MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

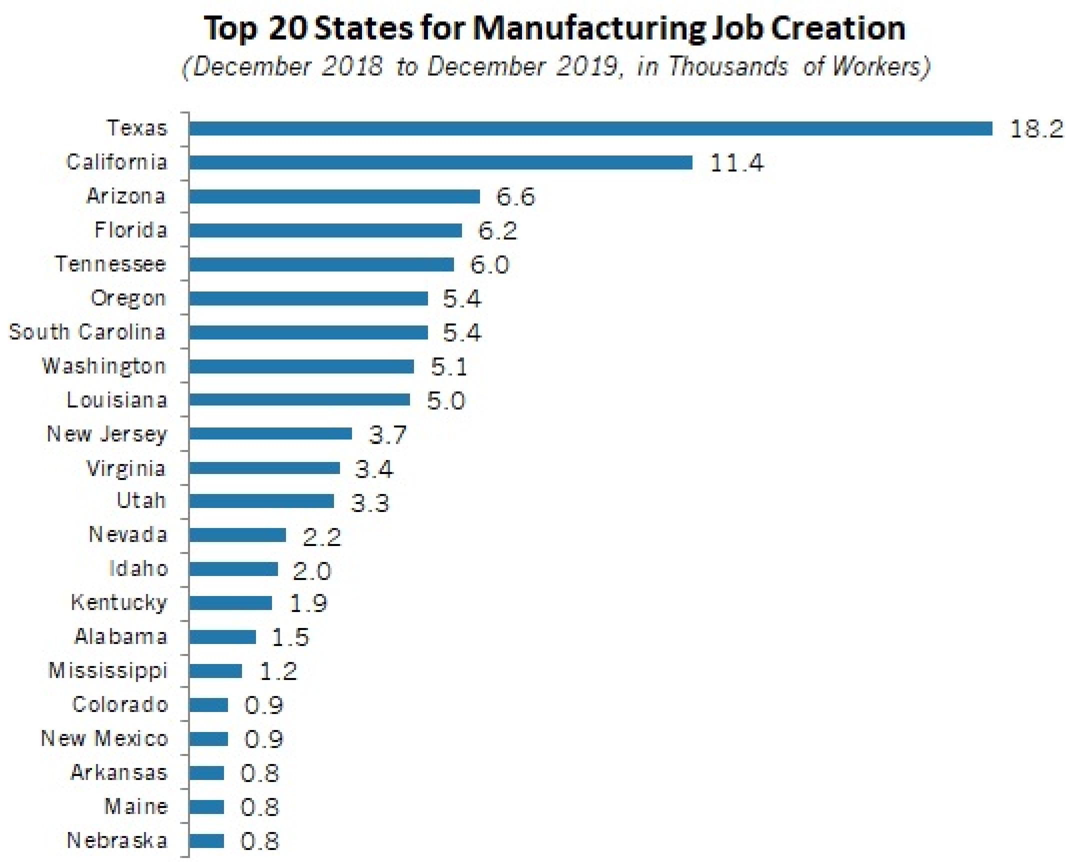
By Chad Moutray, Ph.D., CBE – January 27, 2020– SHARE

Texas Created Most New Manufacturing Jobs in 2019, Wisconsin in December

The Weekly Toplines

- Wisconsin created the most net new manufacturing jobs in December, adding 2,900 workers. At the same time, Texas saw the greatest job gains in the sector in 2019, with manufacturing employment in the state up 18,200 since December 2018.
- The IHS Markit Flash U.S. Manufacturing PMI declined from 52.4 in December to 51.7 in January, beginning the new year on a bit of a disappointing note. There were hopes for some signs of stabilization in this release, but they were not forthcoming—at least not yet.
- Nonetheless, it is important to note that the IHS Markit data reflect expanding activity, in contrast to the competing survey from the Institute for Supply Management, and that respondents remain upbeat in their outlook for the next six months.
- Other data points do tend to reflect some stabilization in the sector—albeit with ongoing weaknesses—providing some cautious optimism that manufacturing activity might improve moving forward.
- For example, manufacturers in the Kansas City Federal Reserve Bank’s district have reported contracting activity for seven straight months, but the composite index moved to being near-neutral in January. In addition, employment increased for the first time since June.
- Likewise, the IHS Markit Flash Eurozone Manufacturing PMI remained challenged, but it continued to reflect some progress, declining at a slower rate and rising to its best reading in nine months. Activity in Germany, which has now contracted for 13 consecutive months, has improved since falling to a 10-year low in September.

- Meanwhile, surveys in the United Kingdom and France also strengthened, with the former nearing neutral territory and the latter expanding on faster sales and output growth.
- Existing home sales rose 3.6% from an annualized 5.35 million units in November to 5.54 million units in December, its fastest paces since February 2018. On a year-over-year basis, sales have risen by a solid 10.8% over the past 12 months. Yet inventories remain low, hurting first-time homebuyers and sending prices higher.
- The first estimate of real GDP for the fourth quarter of 2019 will be released this week, and it is expected to show that the U.S. economy grew around 2.2%. That would put total economic growth for the year at 2.3%, down from 2.9% in 2018.
- The Federal Open Market Committee will have its first meeting of 2020 on January 29-30, but the Federal Reserve is not likely to make any changes to monetary policy.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, January 20
MARTIN LUTHER KING JR. DAY

This Week's Indicators:

Monday, January 27
Dallas Fed Manufacturing Survey
New Home Sales

Tuesday, January 21
None

Wednesday, January 22
Chicago Fed National Activity Index
Existing Home Sales

Thursday, January 23
Conference Board Leading Indicators
Kansas City Fed Manufacturing Survey

Friday, January 24
IHS Markit Flash U.S. Manufacturing PMI

State Employment Report

Tuesday, January 28
Conference Board Consumer Confidence
Durable Goods Orders and Shipments
Richmond Fed Manufacturing Survey

Wednesday, January 29
FOMC Monetary Policy Statement
International Trade in Goods (Preliminary)

Thursday, January 30
Business Employment Dynamics
Gross Domestic Product

Friday, January 31
Employment Cost Index
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)

Deeper Dive

- **Chicago Fed National Activity Index**: After rebounding in November, the Chicago Federal Reserve Bank's National Activity Index declined once again in December, largely from production-related indicators. The headline index fell from 0.41 in November to -0.35 in December, pulled lower by the 0.3% decline in industrial production. To be fair, manufacturing production rose 0.2% for the month, even as year-over-year growth remained negative, down 1.3% since December 2018. Employment was weaker than desired, but solid growth in housing starts served as a positive contribution in December.

  Overall, the three-month moving average for the NAI registered -0.27 in December, and it has been less than zero for 11 straight months, illustrating a challenging 2019 overall. Nonetheless, 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 Leading Indicators**: The Leading Economic Index was off 0.3% in December after edging up by 0.1% in November, falling for the fourth time in the past five months. This highlights weakness in the U.S. economy, including from manufacturing. One of its more-important subcomponents is new orders from the ISM® Manufacturing PMI® report, which has contracted for five consecutive months and pulled the LEI down by 0.18% in December. Building permits and weekly unemployment claims were also drags in the latest release. On the other hand, consumer confidence, the interest rate spread, lending conditions and stock prices were bright spots.

Meanwhile, the Coincident Economic Index inched up 0.1% in December, easing a bit from the 0.3% gain in November. Industrial production fell 0.3% in December, largely on reduced utilities output. As a result, it subtracted 0.04% from the CEI for the month. The other components (manufacturing and trade sales, nonfarm payrolls and personal income) were positive contributors to economic growth conditions in December.

- **Existing Home Sales:** The National Association of Realtors reported that existing home sales rose 3.6% from an annualized 5.35 million units in November to 5.54 million units in December, its fastest paces since February 2018. Sales were stronger in December in each region except for the Midwest, with single-family activity as well as condominium and co-op activity up 2.7% and 10.7% for the month, respectively. NAR Chief Economist Lawrence Yun noted low inventories of existing homes for sale, hurting first-time homebuyers, but also overall strength in the economy.

  Overall, existing home sales have risen a solid 10.8% over the past 12 months, up from 5.00 million units in December 2018. Single-family sales as well as condominium and co-op sales have increased 10.6% and 12.7%, respectively, with activity ending the year on a very healthy note. The median sales price for existing homes has increased 7.8% year-over-year, up to $274,500 in December.

- **IHS Markit Flash U.S. Manufacturing PMI:** Manufacturing activity in the United States expanded at a slower pace in January, beginning the new year on a bit of a disappointing note. The main index edged down from 52.4 in December to 51.7 in January, with some easing for new orders and employment and no change in the growth rate for output. Exports contracted for the first time since September. At the same time, survey respondents were more upbeat about production over the next six months, with the index for future output rising to its best reading since April. Moreover, the IHS Markit data continue to stand in contrast to the competing survey from the Institute for Supply Management, which has reported contracting activity in the sector for five straight months. Nonetheless, the hoped-for signs of stabilization in this release were not forthcoming—at least not yet.

  Meanwhile, the IHS Markit Flash Eurozone Manufacturing PMI remained challenged, but it continued to reflect some progress, declining at a slower rate. The headline index increased from 46.3 in December to 47.8 in January, its best reading in nine months. It was led by some stabilization in demand, production and hiring. Still, it was the 12th straight monthly contraction, highlighting ongoing challenges on the continent. The data continued to be pulled lower by weaknesses in Germany, which has now contracted for 13 consecutive months, albeit improving once again from the 10-year low in September. In contrast, manufacturing activity strengthened somewhat in France on faster sales and output growth, expanding in eight of the past nine months.

Manufacturing activity in the United Kingdom stabilized to near-neutral in January, even as it contracted for the ninth straight month. New orders and employment expanded for the first time since last spring, with optimism in the outlook for the coming months.

- **Kansas City Fed Manufacturing Survey:** Manufacturing activity in the district contracted for the seventh consecutive month, albeit just barely in January. The composite index rose from -5 in December to -1 in January. However, new orders, exports, production, shipments and the average workweek continued to decline. On the positive side, employment increased in December for the first time since June. The sample comments reflect overall manufacturing business challenges and reveal frustrations about trade and continuing difficulties with finding talent.

  Along those lines, 62% of respondents said that workers were in short supply, with almost 54% indicating that they had increased wages “more than normal to attract or keep” employees. Both of those figures were down from responses in the July survey, reflecting some softening in the labor market in the region.

  Nonetheless, manufacturers remained cautiously positive about activity over the next six months, with the forward-looking composite index up from 9 to 14. Growth was expected to slow for new orders in the coming months, but those completing the survey predicted increased expansions for shipments, production and employment. Exports were anticipated to continue declining. Survey respondents did not foresee any changes in the average employee workweek.

- **State Employment Report:** Wisconsin created the most net new manufacturing jobs in December, adding 2,900 workers. Other states with positive manufacturing employment growth for the month included Tennessee (up 2,300), Michigan (up 2,100), Ohio (up 1,100) and Washington (up 1,100). At the same time, South Carolina, Utah and Vermont had the lowest unemployment rates in the nation in December, with each at 2.3%.

  Texas saw the greatest job gains in the sector in 2019, with manufacturing employment in the state up 18,200 since December 2018. California (up 11,400), Arizona (up 6,600), Florida (up 6,200) and Tennessee (up 6,000) also experienced solid growth in manufacturing employment year-over-year.

Heads Up

- The Bureau of Labor Statistics is experimenting with state-level Job Openings and Labor Turnover Survey (JOLTS) data. See https://www.bls.gov/jlt/jlt_statedata.htm. It is important to note that the job openings, hires and separations data do not break out manufacturing yet. But, the survey does give monthly estimates of each for nonfarm payrolls from February 2001 to September 2019.

The data are in the Table A link on the page, or you can click here to open the Excel spreadsheet. This is an interesting resource. Hopefully, this will lead to sectoral breakouts at some point.

- The Manufacturing Institute conducted its first-ever survey of how manufacturers are employing innovative programs to train new workers and upskill their current workforce and to identify the trends and challenges being experienced across the industry.

  Among the findings, we learned that nearly 70% of manufacturers are addressing the workforce crisis by creating and expanding internal training programs for their workforce, among other tactics. In dollar terms, the Institute estimates that the sector will spend at least $26.2 billion in 2019 on internal and external training programs for new and existing manufacturing employees.

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