<

MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – October 21, 2019 – SHARE

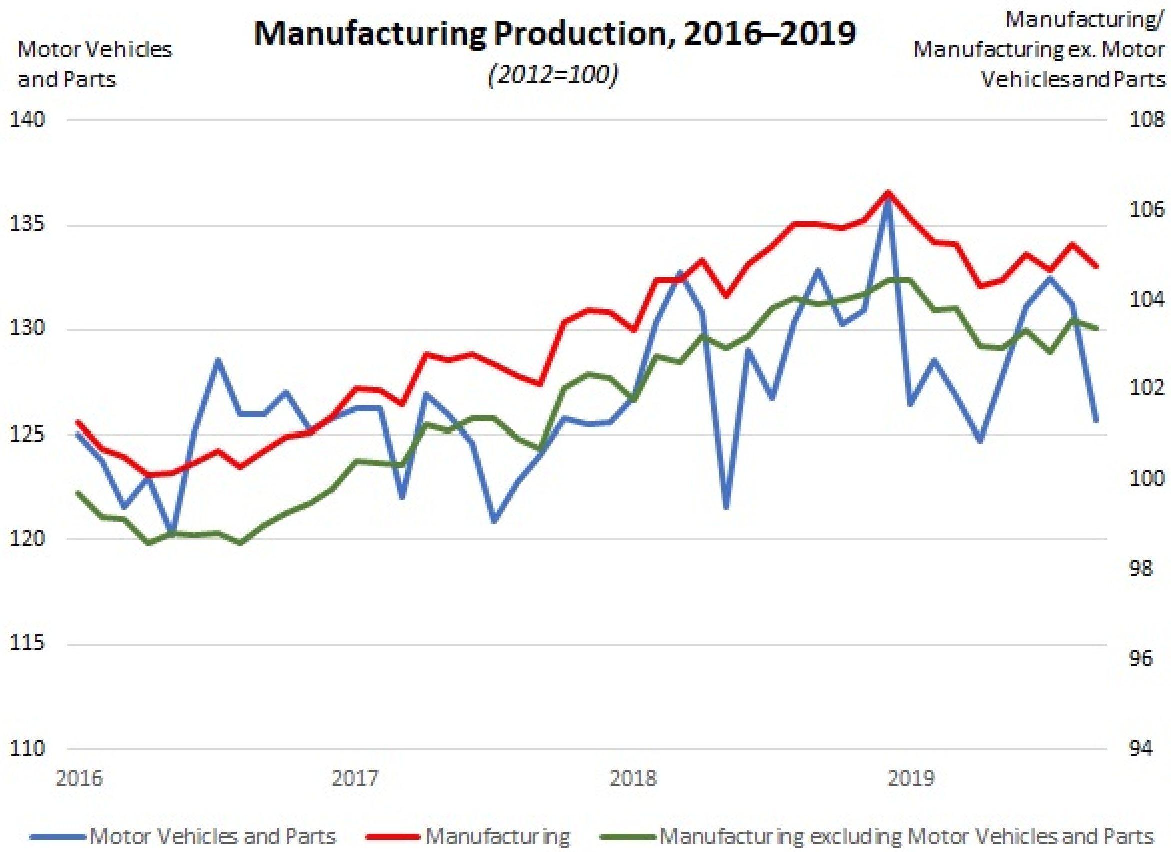
Manufacturing Production Fell in September for the Sixth Time This Year

The Weekly Toplines

- Manufacturing production declined 0.5 percent in September, falling for the sixth time year to date but following a gain of 0.6 percent in August. The latest decrease was led by a sharp decline in motor vehicles and parts production, down 4.2 percent, which was likely negatively impacted by the strike at General Motors. (A tentative deal was reached last week.) Excluding motor vehicles and parts, manufacturing production fell 0.2 percent in September.
- Overall, the data also continue to reflect struggles in the manufacturing sector related to weaker global growth and trade uncertainties. Manufacturing production has fallen 0.9 percent over the past 12 months, for instance, declining on a year-over-year basis for the third consecutive month.
- Total industrial production declined 0.4 percent in September, and on a year-over-year basis, it has inched down 0.1 percent over the past 12 months. It was the first negative year-over-year reading since November 2016.
- The New York and Philadelphia Federal Reserve Banks both reported expanding manufacturing activity in their districts, albeit with modest growth. Respondents felt positive in their outlook for the next six months.
- Housing starts fell 9.4 percent, down from an annualized 1,386,000 units in August to 1,256,000 units in September. Despite pulling back sharply from the best reading since June 2007, the single-family data continued to be encouraging. Single-family starts inched up from 915,000 units to 918,000 units, the strongest pace since January.
- Meanwhile, housing permits fell 2.7 percent in the latest report, down from 1,425,000 units at the annual rate in August (the best since May 2007) to 1,387,000 units in September. With that said, single-family permits were the strongest since February 2018.
- New residential construction permits have jumped 7.7 percent year-over-year, which should bode well for accelerated housing activity over the coming months. For their part, homebuilder optimism rose to a 20-month high in

October. Indeed, would-be homebuyers appear to be motivated by mortgage rates that are near three-year lows.

- Finally, retail sales fell 0.3 percent in September, which was disappointing, but it followed an upwardly revised gain of 0.6 percent in August. Excluding automotive and gasoline sales, retail spending was flat in September. Despite the weaker data in September, retail sales have risen a healthy 4.1 percent over the past 12 months, and overall, consumer spending has continued to be a bright spot in the economy over the past year.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, October 14
COLUMBUS DAY HOLIDAY

Tuesday, October 15
New York Fed Manufacturing Survey

Wednesday, October 16
NAHB Housing Market Index
Retail Sales

This Week's Indicators:

Monday, October 21
None

Tuesday, October 22
Existing Home Sales
Richmond Fed Manufacturing Survey

Wednesday, October 23
None

Thursday, October 24
Durable Goods Orders and Shipments

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

Friday, October 18
Conference Board Leading Indicators
State Employment Report

IHS Markit Flash U.S. Manufacturing PMI
Kansas City Fed Manufacturing Survey
New Home Sales

Friday, October 25
University of Michigan Consumer Sentiment (Revision)

Deeper Dive

- **Conference Board Leading Indicators:** The Leading Economic Index edged down 0.1 percent in September, declining for the second straight month. New orders for manufactured goods continued to be a drag on the LEI, with building permits and the interest rate spread also negatively impacting activity in September. In contrast, there were some bright spots in the report that at least partially offset those negative impacts, including from consumer confidence, overall lending conditions, stock prices and unemployment claims.

  Meanwhile, the Coincident Economic Index was flat in September, softening after rising 0.3 percent in August. The decline in industrial production (see below) was the lone negative contributor to the CEI in September, with the other components (manufacturing and trade sales, nonfarm payrolls and personal income) being more favorable.

- **Housing Starts and Permits:** New residential construction fell 9.4 percent, down from an annualized 1,386,000 units in August to 1,256,000 units in September. Despite pulling back sharply from the best reading since June 2007, the single-family data continued to be encouraging. Single-family starts inched up from 915,000 units to 918,000 units, the strongest pace since January. The highly volatile multifamily segment led to the decline in the headline number, with starts down from 471,000 units to 338,000 units. Those figures vary widely from month to month. Over the past 12 months, new residential construction has risen 1.6 percent, with single-family housing starts up a modest 4.3 percent since September 2018.

  Meanwhile, housing permits fell 2.7 percent in the latest report, down from 1,425,000 units at the annual rate in August (the best since May 2007) to 1,387,000 units in September. One should not fret too much, however, about the pullback in activity, which also came from multifamily activity (down from 550,000 units to 505,000 units). Single-family permits edged up from 875,000 units to 882,000 units, the strongest reading since February 2018. In addition, new residential construction permits have jumped 7.7 percent year-over-year.

  Moreover, the longer-term trendline continues to be encouraging, with the data suggesting that construction should accelerate in the coming months, echoing the homebuilder optimism for solid demand growth (see below). Would-be homebuyers appear to be motivated by mortgage rates that are near three-year lows.

- **Industrial Production:** Manufacturing production declined 0.5 percent in September, falling for the sixth time year to date but following a gain of 0.6 percent in August. The latest decrease was led by a sharp decline in motor vehicles and parts production, down 4.2 percent, which was likely negatively impacted by the strike at General Motors. Excluding motor vehicles and parts, manufacturing production fell 0.2 percent in September. Overall, the data also continue to reflect struggles in the manufacturing sector related to weaker global growth and trade uncertainties. Manufacturing production has fallen 0.9 percent over the past 12 months, for instance, declining on a year-over-year basis for the third consecutive month.

  In addition, durable goods production has declined 0.3 percent year-over-year, the first negative reading since November 2016. Nondurable goods output has fallen 1.4 percent since September 2018, declining on a year-over-year basis for the fifth straight month. At the same time, manufacturing capacity utilization fell from 75.7 percent in August to 75.3 percent in September. To illustrate the decline in capacity in the sector over the past year, utilization registered 76.9 percent in September 2018.

  In September, durable and nondurable goods production fell 0.7 percent and 0.2 percent, respectively. Nine of the 19 major manufacturing sectors experienced weaker output for the month. The largest production gains occurred in the aerospace and miscellaneous transportation equipment, apparel and leather products, furniture and related products, petroleum and coal products and wood products sectors. In contrast, output decreased in September for machinery, motor vehicles and parts, plastics and rubber products and primary metals, among others.

  Meanwhile, total industrial production also declined, down 0.4 percent in September after rising 0.8 percent in August. In addition to reduced manufacturing output, production also decreased for mining (down 1.3 percent), but utilities activity rose 1.4 percent. Overall, industrial production has inched down 0.1 percent over the past 12 months, the first negative year-over-year reading since November 2016. Total capacity utilization declined from 77.9 percent to 77.5 percent. One year ago, overall capacity utilization stood at 79.3 percent, representing a large pullback since then.

- **NAHB Housing Market Index:** The National Association of Home Builders and Wells Fargo reported that confidence rose to the best reading since February 2018 in October. The Housing Market Index increased from 68 in September to 71 in October, with builders optimistic that reduced mortgage rates will continue to lead to stronger demand. Indeed, the index for single-family sales rose from 75 to 78, a 21-month 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 for the fourth straight month in October. The headline index inched up from 2.0 in September to 4.0 in October, buoyed by improvements in shipments and the average employee workweek. New orders grew at the same pace (3.5), but hiring slowed a little. Inventories declined in October, ending two months of gains.

  Meanwhile, respondents to the Empire State Manufacturing Survey remain positive in their outlook for the next six months. In October, 41.4 percent of respondents anticipated higher sales over the coming months, and 30.7 percent and 28.1 percent predict more hiring and capital expenditures, respectively. However, respondents predicted the average employee workweek to continue contracting over the coming months.

  At the same time, input costs—which had decelerated for much of this year—have picked up in the past few months, with 47.5 percent of manufacturers expecting higher prices moving forward. The index for expected prices paid was flat in this survey, with September and October's reading (42.5) being the highest since January.

- **Philadelphia Fed Manufacturing Survey:** Manufacturing activity expanded for the eighth straight month in October, albeit at the slowest pace since June. The composite index of general business activity pulled back from 12.0 in September to 5.6 in October, led by softer growth in shipments and the average employee workweek. At the same time, activity improved for new orders and employment. The good news is that the hiring index jumped to a new all-time high in this survey (32.9), which dates to May 1968. Indeed, 34.4 percent of respondents said that employment increased in October, with just 1.5 percent citing declines.

  Meanwhile, manufacturers in the district remain positive in their outlook for the next six months. The forward-looking composite index rose from 20.8 in September to 33.8 in October. More than half of respondents expect new orders and shipments to rise in the coming months, with 32.0 percent and 42.1 percent forecasting more hiring and capital spending, respectively. Moreover, 39.1 percent of manufacturing leaders in the Philadelphia region see more capital spending in 2020 relative to 2019, with 19.6 percent predicting declines. Noncomputer equipment spending leads the list of priorities for capital spending next year, followed by software and energy-saving equipment.

- **Retail Sales:** Consumer spending fell 0.3 percent in September, which was disappointing, but it followed an upwardly revised gain of 0.6 percent in August. (The Census Bureau originally reported an increase of 0.4 percent in August.) Solid increases at clothing and accessories stores, furniture and home furnishings stores, health and personal care stores and miscellaneous store retailers buoyed spending, but notable drags in sales occurred at building material and garden supply stores, department stores, gasoline stations, motor vehicle and parts dealers and nonstore retailers. Excluding automotive and gasoline sales, retail spending was flat in September.

Despite the weaker data in September, retail sales have risen a healthy 4.1 percent over the past 12 months. In addition, spending grew 4.5 percent year-over-year with motor vehicles and gasoline station sales excluded. As such, consumer spending has continued to be a bright spot in the economy over the past year.

The structural shift toward online spending can be seen clearly once again, with sales for nonstore retailers jumping 12.9 percent since September 2018. However, department store sales have fallen 6.1 percent year-over-year.

- **State Employment Report:** California created the most net new manufacturing jobs in September, adding 4,400 workers, with Kentucky (up 3,000) and Louisiana (up 2,800) close behind. In addition, Texas saw the greatest job gains in the sector over the past 12 months, with manufacturing employment in the state up 26,500 since September 2018. Other states with the fastest manufacturing job growth year-over-year included California (up 13,900), Washington (up 10,600), Arizona (up 8,700) and Florida (up 7,700). Meanwhile, Vermont had the lowest unemployment rate in the nation in September at 2.2 percent.

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.