

MONDAY ECONOMIC REPORT



Essential Takes on Leading Economic Indicators

By [Chad Moutray, Ph.D., CBE](#) – January 25, 2021 – [SHARE](#) [f](#) [t](#) [in](#)

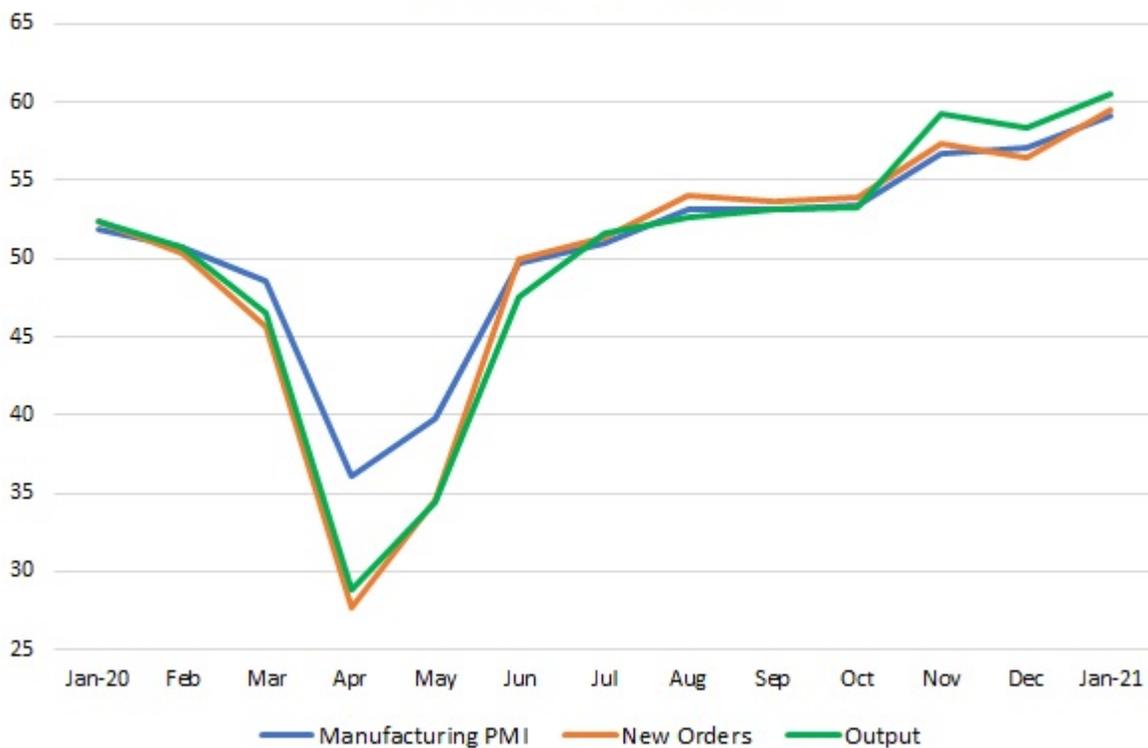
U.S. Manufacturing and Housing Start the New Year on High Notes

The Weekly Toplines

- The [IHS Markit Flash U.S. Manufacturing PMI](#) grew at the fastest pace on record in January, making the sector a continued bright spot in the U.S. economy. New orders, exports and output expanded at the best rates since mid-2014, with employment rising at paces not seen since January 2019. Respondents remained extremely upbeat in their outlook for the coming months, even as input costs rose at the strongest rate since May 2018.
- The Philadelphia Federal Reserve Bank reported that [activity](#) expanded in January at the strongest pace since the pandemic began, which was encouraging. More than 62% of business leaders in the district expect new orders and shipments to rise over the next six months.
- In Europe, manufacturing activity also stayed strong, even with some easing in January. This stands in contrast with the [IHS Markit Flash Eurozone Services PMI](#), which contracted further for the month on strict restrictions due to renewed COVID-19 cases. Service-sector businesses have struggled for five consecutive months.
- [New residential construction](#) rose 5.8% to 1,669,000 units at the annual rate in December, the strongest pace since September 2006. The data were buoyed by strength in the single-family segment, which increased to 1,338,000 units, also the best since September 2006. On a year-over-year basis, housing starts have risen 5.2% from 1,587,000 units in December 2019, with single-family activity jumping 27.8% over the past 12 months.
- The housing market has been boosted by [historically low mortgage rates](#), even with interest rates inching slightly higher in recent weeks. Housing permits soared to 1,709,000 units in December, the strongest pace since August 2006. On a year-over-year basis, housing permits have risen 17.3% since December 2019, with single-family permits jumping 30.4% over the past 12 months.

- These increases point to solid growth in the housing market over the coming months. For their part, builders also [feel upbeat](#) in their expectations for single-family sales over the next six months despite sentiment easing for the second straight month from November's record high.
- [Initial unemployment claims](#) pulled back somewhat in the latest data, but continued to remain too high, with 900,000 claims for the week ending Jan. 16.
- The Bureau of Economic Analysis will release the first estimate of fourth quarter real GDP on Thursday, with 5.5% annualized growth expected. Overall, the U.S. economy should decline 3.4% in 2020, but with 4.3% growth forecasted in 2021, according to current estimates.

IHS Markit U.S. Manufacturing Purchasing Managers' Index
(January 2020 – January 2021)



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, January 18
None

Tuesday, January 19
None

This Week's Indicators:

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

Tuesday, January 26
Conference Board Consumer Confidence

Wednesday, January 20
NAHB Housing Market Index

Thursday, January 21
Housing Starts and Permits
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, January 22
IHS Markit Flash U.S. Manufacturing PMI

Richmond Fed Manufacturing Survey
State Employment Report

Wednesday, January 27
Business Employment Dynamics
Durable Goods Orders and Shipments
FOMC Monetary Policy Statement

Thursday, January 28
Conference Board Leading Indicators
Gross Domestic Product (Fourth Quarter 2020)
International Trade in Goods (Preliminary)
Kansas City Fed Manufacturing Survey
New Home Sales
Weekly Initial Unemployment Claims

Friday, January 29
Employment Cost Index
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment

Deeper Dive

- **Housing Starts and Permits:** New residential construction rose 5.8% from 1,578,000 units at the annual rate in November to 1,669,000 units in December, the strongest pace since September 2006. The data were buoyed by strength in the single-family segment, which increased from 1,195,000 units to 1,338,000 units, also the best since September 2006. At the same time, multifamily residential construction dropped from 383,000 units to 331,000 units, a seven-month low.

The housing market has been boosted by [historically low mortgage rates](#), even with interest rates inching slightly higher in recent weeks. The sector has bounced back sharply following steep COVID-19-related declines last spring. On a year-over-year basis, housing starts have risen 5.2% from 1,587,000 units in December 2019, with single-family activity jumping 27.8% over the past 12 months.

Meanwhile, housing permits soared 4.5% from 1,635,000 units in November to 1,709,000 units in December, the strongest pace since August 2006. These increases point to solid growth in the housing market over the coming months. For their part, builders also feel more upbeat in their expectations for single-

family sales over the next six months despite sentiment easing for the second straight month from November's record high (see below).

Single-family permits increased from 1,137,000 units in November to 1,226,000 units in December, the highest reading since August 2006. In contrast, multifamily permitting edged down from 498,000 units to 483,000 units. Over the past 12 months, housing permits have risen 17.3% from 1,457,000 units in December 2019, with single-family permits jumping 30.4% year-over-year.

- **[IHS Markit Flash U.S. Manufacturing PMI](#)**: Manufacturing activity grew at the fastest pace on record, with the headline index rising from 57.1 in December to 59.1 in January, making the sector continuing to be a bright spot in the U.S. economy, according to preliminary data from IHS Markit. New orders (up from 55.7 to 59.5), exports (up from 50.7 to 54.0) and output (up from 57.3 to 60.5) expanded at the best rates since mid-2014, with employment (up from 52.1 to 54.8) rising at paces not seen since January 2019. The index for future output (up from 70.8 to 72.0) continued to reflect an extremely upbeat assessment of production over the next six months. Input prices (up from 65.4 to 65.7) rose at the strongest pace since May 2018.

At the same time, the [IHS Markit Flash Eurozone Services PMI](#) contracted further, with declining activity for the fifth straight month, as renewed COVID-19 cases and restrictions took a toll on the Eurozone economy. The manufacturing sector has fared better. Yet, the IHS Markit Flash Eurozone Manufacturing PMI still eased from 55.2 in December to 54.7 in January, suggesting continued modest growth in the sector. New orders, exports and output each slowed in January, but the index for future output rose to the highest level in three years, signaling a very optimistic outlook overall. Nonetheless, employment growth remained weak, and input prices increased at rates not seen since February 2018.

“Flash” reports from [Germany](#) and, outside the Eurozone, in the [United Kingdom](#) both reported decelerated activity in January, but with modest expansions. In Great Britain, the December data were buoyed by uncertainties surrounding Brexit and the build-up in activity leading up to the deadline, and some pullback would have been expected with a deal in place. Indeed, new manufacturing orders contracted for the first time since June. Meanwhile, [French manufacturers](#) reported a slight pickup in activity in January despite strict restrictions imposed due to rising COVID-19 cases, which continued to challenge the service sector and larger economy.

- **[NAHB Housing Market Index](#)**: After reaching a record high in November, the National Association of Home Builders and Wells Fargo reported that confidence pulled back for the second straight month. The Housing Market Index declined from 90 in November to 86 in December to 83 in January, but builder confidence remains very positive. The housing market continues to be buoyed by historically low mortgage rates, but sentiment has dipped on rising COVID-19 cases and restrictions and increased construction costs. Inventories

also remain low, and constraints for supply and labor are ongoing challenges.

The HMI eased slightly in every region of the country. The index for current single-family home sales slipped from 96 in November, an all-time high, to 92 in December to 90 in January—still a very solid reading. At the same time, the index for expected single-family sales eased from a record 89 in November to 85 in December to 83 in January. Even with the decline, builders expressed optimism about increased sales moving forward.

- **Philadelphia Fed Manufacturing Survey:** Manufacturing activity expanded at the strongest pace since the pandemic began, with the composite index jumping from 9.1 in December to 26.5 in January. Encouragingly, the underlying data accelerated across the board, including for new orders, shipments, employment and the average employee workweek. More than 45% of survey respondents said that new orders increased for the month, with 15.3% citing reduced sales. The labor market measure was the best since July 2019. At the same time, the prices paid for input costs also rose strongly, increasing at the fastest rate since August 2019.

Manufacturers in the district remained very positive in their outlook, with the forward-looking composite index increasing from 43.1 to 52.8. More than 62% of business leaders in the region expect new orders and shipments to rise over the next six months, with 44.1% and 39.9% predicting more hiring and capital spending, respectively.

In special questions, 63.6% of respondents felt that demand for their products increased over the past three months. More importantly, 69.1% expect higher demand in the first quarter of 2021 relative to the previous quarter, with more than one-quarter anticipating sales growing 6% or faster. Yet, nearly 24% predict reduced orders. More than half noted a need for additional hiring next quarter.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 900,000 for the week ending Jan. 16, pulling back slightly from 926,000 claims for the week ending Jan. 9, which was the highest since the week ending Aug. 22. Despite easing somewhat, first-time claims have accelerated so far in 2021, with rising COVID-19 claims and increased pandemic benefits because of new legislation passed at year's end, and the data remain elevated despite significant progress since last spring.

Meanwhile, continuing claims declined from 5,181,000 for the week ending Jan. 2 to 5,054,000 for the week ending Jan. 9, the lowest level since the week ending March 21, 2020, but still too high and consistent with 3.6% of the workforce. At the same time, 15,994,519 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Jan. 2. This figure represents a sizable decline from 18,407,027 for the week ending Dec. 26, largely on significant reductions in pandemic assistance.

Take Action

- Working closely with researchers from Northwestern University, the NAM is interested in learning more about innovations and value in employer-sponsored health care coverage in the manufacturing sector. Please take a few minutes to complete [this survey](#), which includes questions about COVID-19 testing and vaccines. Please forward to someone in human resources or in benefits management if that person is better suited to respond to these questions. The survey closes on Friday, Jan. 29, at 5:00 p.m. EST. All responses will be kept confidential. Results will be released later this year and made available online.
- The Manufacturing Institute—the workforce development and education partner of the NAM—and Deloitte request your participation in a survey on the workforce landscape in manufacturing, particularly as manufacturers work to close the opportunity gap in the sector. Please [take this short survey](#) to share your thoughts about the recruitment, retention and development of a diverse and inclusive manufacturing workforce. All individual responses will be kept confidential, and the survey results will be published in a report this spring.

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