MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

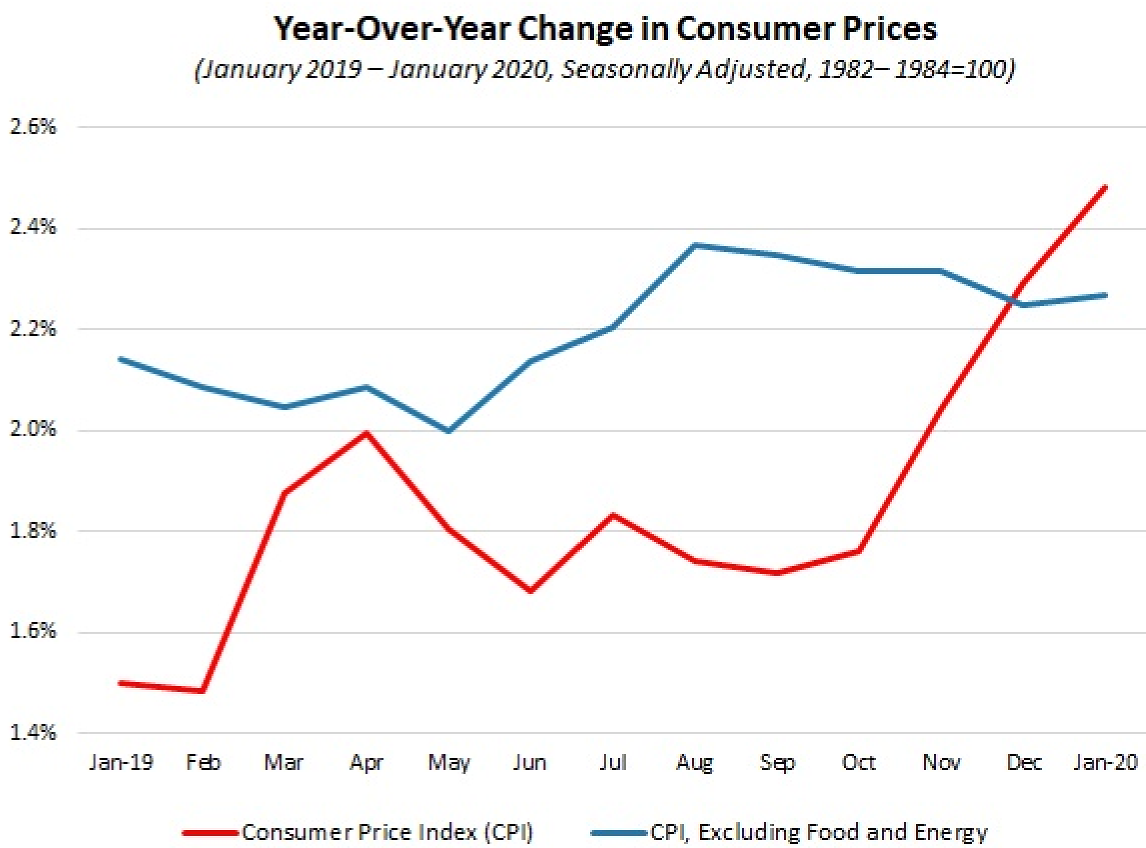
By Chad Moutray, Ph.D., CBE – February 18, 2020 – SHARE

Manufacturing Production Edged Down in January

The Weekly Toplines

- Manufacturing production edged down 0.1% in January after inching up by 0.1% in December. Overall, the data continued to reflect weakness in the sector, even as activity has stabilized somewhat in the past three months. Over the course of the past 12 months, manufacturing production has declined 0.8%, up from 1.3% year-over-year in the previous release.
- Nonetheless, my forecast for manufacturing production growth in 2020 is currently 0.5%, representing some progress from essentially stagnant average annual growth in 2019.
- Meanwhile, total industrial production declined 0.3% in January. Utilities output fell 4.0%, largely on warmer temperatures, pulling the headline measure lower. Industrial production fell 0.8% over the past 12 months, and total capacity utilization eased from 77.1% to 76.8%, its lowest level since September 2017.
- Job openings in the manufacturing sector weakened once again. They went down from 381,000 in November to 360,000 in December, the slowest pace since May 2017. Despite softer data at the end of the year, manufacturing job postings remained elevated over much of 2019, averaging more than 462,000 per month, including the all-time high reached in June (515,000).
- Nonfarm business job openings dropped to a two-year low. The U.S. economy continues to have more nonfarm job openings than the number of people looking for work, even as that gap has narrowed in the past two months. Manufacturers continue to cite the inability to find talent as a top concern, even with some softening in hiring recently.
- The Index of Consumer Sentiment jumped to the highest point since March 2018, or nearly two years. It rose from 99.8 in January to 100.9 in February, according to preliminary data from the University of Michigan and Thomson Reuters. The ongoing coronavirus outbreak and election uncertainties could pose some downside risks to confidence, which is worth monitoring.

- Retail sales increased 0.3% in January, extending the 0.2% gain seen in December. Overall, Americans continue to purchase consumer goods and services at modest growth rates, with retail sales up 4.4% over the past 12 months.
- Consumer prices edged up 0.1% in January, its slowest pace since September and pulled lower by reduced energy costs. Over the past 12 months, the consumer price index has risen 2.5%, the fastest year-over-year pace since October 2018 and up from 2.3% in the prior release.
- Nonetheless, inflation appears to be stable and not far from the Federal Reserveâ€™s stated goal of core inflation around 2%, even with some appreciation in the latest figures. With that in mind, the Federal Open Market Committee is likely to maintain its current stance on monetary policy, according to Chair Jerome Powellâ€™s testimony last week, unless new data suggest a need for rate reductions or other moves moving forward.



Economic Indicators

Last Weekâ€™s Indicators:
(Summaries Appear Below)

Monday, February 10
None

Tuesday, February 11
Job Openings and Labor Turnover

This Week's Indicators:

Monday, February 17
PRESIDENTSâ€™ DAY HOLIDAY

Tuesday, February 18
NAHB Housing Market Index
New York Fed Manufacturing Survey

Survey
NFIB Small Business Survey

Wednesday, February 12
None

Thursday, February 13
Consumer Price Index

Friday, February 14
Industrial Production
Retail Sales
University of Michigan Consumer Sentiment

Wednesday, February 19
Housing Starts and Permits
Producer Price Index

Thursday, February 20
Conference Board Leading Indicators
Philadelphia Fed Manufacturing Survey

Friday, February 21
Existing Home Sales
IHS Markit Flash U.S. Manufacturing PMI

Deeper Dive

- **Consumer Price Index:** Consumer prices edged up 0.1% in January, its slowest pace since September. Prices were pulled lower by reduced energy costs, down 0.7% in January, with food prices increasing by 0.2% for the month. Over the past 12 months, the consumer price index has risen 2.5%, the fastest year-over-year pace since October 2018 and up from 2.3% in the prior release. At the same time, core inflation (which excludes food and energy) increased by 0.2% in January, with 2.3% growth over the past 12 months.

  Overall, inflation appears to be stable and not far from the Federal Reserve's stated goal of core price inflation around 2%, even with some appreciation in the latest figures. Over the past year, consumer prices were notably higher for medical care and shelter expenses. However, prices for apparel and used cars and trucks have fallen since January 2019.

- **Industrial Production:** Manufacturing production edged down 0.1% in January after inching up by 0.1% in December. Overall, the data continued to reflect weakness in the sector, even as activity has stabilized somewhat in the past three months. Over the course of the past 12 months, manufacturing production has declined 0.8%, up from 1.3% year-over-year in the previous release. Manufacturing capacity utilization slipped slightly from 75.2% in December to 75.1% in January. To put that figure in perspective and to illustrate just how much the sector has slowed since last year, manufacturing capacity utilization was 76.7% in January 2019.

  Nonetheless, my forecast for manufacturing production growth in 2020 is currently 0.5%, representing some progress from essentially stagnant average annual growth in 2019.

  In January, nondurable goods production increased 0.3% in January, but durable goods output fell by 0.5%. Eleven of the 19 major sectors experienced better production for the month, including computer and electronic products, motor vehicles and parts, nonmetallic mineral products, petroleum and coal products, plastics and rubber products and printing and support. In contrast, there was reduced output for aerospace and other transportation equipment and machinery, among others.

Meanwhile, total industrial production declined 0.3% in January, falling for the fourth time in the past five months. Utilities output fell 4.0%, largely on warmer temperatures, pulling the headline measure lower. Mining production rose 1.2%. Overall, industrial production fell 0.8% over the past 12 months, declining on a year-over-year basis for the fifth straight month. Total capacity utilization eased from 77.1% to 76.8%, its lowest level since September 2017. Much like the manufacturing data, capacity was well below the rate seen one year ago, when utilization was 79.0%.

- **Job Openings and Labor Turnover Survey:** Job openings in the manufacturing sector weakened once again. They went down from 381,000 in November to 360,000 in December, the slowest pace since May 2017. In the latest report, job openings were sharply lower for durable goods, which fell to a level not seen since July 2017, but there was a slight rebound in postings for nondurable goods manufacturers. Despite softer data at the end of the year, manufacturing job postings remained elevated over much of 2019, averaging more than 462,000 per month, including the all-time high reached in June (515,000).

  In the larger economy, nonfarm business job openings dropped to a two-year low, off from 6,787,000 in November to 6,423,000 in December. Yet, it is noteworthy that the U.S. economy continues to have more nonfarm job openings than the number of people looking for work (5,753,000 in December), even as that gap has narrowed in the past two months. In December, there were 670,000 more job postings than there were unemployed people to fill them, down from nearly one million in November. For their part, manufacturing firms continue to cite the inability to find talent as a top concern, even as employment growth and the outlook have softened over the course of last year.

  Manufacturers hired 330,000 workers in December, down from 339,000 in November. At the same time, separations rose from 333,000 to 340,000. Therefore, net hiring (or hires minus separations) was -10,000 in December, the third negative reading in the past four months. Overall, net hiring averaged 4,250 per month in 2019.

  Digging a little deeper into the separations data, quits in the manufacturing sector decreased from 211,0000 to 204,000. Quits can be a proxy for churn in the labor market, especially in the tight labor market. These data have been quite elevated, even with some slippage from the record high seen in April, which was 224,000. Moreover, manufacturing layoffs, which would normally be associated with a weak economy, are not yet a major concern. There were 111,000 layoffs in the sector in December, and the three-month moving average (106,000) continued to be the lowest since October 2017.

- **NFIB Small Business Survey:** The National Federation of Independent Business said that the Small Business Optimism Index rose from 102.7 in December to 104.3 in January. Overall, small business owners remained positive in their outlook. The percentage of respondents saying that now is a "good time to expand" rose from 25% to 28%, and the net percentage of those feeling that sales would rise in the next three months jumped from 16% to 23%, an eight-month high. On the capital spending front, small firms continued to cite solid growth in expenditures over the past six months, remaining at 63% for the second straight month.

  Small business owners cited the quality of labor as the top "single-most important problem" for the 22nd consecutive month, with hiring continuing to be a strength. There were 37% of respondents noting job openings in January, up from 33% in December. The net percentage of firms saying that they increased hiring in the last three months was up from 6% to 9%. A net percentage of 19% reported increased hiring plans over the next three months, the same pace as in the previous survey. In addition, a net percentage of 36% observed increased compensation during the last three months, a 12-month high.

- **Retail Sales:** Consumer spending increased 0.3% in January, extending the 0.2% gain seen in December. Overall, Americans continue to purchase consumer goods and services at modest growth rates, with retail sales up 4.4% over the past 12 months. While that was down from 5.5% year-over-year in December, that speaks more to the weakness of the prior year's data than it does for the end-of-year figures for 2019. Looking at core spending, retail spending excluding automobiles and gasoline stations rose 0.4% in January, with 3.3% growth year-over-year.

  The underlying data reflected mostly encouraging news. The largest increases in retail spending in January were for building materials and garden supplies stores, food services and drinking places and miscellaneous store retailers. At the same time, there were weaker sales reported for clothing and accessory stores, electronics and appliance stores, gasoline stations and health and personal care stores. On a year-over-year basis, the bright spots were food services and drinking places, gasoline stations (due to higher prices), miscellaneous store retailers, motor vehicles and parts dealers and nonstore retailers.

- **University of Michigan Consumer Sentiment:** The Index of Consumer Sentiment jumped to the highest point since March 2018, or nearly two years. It rose from 99.8 in January to 100.9 in February, according to preliminary data from the University of Michigan and Thomson Reuters. Americans were more upbeat in their economic outlook, even as perceptions of current economic conditions slipped somewhat in February. Final data will be released on Feb. 28, and the press release notes that the ongoing coronavirus outbreak and election uncertainties could pose some downside risks to confidence.

Take Action

- If you have not already done so, please take a moment to complete the latest NAM Manufacturersâ€™ Outlook Survey. This 25-question survey will help us gauge how manufacturing sentiment has changed since the fourth quarter survey. The current survey includes special questions on trade deals, the coronavirus outbreak, the challenge of counterfeit goods, tax and regulatory impacts and workforce challenges. To complete the survey, click here. Responses are due by Friday, Feb. 28, at 5:00 p.m. EST. As always, all responses are anonymous.

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