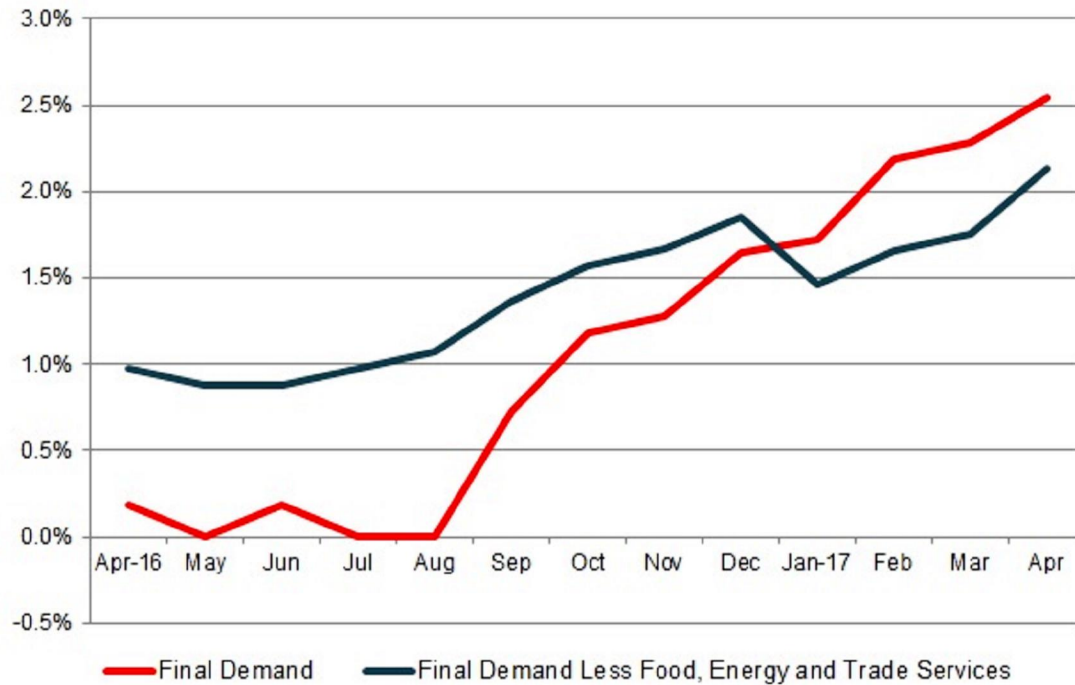




Year-Over-Year Percentage Changes in Producer Prices (April 2016 – April 2017)



Americans have been more willing to open their pocketbooks this year than at this time last year. Along those lines, [retail sales](#) have risen 4.5 percent over the past 12 months, up from 2.8 percent year-over-year in April 2016. Yet, consumers have been more cautious so far in 2017 than we might prefer, with weak retail spending in February and March, helping to drag down [real GDP](#) growth in the first quarter. With that in mind, it was good news that retail sales picked up in April, rising 0.4 percent. We hope this is a sign that consumer spending will once again return to being a bright spot in the U.S. economy, lifting second quarter real GDP.

Businesses and consumers continue to be positive about the economy. For instance, the [Index of Consumer Sentiment](#) from the University of Michigan and Thomson Reuters ticked higher in preliminary data, continuing to indicate a mostly upbeat public overall, albeit one that has remained sharply divided along partisan lines since the election. In addition, the [Small Business Optimism Index](#) edged slightly lower in April but remained near the 12-year high in January. To illustrate this point, the percentage of respondents suggesting the next three months would be a "good time to expand" increased from 22 in March to 24 in April, down from 25 percent in January but well above the 8 percent who said the same thing in April 2016.

Perceptions about the economy often turn on pocketbook issues, and in that light, Americans are likely encouraged by stronger employment data in recent months. Indeed, there were 394,000 [job openings](#) in the manufacturing sector in March, up from 364,000 in February. This matched the reading from July

2016, and both were the fastest rate since April 2006. This suggests that manufacturing leaders are accelerating their hiring intentions in light of recent improvements in the economic outlook, including better figures for demand and production. Job openings should be a good proxy of future hiring, and as such, it bodes well for improved employment data moving forward. In fact, we are already seeing some of this progress. Total hires in manufacturing rose from 296,000 in February to 322,000 in March, the highest rate since April 2008. Nonetheless, net hiring (or hires minus separations) fell to 4,000 in March—a level that we hope accelerates moving forward.

Meanwhile, [consumer](#) and [producer](#) prices moved higher in April, with higher energy costs contributing to the increases in both measures. Looking at the year-over-year pace, producer prices for final demand goods and services have increased 2.5 percent since April 2016, the fastest pace since February 2012. That represents a notable acceleration in inflationary pressures after being unchanged in August. Meanwhile, core producer prices, which exclude food, energy and trade services, grew 2.1 percent year-over-year in April, up slightly from 1.8 percent in March. On the other hand, consumer prices eased a bit on a year-over-year basis, down from 2.4 percent in March to 2.2 percent in April, and core consumer inflation fell below 2.0 percent for the first time since October 2015. Still, the Consumer Price Index has also accelerated, as the year-over-year pace was 1.1 percent in April 2016. We continue to expect the Federal Reserve to raise short-term interest rates at its June 13-14 meeting despite its belief that inflation remains modest and under control for now.

While manufacturing has trended generally in the right direction over much of the past few months, production in the sector declined in March, largely from softness in the automotive segment. Analysts will be looking for signs of a rebound in the April industrial production numbers, released on Tuesday, with further clues about the health of manufacturers in new data on factory orders and shipments and in surveys from the New York and Philadelphia Federal Reserve Banks. Other highlights this week include updates on housing starts and permits, leading indicators and state employment.

Chad Moutray, Ph.D., CBE
Chief Economist
National Association of Manufacturers

P.S.: If you have not already done so, please take a moment to complete the latest NAM Manufacturers' Outlook Survey. This 21-question survey will help us gauge how manufacturing sentiment has changed since March. The survey includes some special questions on reducing regulatory burdens and enacting comprehensive business tax reform. To complete the survey, click [here](#). Responses are due by Tuesday, May 30, at 5:00 p.m. EDT. As always, all responses are anonymous.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, May 8

None

Tuesday, May 9

Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, May 10

This Week's Indicators:

Monday, May 15

NAHB Housing Market Index
New York Fed Manufacturing Survey

Tuesday, May 16

Housing Starts and Permits
Industrial Production

None

Wednesday, May 17

None

Thursday, May 11

Produce Price Index

Thursday, May 18

Conference Board Leading Indicators

Factory Orders and Shipments

Philadelphia Fed Manufacturing Survey

Friday, May 5

Consumer Price Index

Retail Sales

Friday, May 19

State Employment Report

Summaries for Last Week's Economic Indicators

Consumer Price Index

The Bureau of Labor Statistics reported that [consumer prices](#) edged slightly higher in April, up 0.2 percent, after declining somewhat in March. The higher figure stemmed largely from an increase in energy costs, up 1.1 percent, rebounding from decreases in both February and March. Gasoline prices have jumped 14.3 percent over the past 12 months. At the same time, food prices increased 0.2 percent in April, rising for the fourth straight month, but with year-over-year growth of just 0.5 percent. Overall, the Consumer Price Index (CPI) increased 2.2 percent year-over-year in April, down from 2.8 percent in February and 2.4 percent in March. In April 2016, the CPI rose 1.1 percent, illustrating the acceleration in prices since then.

Core consumer prices, which exclude food and energy costs, edged up 0.1 percent in April, rebounding from a similar decline in March. Excluding food and energy costs, consumer prices have increased 1.9 percent over the past 12 months, pulling back a little from 2.0 percent in the prior report. That was the first time the year-over-year core inflation rate has fallen below 2.0 percent since October 2015. For now, overall pricing pressures remain modest and mostly under control, even with a pickup in total CPI growth in recent months.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics reported there were 394,000 [job openings](#) in the manufacturing sector in March, up from 364,000 in February. This matched the reading from July 2016, and both were the fastest rate since April 2006. In March, increased job openings for both durable (up from 209,000 to 229,000) and nondurable (up from 155,000 to 165,000) goods firms helped to lift the headline number, with the durable goods pace at levels last seen in July 2007. Overall, this report suggests manufacturing leaders are accelerating their hiring intentions in light of recent improvements in the economic outlook, including better figures for demand and production. Indeed, job openings should be a good proxy of future hiring, and as such, it bodes well for improved employment data moving forward.

In fact, we are already seeing some of this progress. Total hires in manufacturing rose from 296,000 in February to 322,000 in March, the highest rate since April 2008. One year ago, hiring in the sector stood at 262,000, with activity steadily trending upward since then. Durable goods manufacturers hired 173,000 workers in March, up from 154,000 in February, and hiring at nondurable goods businesses edged up from 142,000 to 149,000. At the same time, total separations, which include quits, layoffs and retirements, increased from 280,000 to 318,000, which was the fastest pace since June 2009. As a result, net hiring (or hires minus separations) dropped from 16,000 in February to 4,000 in March. We are hopeful the separations pace eases in the coming months, as that would allow a stronger pickup in net hiring.

In the larger economy, non-farm job openings increased from 5,682,000 in February to 5,743,000 in March. This was the most since the all-time high achieved one year ago (5,852,000), with non-farm postings largely increasing since bottoming out at 5,491,000 in August. In addition to manufacturing, there were more job openings in this release for government, information, professional and business services and wholesale trade. In addition, net hiring in the overall economy slowed from 241,000 in February to 172,000 in March but remained at decent levels.

NFIB Small Business Survey

The National Federation of Independent Business reported that sentiment among small business owners in April remained near the 12-year high in January even as it has eased a little since then. The [Small Business Optimism Index](#) edged down from 104.7 in March to 104.5 in April. While this is lower than the 105.9 reading in January, business owners continue to be quite optimistic since the election. Over the past five months, the headline index has averaged 105.2, illustrating the sizable uptick in confidence since the election. One year ago, the index was 93.6. Along those lines, the percentage of respondents suggesting the next three months would be a "good time to expand" increased from 22 in March to 24 in April, down from 25 percent in January but well above the 8 percent who said the same thing in April 2016.

The percentage expecting sales to increase over the next three months remained elevated but eased in this report, from 31 percent in December-its largest level since October 2005-to 20 percent in April. For comparison purposes, that figure was 1 percent one year ago. Likewise, the net percentage planning to add workers in the next three months was unchanged at 16 percent. While this was off from 18 percent in January, it suggests that more small businesses are planning to add to their workforce than what we saw a few months ago. For instance, 9 percent were planning to hire as recently as August.

On the investment front, 59 percent of small business owners said they had made a capital expenditure in the past six months, pulling back from March's 64 percent response, which was the highest reading since December 2013. Similarly, the percentage planning to make a capital expenditure in the next three to six months declined from 29 percent to 27 percent. Even with some easing, small firms appear to be stepping up their capital spending relative to just a few months ago, which is encouraging.

Respondents cited taxes as the top "single most important problem" (21 percent), highlighting the need for comprehensive business tax reform. Government regulations (17 percent), the quality of labor (16 percent) and poor sales (10 percent) also topped the list.

Producer Price Index

The Bureau of Labor Statistics reported that [producer prices](#) for final demand goods and services increased 0.5 percent in April, bouncing back strongly after declining 0.1 percent in March. For manufacturers, producer prices for final demand goods rose 0.7 percent, boosted by strong gains in both food and energy costs, up 0.9 percent and 0.8 percent, respectively. On a year-over-year basis, final demand food and energy costs have risen 1.7 percent and 14.2 percent, respectively. It was the second consecutive year-over-year increase in food prices for producers after declining in every month since February 2015 prior to that. Excluding food and energy, producer prices for final demand goods increased 0.3 percent.

Overall, producer prices for final demand goods and services have increased 2.5 percent since April 2016, the fastest pace since February 2012. That represents a notable acceleration in inflationary pressures after being unchanged in August. Meanwhile, core producer prices, which exclude food, energy and trade services, grew 2.1 percent year-over-year in April, up slightly from 1.8 percent in March.

Retail Sales

The Census Bureau reported that [retail sales](#) picked up in April after slowing in February and March. Spending in the retail sector increased 0.4 percent in April, and sales in March were revised higher, up 0.1 percent instead of falling 0.2 percent in the original estimate. After falling for three consecutive months, motor vehicle and parts sales rebounded in April, up 0.7 percent. Excluding autos, retail sales increased 0.3 percent for the month. In general, Americans have been more willing to open their pocketbooks this year than at this time last year; yet, consumers have been more cautious through the first four months of 2017 than we might prefer. Along those lines, retail spending has risen 4.5 percent over the past 12 months. While that represents relatively strong growth in consumer sales year-over-year, it has edged lower since measuring 5.9 percent in January. For comparison purposes, the year-over-year rate for retail sales was 2.8 percent in April 2016.

Beyond automobiles, the retail sales figures in April were mostly higher. Retail segments with increased spending for the month included non-store retailers (up 1.4 percent), electronics and appliance stores (up 1.3 percent), building material and garden supply stores (up 1.2 percent), health and personal care stores (up 0.8 percent) and sporting goods and hobby stores (up 0.6 percent), among others. In contrast, sales declined for clothing and accessories stores (down 0.5 percent), furniture and home furnishings stores (down 0.5 percent), general merchandise stores (down 0.5 percent) and food and beverage stores (down 0.3 percent).

Since April 2016, the largest gains in retail spending included gasoline stations (up 12.3 percent), non-store retailers (up 11.9 percent), building material and garden supply stores (up 9.3 percent), motor vehicle and parts dealers (up 4.4 percent), food services and drinking places (up 3.9 percent) and furniture and home furnishings stores (up 3.8 percent). The large gain for gasoline stations stemmed mainly from higher prices. Meanwhile, the largest weakness was for department stores, with a year-over-year decline in sales of 3.7 percent.

University of Michigan Consumer Sentiment

The University of Michigan and Thomson Reuters reported that consumer confidence edged higher in preliminary May data. The [Index of Consumer Sentiment](#) rose from 97.0 in April to 97.7 in May, the best reading since the 13-year high recorded in January (98.5). Overall, consumer sentiment has jumped significantly higher over the past six months, averaging 97.4, which was much higher than the 91.8 average in 2016 as a whole. Richard Curtin, the Surveys of Consumers chief economist, said confidence has remained sharply divided along partisan lines since the election. With that said, the underlying data are consistent with 2.3 percent growth in consumer spending in 2017.

Looking specifically at the preliminary May figures, respondents were somewhat more upbeat in their assessments about future conditions (up from 87.0 to 88.1), but their views of current conditions were unchanged (112.7). In the latest report, consumers anticipate 2.6 percent inflation over the next year, up from 2.2 percent six months ago (December).

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Questions or comments?

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