<

If you're having trouble reading this, click here.

MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – December 2, 2019 – SHARE

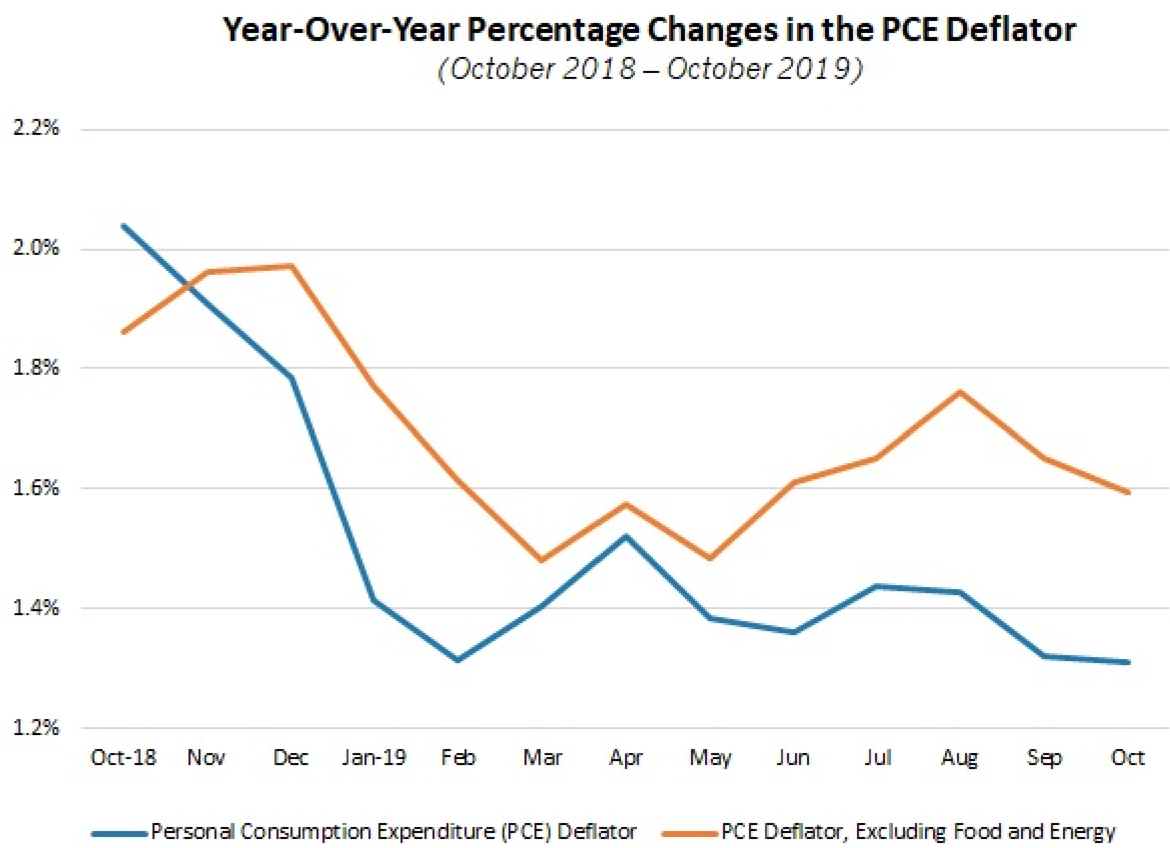
Core Inflation Remains Well Below the Federal Reserve's Stated Goal

The Weekly Toplines

- The personal consumption expenditures deflator rose 0.2% in October. The core PCE deflator, which excludes food and energy prices, inched up 0.1%. Over the past 12 months, the PCE deflator has risen 1.3%, or 1.6% year-over-year for core inflation. For 10 consecutive months, or in every month so far in 2019, the core PCE deflator has remained below the Federal Reserve's stated goal of 2.0% core inflation.
- With core inflation running below the Federal Reserve's target, FOMC policymakers are more concerned with keeping the economic recovery moving at this point than with inflationary pressures. With that said, the Federal Reserve has communicated its intentions, including in a speech by Federal Reserve Chair Jerome Powell last week, to hit the pause button on future moves until it can assess the impacts of the three rate cuts made at the past three FOMC meetings. Additional decreases in the federal funds rate would likely come only if the economy weakens further.
- The U.S. economy grew 2.1% at the annual rate in the third quarter, up from the previous estimate of 1.9%. Consumer spending, government expenditures, the housing market and inventories were bright spots, with drags coming from net exports and nonresidential fixed investment. It was the second consecutive quarter with reduced business spending, with firms anxious about slowing global growth and trade uncertainties.
- However, consumers have helped to prop up the economy. In the latest data, personal spending increased 0.3% in October, with a solid 3.7% gain year-over-year. Personal incomes were flat for the month, pushing the saving rate down to 7.8%. Nonetheless, Americans have saved more this year than last.
- Consumer confidence fell to a five-month low in November, according to the Conference Board, but sentiment remains high overall.
- New durable goods orders rose 0.6% in October, bouncing back somewhat after falling 1.4% in September and pointing to some possible stabilization in

the sector. Yet, the sector remains challenged in general, down 0.7% over the past 12 months. Core capital goods—a proxy for capital spending in the U.S. economy—increased 1.2% in October, but on a year-over-year basis, this figure has decreased 0.8%.

- Manufacturing surveys from the Dallas and Richmond Federal Reserve Banks both reported contracting activity in November, but respondents felt cautiously positive in their outlook for the next six months.
- New single-family home sales pulled back somewhat, down 0.7% in October, but that was off from an upwardly revised September figure, which was the best since July 2007. The data remain encouraging—a sign that homebuyers have reacted favorably to reduced mortgage rates and a better outlook. Indeed, new single-family home sales have jumped 31.6% over the past 12 months, up from 557,000 units in October 2018.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, November 25
Chicago Fed National Activity Index
Dallas Fed Manufacturing Survey

This Week's Indicators:

Monday, December 2
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Tuesday, November 26
Conference Board Consumer Confidence
International Trade in Goods (Preliminary)
New Home Sales
Richmond Fed Manufacturing Survey

Wednesday, November 27
Durable Goods Orders and Shipments
Gross Domestic Product (Revision)
Personal Consumption Expenditures Deflator
Personal Income and Spending

Thursday, November 28
THANKSGIVING HOLIDAY

Friday, November 29
None

Tuesday, December 3
None

Wednesday, December 4
ADP National Employment Report

Thursday, December 5
Factory Orders and Shipments
International Trade Report

Friday, December 6
BLS National Employment Report
Consumer Credit

University of Michigan Consumer Sentiment (Preliminary)

Deeper Dive

- **Chicago Fed National Activity Index:** The Chicago Federal Reserve Bank reported that the National Activity Index declined sharply in October, largely from production-related indicators. The headline index fell from -0.45 in September to -0.71 in October, the lowest level since April. Index readings above zero are consistent with economic growth that is above trend and vice versa. The manufacturing sector pulled the NAI lower in October, especially for motor vehicles and parts activity, with production in the sector down 0.6% for the month and negative for the seventh time year to date. Employment and personal spending were also weaker than desired.

  Overall, the three-month moving average for the NAI registered -0.31 in October, and it has been less than zero for nine straight months. Despite the disappointing data for the month, the index is not currently consistent with an economic downturn, which would be associated with a three-month moving average of -0.70 or lower.

- **Conference Board Consumer Confidence:** Consumer sentiment fell to a five-month low, with the headline index down from 126.1 in October to 125.5 in November. Americans felt more positive in their outlook for the coming months, but their perceptions of current economic conditions weakened somewhat. Despite softening since May, consumers remained more positive than not. In fact, Lynn Franco, the Conference Board's senior director of economic indicators, noted that "confidence levels are still high and should support solid spending during this holiday season."

Indeed, the percentage of respondents suggesting that business conditions were “good” rose from 39.7% to 40.2%, while those noting conditions were “bad” increased from 11.0% to 13.8%. Meanwhile, the percentage of Americans feeling that jobs were “plentiful” decreased from 47.7% to 44.8%, which remained significantly higher than those responding that jobs were “hard to get,” which rose from 11.6% to 12.7%.

- **Dallas Fed Manufacturing Survey:** Manufacturers reported contracting activity for the second consecutive month, even as the composite index improved from -5.1 in October to -1.3 in November. This indicator has contracted in seven of the past 12 months, and the sample comments continued to note worries about slower global growth, political and trade policy uncertainties and difficulties in finding sufficient talent. In November, most of the key measures declined, including new orders, production, capacity utilization, shipments and hours worked. Employment and capital expenditures expanded, but at much slower paces, with hiring nearly stagnant for the month.

  Moving forward, manufacturers in the Texas district felt cautiously positive in their outlook. The index for general business activity six months from now picked up from 2.4 in October to 7.3 in November, with nearly 40% of respondents predicting more orders over the coming months. Respondents expected hiring and capital spending to grow decently, albeit slower than in the previous survey, and anticipated input costs to accelerate somewhat from the current pace.

- **Durable Goods Orders and Shipments:** New durable goods orders rose 0.6% in October, bouncing back somewhat after falling 1.4% in September. Sales increased for computers and electronic products, defense and nondefense aircraft and parts, fabricated metal products, machinery and other durable goods. In contrast, orders declined in October for electrical equipment, appliances and components, motor vehicles and parts and primary metals. Excluding transportation equipment, new durable goods orders also rose 0.6%, but excluding defense, sales edged up just 0.1%.

  Overall, global economic headwinds and trade uncertainties continue to challenge growth in the manufacturing sector. New durable goods orders have fallen 0.7% over the past 12 months, with a decline of 0.4% with transportation equipment excluded. At the same time, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—increased 1.2% in October, but on a year-over-year basis, this figure has decreased 0.8%.

  Meanwhile, durable goods shipments were flat in October, with a gain of 0.2% with transportation equipment excluded. Core capital goods shipments rose 0.8% for the month. On a year-over-year basis, durable goods shipments fell 1.5%, with core capital goods shipments up 0.4% since October 2018.

- **Gross Domestic Product (Third Quarter Revision):** The U.S. economy grew 2.1% at the annual rate in the third quarter, up from the previous estimate of 1.9%. There was a sizable upward revision for inventory spending, which subtracted 0.05% from top-line growth in the earlier estimate but is now seen adding 0.17%. Otherwise, the trends were largely similar, with a few minor tweaks. Consumer spending, government expenditures, the housing market and inventories were bright spots, contributing 2.59% to real GDP growth for the quarter, but that was weighed down by net exports and nonresidential fixed investment, which subtracted 0.47%.

  Notably, business spending served as a drag on economic growth for the second consecutive quarter, with businesses pulling back on investments in equipment and structures in light of global headwinds and ongoing trade uncertainties. onresidential fixed investment declined 1.0% and 2.7% in each of the past two reports, respectively.

  For the year, I continue to estimate 2.3% growth for 2019, slowing to 1.8% growth in 2020. There are obviously strong cases to be made for both upside and downside risks in that outlook, at least for now.

  Digging deeper into the third quarter release, the consumer continued to help prop up economic growth, with personal consumption expenditures up a modest 2.9% at the annual rate for the quarter. This was slower than the 4.6% growth rate in the second quarter, but was still a decent pace. Meanwhile, goods exports rose 2.0% in the third quarter, bouncing back from a decline of 5.9% in the second quarter. Goods imports edged up 0.1% and 0.8% in the past two quarters, respectively. The drag from net exports in this report came from trade in services, with services imports up 4.7% but exports off 1.2%.

  It was also notable that residential fixed investment rose a solid 5.1% in the third quarter. It was the first positive reading for the housing market since the fourth quarter of 2017, and this suggests that Americans have reacted favorably to recent cuts in mortgage rates. It also coincides with other data showing improvements in housing sales and construction.

- **International Trade in Goods (Preliminary):** In advance statistics, the goods trade deficit narrowed to the lowest level since September 2017, down from $70.55 billion in September to $66.53 billion in October. Overall trade volumes were lower for the month, with the decline in goods imports (down $4.97 billion) significantly outpacing the decrease in goods exports (down $949 million). It was the slowest pace for goods imports since October 2017, with sizable declines for automotive vehicles, consumer goods and industrial supplies. Final data will be released Dec. 5, which will also include the service-sector trade surplus.
- **New Home Sales:** New single-family home sales pulled back somewhat, down 0.7% in October, but that was off from an upwardly revised September figure. New home sales edged down from 738,000 units in September to 733,000 units in October. September was estimated originally to be 701,000 units, with

the revised data point now being the best since July 2007. October's pace is not far from that 12-year high. This is encouraging and a sign that homebuyers have reacted favorably to reduced mortgage rates and a better outlook. Indeed, new single-family home sales have jumped 31.6% over the past 12 months, up from 557,000 units in October 2018.

There were 5.3 months of supply on the market in October, up from 5.2 months in September but down sharply from 7.2 months one year ago. Yet, the median sales price was $316,700 in October, down 3.5% from the $328,300 median in October 2018.

- **Personal Consumption Expenditures Deflator:** The PCE deflator rose 0.2% in October after being flat in both August and September. Reduced energy prices had helped to keep a lid on costs in the prior two months but increased 2.6% in October. The core PCE deflator, which excludes food and energy prices, inched up 0.1% in October. Over the past 12 months, the PCE deflator has risen 1.3%, the same year-over-year pace as September. At the same time, core inflation was 1.6% in October, off slightly from 1.7% year-over-year in September. For 10 consecutive months, or in every month so far in 2019, the core PCE deflator has remained below the Federal Reserve's stated goal of 2.0% core inflation.

  As such, the pricing data have provided some comfort to the Federal Open Market Committee, allowing participants the luxury of being more "dovish" in setting monetary policy. The Federal Reserve has reduced short-term rates three times in 2019, with the most recent move coming at its October meeting. Policymakers are more concerned with keeping the economic recovery moving at this point than with inflationary pressures. With that said, the FOMC is likely to wait for incoming data on economic growth before changing policy again.

- **Personal Income and Spending**: Personal consumption expenditures increased 0.3% in October, building on the 0.2% gain in September. Goods spending rose 0.2% for the month, with nondurable goods spending up 0.6% but purchases of durable goods off 0.7%. On a year-over-year basis, personal spending has risen 3.7%, with durable and nondurable goods sales up 4.2% and 3.8% since October 2018, respectively.

  Personal income was flat in October, down from a gain of 0.3% in September. Over the past 12 months, personal income has risen by a healthy 4.4%, down from 4.7% year-over-year in the previous release. In addition, manufacturing wages and salaries were $921.2 billion in October, up from $916.3 billion in September and rising 3.6% since October 2018.

  With increased spending, the saving rate fell from 8.1% in September to 7.8% in October. In general, Americans have saved more this year than last, with the saving rate averaging 8.1% year to date in 2019, up from 7.6% through the first 10 months of 2018.

- **Richmond Fed Manufacturing Survey:** The Richmond Federal Reserve Bank reported that manufacturing activity contracted once again in November, continuing to seesaw from month to month since the summer. The composite index of general business activity fell from 8 in October to -1 in November, contracting for the third time in the past five months. New orders and shipments declined in November, with capacity utilization, employment and the average workweek growing at slower rates. Capital expenditures expanded ever so slightly in November after being neutral in October, the weakest reading since April 2013.

  With that said, manufacturers in the district remain mostly optimistic about the next six months, with the outlook for sales, shipments, capacity utilization and hiring expected to increase strongly. Respondents anticipate wages to increase rapidly over the coming months, and firms continue to note an inability to find sufficient talent. At the same time, respondents predict capital spending to slow moving forward, especially for equipment and software, which was seen falling.

  Raw material costs rose 1.55% at the annual rate in November, the slowest pace since May 2017 and down from 2.40% in October. Manufacturers also predict a deceleration in input price growth, with respondents expecting an annualized 1.73% increase six months from now, a rate not seen since November 2017 and down from 2.33% in the previous survey.

Take Action

- If you have not already done so, please take a moment to complete the latest NAM Manufacturers' Outlook Survey. This 20-question survey will help us gauge how manufacturing sentiment has changed since the third quarter survey. The current survey includes special questions on the manufacturing downturn, taxes, regulations and health care. To complete the survey, click here. Responses are due by Friday, Dec. 6, at 5:00 p.m. EST. As always, all responses are anonymous.

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