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MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – October 15, 2019 – SHARE

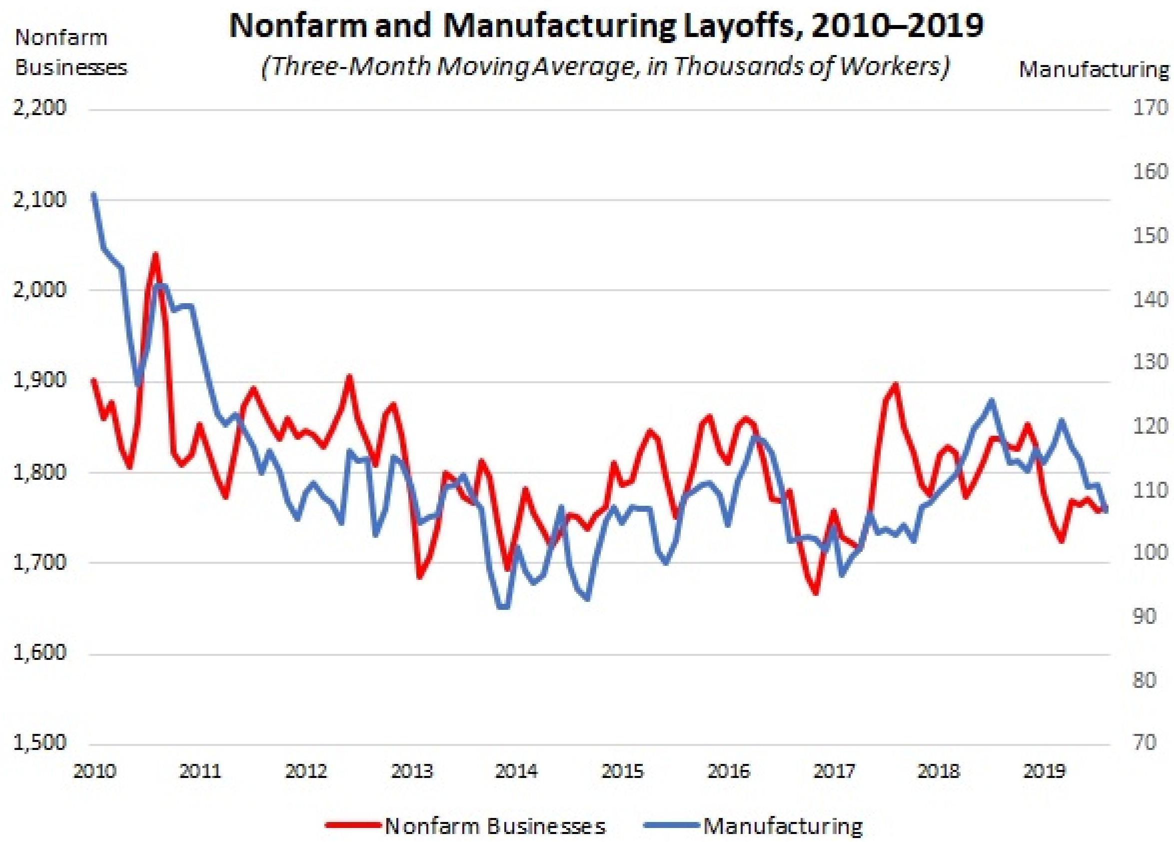
Manufacturing Job Openings and Hiring Slip in August, but Remain Elevated

The Weekly Toplines

- Job openings in the manufacturing sector pulled lower in August, even as postings in the sector remained elevated. Manufacturing job openings have pulled back from the all-time high in June for the second straight month, but there was another record figure in postings for durable goods manufacturers. Despite that volatility, manufacturing job openings have averaged a robust 485,000 per month over the past 12 months, and firms continue to cite the inability to find talent as a top concern.
- With that said, softening economic conditions in the manufacturing sector have started to result in weaker hiring growth. Hiring and separations each decreased to their lowest levels in nearly two years in August, but there was net hiring of 19,000.
- For the 17th straight month, the U.S. economy reported more job openings (7,051,000) than the number of people looking for work (6,044,000 in August). That statistic suggests there were roughly 1 million more job postings than there were unemployed people to fill them.
- The National Federation of Independent Business reported that the Small Business Optimism Index fell from 103.1 in August to 101.8 in September, a six-month low, with owners reacting to signs of slowing in the global economy and ongoing trade uncertainties. Yet, index readings greater than 100 would indicate that small businesses remain upbeat overall. The inability to find sufficient workers remained the top challenge.
- The minutes of the Sept. 17–18 meeting of the Federal Open Market Committee noted disagreements about the direction of monetary policy, much as was seen in the statement released at the time. There was a general observation, however, that manufacturing production has weakened year to date, largely due to the “ongoing global slowdown and trade uncertainty.”
- Several FOMC participants felt there could be one more cut in short-term rates this year, with others not feeling that such an action was warranted, especially

given strengths in consumer spending and the labor market. I continue to expect the Federal Reserve will cut the federal funds rate by 25 basis points—for the third time this year—at its Oct. 29–30 meeting.

- The Federal Reserve has likely been comforted by decelerated pricing pressures, including the latest data on consumer and producer prices.
- Meanwhile, there was mixed news on the consumer front. On the one hand, the Index of Consumer Sentiment increased for the second straight month, according to preliminary data from the University of Michigan and Thomson Reuters, on an improved outlook for income growth. Yet, U.S. consumer credit outstanding slowed in August, largely on declines in Americans' willingness to incur more credit card debt. However, nonrevolving debt rose strongly.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, October 7
Consumer Credit

Tuesday, October 8
NFIB Small Business Survey
Producer Price Index

This Week's Indicators:

Monday, October 14
COLUMBUS DAY HOLIDAY

Tuesday, October 15
New York Fed Manufacturing Survey

Wednesday, October 16
NAHB Housing Market Index

Wednesday, October 9
Job Openings and Labor Turnover Survey

Thursday, October 10
Consumer Price Index

Friday, October 11
University of Michigan Consumer Sentiment (Preliminary)

Retail Sales

Thursday, October 17
Housing Starts and Permits
Industrial Production
Philadelphia Fed Manufacturing Survey

Friday, October 18
Conference Board Leading Indicators
State Employment Report

Deeper Dive

- **Consumer Credit:** U.S. consumer credit outstanding rose 5.2 percent in August, slowing from the gain of 6.7 percent in July. Total consumer credit registered $4.141 trillion in August, with $1.079 trillion in revolving credit and $3.062 trillion in nonrevolving credit. The underlying data provided mixed results. Revolving credit (including credit cards and other credit lines) fell 2.2 percent in August, declining for the second time in the past three months after soaring 10.5 percent in July. This could suggest some hesitance on the part of Americans in their willingness to incur more credit card debt. At the same time, nonrevolving credit (including auto and student loans) jumped 7.8 percent, which was a very strong reading.

  Over the past 12 months, consumer credit outstanding has risen 5.0 percent, with revolving and nonrevolving credit up 3.8 percent and 5.5 percent year-over-year, respectively.

- **Consumer Price Index:** Consumer prices were flat in September, cooling after inching up by 0.1 percent in August and the slowest monthly pace since January. Reduced energy costs, which fell 1.4 percent in September, helped to keep a lid on inflationary pressures for consumers for the month, with food prices edging up 0.1 percent. Over the past 12 months, the consumer price index has risen 1.7 percent, down from 1.8 percent year-over-year in the prior release. Consumer prices had risen 2.9 percent in July 2018, the highest year-over-year rate since February 2012. The current data reflect the sizable deceleration in consumer price growth since then.

  At the same time, core inflation (which excludes food and energy) increased 0.1 percent in September, with 2.4 percent growth over the past 12 months. This was the same pace as in August, both of which are the highest rates since September 2008.

  Nonetheless, inflation appears to be stable for now and not far from the Federal Reserve’s stated goal of core price inflation around 2 percent. As such, the Federal Open Market Committee is expected to reduce short-term rates once again at its meeting on Oct. 29–30. With participants expressing more interest in stimulating economic growth, rather than concern over inflation, the FOMC will build on the two previous cuts so far this year.

- **Job Openings and Labor Turnover Survey:** Job openings in the manufacturing sector pulled lower in August, even as postings in the sector remained elevated. Manufacturing job openings have pulled back from the all-time high in June, at 515,000, for the second straight month, declining to 513,000 in July and 484,000 in August. Nonetheless, there was another record figure in postings for durable goods manufacturers, with openings jumping from 317,000 to 337,000 in this report. That was offset, however, by a sharp reduction in openings for nondurable goods firms, which fell from 196,000 to 147,000.

  Despite that volatility, manufacturing job openings have averaged a robust 485,000 per month over the past 12 months, and firms continue to cite the inability to find talent as a top concern. Indeed, for the 17th straight month, the U.S. economy reported more job openings (7,051,000) than the number of people looking for work (6,044,000 in August). That statistic suggests there were roughly 1 million more job postings than there were unemployed people to fill them.

  With that said, softening economic conditions in the manufacturing sector have started to result in weaker hiring growth. Hiring in the manufacturing sector decreased from 338,000 in July to 329,000 in August. At the same time, separations also fell, down from 326,000 to 310,000. Each was the lowest in roughly two years. Fortunately, hiring continues to exceed separations, resulting in net hiring of 19,000 in August.

  Meanwhile, the number of quits in the economy pulled back from an all-time high, off from 3,668,000 in July to 3,526,000 in August. It continued to be a solid figure, however, and this suggests that there is a lot of churn in the labor market, with more Americans exploring their options. Manufacturing quits hit a record level in April (224,000) but have fallen back since then, to 192,000 in August.

- **NFIB Small Business Survey:** The National Federation of Independent Business reported that the Small Business Optimism Index fell from 103.1 in August to 101.8 in September, a six-month low. As such, small business owners have reacted to signs of slowing in the global economy and ongoing trade uncertainties. Yet, despite some softening over the past year from the headline index's all-time high in August 2018 (108.8), small businesses remain upbeat overall, consistent with headline readings greater than 100.

  The labor market data remain solid despite some easing. For instance, the percentage of small business owners saying they had job openings remained at 35 percent for the second straight month, off from the all-time high reading of 39 percent in July. The net percentage planning to hire in the next three months softened from 20 percent to 17 percent, the lowest since February. Moreover, respondents cited the quality of labor as the top "single most important problem" for the 18th straight month.

In September, 22 percent of respondents said the next three months would be a "good time to expand," down from 26 percent in August and the lowest since February. Sales expectations for the next three months were also the slowest since February, edging down from a net percentage of 17 percent to 16 percent. Capital spending plans remained strong, as 27 percent of firms planned to make a capital expenditure in the next three to six months, off slightly from 28 percent in August. In addition, 57 percent of respondents made a capital expenditure in the past six months, off from 59 percent in the prior survey.

- **Producer Price Index:** Producer prices for final demand goods and services declined 0.3 percent in September, pulling back for the first time since June. At the same time, producer prices for final demand goods fell 0.4 percent in September, declining for the fourth time in the past five months, with energy costs down 2.5 percent for the month. Core inflation for goods, which excludes food and energy, edged down 0.1 percent after being unchanged in the prior release. Meanwhile, producer prices for final demand services decreased 0.2 percent in September, falling for the second time in the past three months.

  Over the past 12 months, producer prices for final demand goods and services have risen 1.4 percent, down from 1.8 percent year-over-year in the previous release and the lowest since November 2016. In addition, core producer prices have grown 1.76 percent year-over-year, decelerating from 1.9 percent year-over-year in August and the slowest pace since October 2016. To illustrate just how much core PPI growth has eased over the past 12 months, the year-over-year rate registered 3.1 percent in September 2018.

  Overall, the data continue to suggest that inflationary pressures remain under control, at least for now, with core prices rising well below the Federal Reserve's stated goal of 2 percent. This should provide comfort to the Federal Reserve, particularly as it explores an additional rate cut at its next meeting on Oct. 29–30, which would be the third decrease in short-term rates year to date.

- **University of Michigan Consumer Sentiment:** The Index of Consumer Sentiment increased for the second straight month, according to preliminary data from the University of Michigan and Thomson Reuters. The headline measure rose from 93.2 in September to 96.0 in October on an improved outlook for income growth. Surveys of Consumers Chief Economist Richard Curtin said that "real income expectations rose to their most favorable level in two decades." That was enough to offset anxieties about the global economy and trade policy uncertainties somewhat—elements that had depressed confidence in recent months. A final reading will be released Oct. 25.

Take Action

  - If you participated in a Manufacturing Day event in any capacity, we want to hear from you, if we have not already. As part of our efforts to learn more about the impact of Manufacturing Day, please take a moment to fill out our survey using the links below. Please share the survey with your event attendees, students, teachers and parents. If you have any questions, do not hesitate to reach out to info@mfgday.com.

- For hosts, click here for the survey.
- For students, parents and educators, click here for the survey.

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