York Fed Manufacturing Survey :** Manufacturing activity expanded in the New York Federal Reserve Bank's district for the fourth consecutive month in October, albeit at a slower pace. The composite index of general business activity declined from 17.0 in September to 10.5 in October. Despite some slippage in the headline measure, new orders, shipments, employment and hours worked each strengthened in October. Inventories deteriorated further, with reduced stockpiles for the seventh consecutive month. At the same time, the prices paid index also picked up, with input costs rising at the fastest rate since January.

  Meanwhile, manufacturers in the Empire State Manufacturing Survey remain upbeat about stronger activity over the next six months, but the forward-looking composite index declined from 40.3 in September to 32.8 in October. More than half of respondents expect new orders and shipments to rise moving forward, with 34.9% and 31.8% anticipating more employment and capital spending, respectively. Encouragingly, the expected hiring index registered the strongest reading since July 2018.

- **NFIB Small Business Survey:** The National Federation of Independent Business reported that the Small Business Optimism Index increased from 100.2 in August to 104.0 in September, the highest reading since February. This suggests that small business owners have become more upbeat in their assessments of the economy. Indeed, the net percentage of respondents expecting business conditions to improve over the next six months rose from 24% to 32%. On the labor front, 23% of respondents planned to increase hiring over the next three months, the strongest pace since December 2018. Respondents once again cited difficulties in obtaining enough labor as the top "single most important problem."

  Regarding capital spending, 53% of small firms have made an investment over the past six months, the best reading since April. At the same time, the percentage of respondents planning to make a capital investment over the next three to six months rose from 26% to 28%, the strongest rate since January.

  Yet, the data also suggest lingering concerns. Along those lines, the percentage of respondents saying the next three months are a "good time to expand" edged up from 12% to 13%, but that remained well below the 26% who said the same thing in February. Sales expectations have also improved notably since the spring but continue to be below pre-pandemic levels.

- **Philadelphia Fed Manufacturing Survey:** Manufacturing activity expanded in October at the best pace since February, continuing to show signs of recovery since the spring. The composite index rose from 15.0 in September to 32.3 in October, with faster growth in new orders, shipments and the average employee workweek. Hiring slowed somewhat but continued to expand for the fourth straight month. Nearly 55% of respondents said sales had risen in October, with 11.9% citing declining orders and 33.5% suggesting that orders were flat for the month. In a special question, the median capacity utilization rate is 72.5%, down from 82.5% last year.

  At the same time, manufacturers in the district remained very positive in their outlook, with business leaders expecting the sector to continue rebounding in the coming months. The forward-looking composite index rose from 56.6 in September to 62.7 in October, the strongest reading since June. Respondents anticipated employment and capital spending accelerating, with new orders easing slightly in the latest survey. Yet, more than half predict increased new orders, shipments and hiring over the next six months—all solid readings.

  Nearly 37% of respondents expect capital expenditures to be higher in 2021 than in 2020, with 51.2% predicting that spending will be the same and 12.2% anticipating declines.

- **Producer Price Index:** Producer prices for final demand goods and services increased 0.4% in September, rising for the fifth straight month. Likewise, producer prices for final demand goods increased 0.4% in September, picking up from the 0.1% gain in August. Food prices jumped 1.2% in September, the first increase since May, but energy costs pulled back for the second consecutive month, down 0.3% in the latest data. Despite tremendous volatility this year due to the COVID-19 pandemic, the cost of food has risen just 0.9% over the past 12 months. In contrast, energy costs have fallen 11.4% year-over-year. Core inflation for raw material goods, which excludes food and energy, also rose 0.4% in September, up from 0.3% in August.

Over the past 12 months, producer prices for final demand goods and services have increased 0.5% (seasonally adjusted), the highest reading since February. At the same time, core producer prices have risen 0.7% since September 2019, up from 0.3% growth year-over-year in the previous release and a six-month high.

The bottom line is that inflation remains largely in check for raw material costs, even as producer prices have risen in recent months. Given the deflationary pressures in the economy in the spring, it should not be a surprise that prices would bounce back strongly. Yet, core inflation has remained below 2% for 15 straight months. For its part, the Federal Reserve has pursued extraordinary monetary policy measures to help prop up the economy, and it remains committed to its stimulative stance for the foreseeable future.

- **Retail Sales:** Consumer spending at retailers rose 1.9% in September, up from the 0.6% gain in August and the best monthly increase in three months. More importantly, retail sales have now risen for five straight months following historic declines in the spring due to COVID-19-related retail closures. Government transfer payments likely boosted these data in May and June, and retail activity has exceeded pre-pandemic levels for the fourth consecutive month. This contrasts with many other economic measures, including production and employment. Over the past 12 months, retail sales have risen 5.4%, or with motor vehicles and parts and gasoline excluded, spending has increased a robust 5.9% since September 2019.

  In September, consumers spent more at clothing and accessories stores (up 11.0%), department stores (up 9.7%), sporting goods and hobby stores (up 5.7%), motor vehicles and parts dealers (up 3.6%), food services and drinking places (up 2.1%), health and personal care stores (up 1.7%), gasoline stations (up 1.5%) and miscellaneous store retailers (up 1.1%), among others. At the same time, retail sales decreased at electronics and appliance stores (down 1.6%), with flat growth for food and beverage stores.

  The bright spots on a year-over-year basis included nonstore retailers (up 23.8%), building material and garden supply stores (up 19.1%), sporting goods and hobby stores (up 14.4%), motor vehicles and parts dealers (up 10.9%) and food and beverage stores (up 10.5%). In contrast, food services and drinking places (down 14.4%), gasoline stations (down 13.3%), clothing and accessory stores (down 12.5%), department stores (down 7.3%) and electronics and appliance stores (down 6.4%) each experienced retail sales declines over the past 12 months.

- **University of Michigan Consumer Sentiment (Preliminary):** Consumer confidence rose to the highest point since March, up from 80.4 in September to 81.2 in October, according to preliminary data from the University of Michigan and Thomson Reuters. Americans felt more upbeat in their outlook for the future, but their assessment of current conditions slipped somewhat. According to the release, "[s]lowing employment growth, the resurgence in COVID-19 infections and the absence of additional federal relief payments" were behind the drop in confidence about the current economic environment. While the headline index increased to a seven-month high, consumer confidence remains well below the levels before the COVID-19 outbreak. The headline index reached a nearly two-year high in February at 101.0, before plummeting to 71.8 in April, the lowest level since December 2011.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 898,000 for the week ending Oct. 10, up from 845,000 for the week ending Oct. 3. Despite rising for the first time in three weeks, initial claims have decelerated since peaking at 6,867,000 for the week ending March 28. Yet, they have changed little over the past seven weeks, averaging 872,571 over that time frame. Overall, initial claims remain highly elevated, illustrating continuing pain in the labor market and remaining well above what was seen during the Great Recession. Along those lines, initial claims peaked during the Great Recession at 665,000 for the week ending March 28, 2009.

  Meanwhile, continuing claims declined from 11,183,000 for the week ending Sept. 26 to 10,018,000 for the week ending Oct. 3. This was consistent with 6.8% of the workforce, down from 7.7% in the previous report. These data have also eased notably since peaking at 24,912,000 for the week ending May 9, even as it remains clear that too many Americans remain unemployed in the U.S. economy overall.

  Along those lines, 25,290,325 Americans received some form of unemployment insurance benefit for the week ending Sept. 26, down from 25,505,595 for the week ending Sept. 19.

Take Action

Feedback Needed: How Will 5G Technologies Impact Your Business?
The Manufacturing Institute is conducting research to learn how 5G technologies will impact manufacturers' operations and workforce—and we need your input. Please take a moment to fill out this survey. All responses are anonymous and due by Friday, Oct. 30, at 5:00 p.m. EDT. The MI will release the findings from the research in the coming months.

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