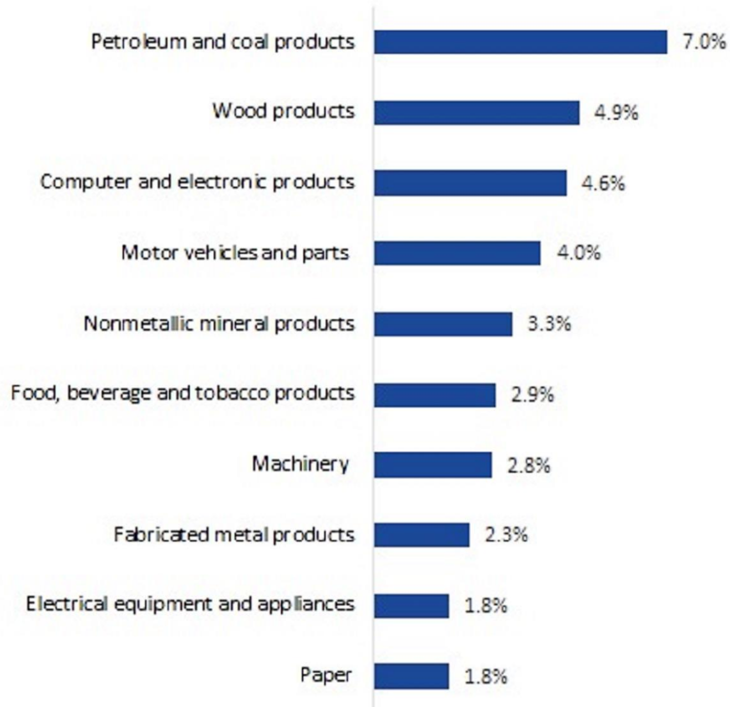
Top 10 Sectors for Year-Over-Year Manufacturing Production Growth
(April 2016 to April 2017)



Much of the economic data released last week provided mixed news, even as these indicators continue to suggest overall progress. For manufacturers, two regional surveys showed movement in the opposite direction in the May data. At one end of the spectrum, the Philadelphia Federal Reserve Bank reported that manufacturing activity expanded robustly in May on strong growth in new orders and with the average employee workweek expanding at a level not seen since October 1987. This stood in contrast to the rather disappointing Empire State Manufacturing Survey in May, which had activity falling for the first time since October. The contraction in the New York Federal Reserve Bank's headline number stemmed largely from reduced demand for the month, with several other measures also slowing. Nonetheless, respondents to both surveys remained quite upbeat in their assessments of the next six months, even with some easing in perceptions in the latest figures. In both surveys, for instance, at least half of the respondents believed new orders would rise in the coming months.

Encouragingly, manufacturing production rose 1.0 percent, led by a significant recovery in motor vehicles and parts production, up 5.0 percent, among others. It was the sixth time in the past seven months that manufacturing production has increased. While the sector continues to have some lingering challenges, this report is yet another sign that the sector has turned a corner and is moving in the right direction. Indeed, manufacturing production has increased 1.7 percent over the past 12 months, its strongest year-over-year pace since January 2015. Similarly, manufacturing capacity utilization jumped from 75.2 percent to 75.9 percent, a level not seen since December 2014. At the same time, total industrial production also increased 1.0 percent in April, its fastest monthly gain in just more than three years.

Meanwhile, the housing market offered mixed news in the latest data as well. New housing starts were disappointing in April, down for the second straight month. New residential construction fell from an annualized 1,203,000 in March to 1,172,000 in April, its first reading below 1.2 million units since November. Housing starts had been expected to rebound from March's weather-influenced lull, with a consensus expectation of 1.25 million units. Indeed, we did see a rebound in housing starts in both the Midwest and West, but the decline in March stemmed largely from a drop in activity in the Northeast and South. In terms of unit size, the highly volatile multifamily segment eased for the second consecutive month, down from 371,000 in March to 337,000 in April. In contrast, single-family activity inched up from 832,000 to 835,000, but that figure remained down from February's 877,000-unit pace.

Despite the discouraging starts figures, housing permits remained relatively strong, exceeding 1.2 million for the eighth consecutive month, even with some easing in April. Accordingly, we should expect better housing starts data moving forward. Over the past 12 months, housing permits have risen 5.7 percent since April 2016, with single-family and multifamily activity up 6.2 percent and 4.8 percent, respectively. With that in mind, the National Association of Home Builders (NAHB) and Wells Fargo reported that the Housing Market Index bounced back, with the index rising from 68 in April to 70 in May, or just slightly lower than March's reading of 71, which was the highest level since June 2005. NAHB Chief Economist Robert Dietz added, "Especially as existing home inventory remains tight, we can expect increased demand for new construction moving forward." At the same time, the report noted ongoing challenges with increasing costs and labor shortages.

This week will bring more clues about the health of the manufacturing sector; global surveys from Markit and regional reports from the Kansas City and Richmond Federal Reserve Banks will be released. The Census Bureau will provide additional insights through advance data releases on durable goods orders and shipments and on international trade in goods. It is hoped that both of these indicators will build on recent progress. Other highlights this week include the latest numbers for consumer sentiment, GDP and existing and new home sales.

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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 15
NAHB Housing Market Index
New York Fed Manufacturing Survey

This Week's Indicators:

Monday, May 22
Chicago Fed National Activity Index

Tuesday, May 23

Tuesday, May 16
Housing Starts and Permits
Industrial Production

Wednesday, May 17
None

Thursday, May 18
Conference Board Leading Indicators
Factory Orders and Shipments
Philadelphia Fed Manufacturing Survey

Friday, May 19
State Employment Report

Markit Flash Manufacturing PMIs for the United States and Eurozone
New Home Sales
Richmond Fed Manufacturing Survey

Wednesday, May 24
Existing Home Sales

Thursday, May 25
International Trade in Goods (Preliminary)
Kansas City Fed Manufacturing Survey

Friday, May 26
Durable Goods Orders and Shipments
Gross Domestic Product (Revised)
University of Michigan Consumer Sentiment (Revised)

Summaries for Last Week`s Economic Indicators

Conference Board Leading Indicators

The Conference Board's Leading Economic Index (LEI) increased 0.3 percent in April, mirroring the gain in March. Over the past six months, the LEI rose 2.4 percent, signaling modest growth and accelerating from prior months where growth was more sluggish. New orders in the manufacturing sector added 0.07 percentage points to headline growth, easing a bit from the prior report but with demand expanding for the fifth consecutive month. At the same time, the average workweek for production workers added another 0.07 percent, with other positive contributions stemming from average weekly unemployment claims, consumer confidence, the interest rate spread and overall lending conditions. On the other hand, building permits and stock market prices both provided minor drags on the headline LEI in April.

Meanwhile, the Coincident Economic Index (CEI), which assesses current conditions, also rose 0.3 percent in April. Each of the components of the CEI-industrial production, non-farm payrolls, personal income and manufacturing and trade sales-positively contributed to the index for the month.

Housing Starts and Permits

The Census Bureau and the Department of Housing and Urban Development reported that new housing starts were disappointing in April, down for the second straight month. New residential construction fell from an annualized 1,203,000 in March to 1,172,000 in April, its first reading below 1.2 million units since November. Housing starts had been expected to rebound from March's weather-influenced lull, with a consensus expectation of 1.25 million units. Indeed, we did see a rebound in housing starts in both the Midwest and West, but the decline in March stemmed largely from a drop in activity in the Northeast and South. In terms of unit size, the highly volatile multifamily segment eased for the second consecutive month, down from 371,000 in March to 337,000 in April. In contrast, single-family activity inched up from 832,000 to 835,000, but that figure remained down from February's 877,000-unit pace.

The latest figures suggest that new residential construction has gotten off to a slow start so far in 2017. That seems to be supported by the year-over-year data as well, with housing starts up just 0.7 percent since April 2016. Yet, that seems to be skewed by a sharp year-over-year decline of 15.1 percent for multifamily units, which can often have large month-to-month swings. More encouragingly, single-family starts have risen 8.9 percent over the past 12 months.

Meanwhile, housing permits also fell slightly, down from 1,260,000 to 1,229,000 in this release. Permits represent a proxy of future activity, and as such, this news provides mixed comfort. While the April data declined 2.5 percent from March, it was the eighth consecutive month with permits exceeding 1.2 million. Accordingly, we should expect better housing starts data moving forward. In this release, multifamily permits edged up from 434,000 to 440,000 units, but single-family activity dipped from 826,000 to 789,000.

Overall, new residential construction permits have moved higher over the longer term. Over the past 12 months, housing permits have risen 5.7 percent since April 2016, with single-family and multifamily activity up 6.2 percent and 4.8 percent, respectively.

Industrial Production

The Federal Reserve reported that manufacturing production rebounded strongly in April after pulling back in March. Output in the sector rose 1.0 percent, led by a significant recovery in motor vehicles and parts production, up 5.0 percent, among others. It was the sixth time in the past seven months that manufacturing production has increased. While the sector continues to have some lingering challenges, this report is yet another sign that the sector has turned a corner and is moving in the right direction. Indeed, manufacturing production has increased 1.7 percent over the past 12 months, its strongest year-over-year pace since January 2015. Similarly, manufacturing capacity utilization jumped from 75.2 percent to 75.9 percent, a level not seen since December 2014.

Digging into the underlying data, durable and nondurable goods output both increased 1.0 percent in April, mirroring the manufacturing sector as a whole. Beyond automotive, the largest gains in the sector included petroleum and coal products (up 2.5 percent), electrical equipment and appliances (up 1.8 percent), miscellaneous durable goods (up 1.8 percent), food, beverage and tobacco products (up 1.6 percent), textile and product mills (up 1.4 percent), printing and support (up 1.0 percent), machinery (up 0.9 percent), plastics and rubber products (up 0.9 percent) and paper (up 0.8 percent). In contrast, production fell for nonmetallic mineral products (down 1.0 percent), aerospace and miscellaneous transportation equipment (down 0.7 percent), primary metals (down 0.6 percent) and apparel and leather (down 0.1 percent).

Meanwhile, total industrial production also increased 1.0 percent in April, its fastest monthly gain in just more than three years. In addition to manufacturing, mining and utilities output increased for the month, up 1.2 percent and 0.7 percent, respectively. Over the past 12 months, total industrial production has risen 2.2 percent. Much like the manufacturing data described above, that was the highest year-over-year rate since January 2015, and it was a definite improvement from the -1.7 percent year-over-year rate one year ago. Mining production has increased 7.3 percent year-over-year, but utilities output has fallen 0.5 percent since April 2016. Capacity utilization rose from 76.1 percent to 76.7 percent, a 20-month high.

NAHB Housing Market Index

The National Association of Home Builders (NAHB) and Wells Fargo reported that the Housing Market Indexbounced back in May. The index increased from 68 in April to 70 in May, or just slightly lower than March's reading of 71, which was the highest level since June 2005. Index values greater than 50 indicate strong builder confidence, with 70 suggesting very strong expectations for activity. NAHB Chief Economist Robert Dietz added, "Especially as existing home inventory remains tight, we can expect increased demand for new construction moving forward." At the same time, the report noted ongoing challenges with increasing costs and labor shortages.

Builders have healthy assessments about single-family home sales over the next six months. The index for expected sales rose from 75 to 79, indicating a rather robust outlook for the months ahead. In the

May data, sentiment edged lower in every part of the country except the Midwest, with very healthy gains in building activity in the South and West.

New York Fed Manufacturing Survey

The Empire State Manufacturing Survey reported that manufacturing softened in May, with activity falling for the first time since October. The composite index of general business conditions declined from 5.2 in April to -1.0 in May. The contraction in the headline number stemmed from decreases in both new orders (down from 7.0 to -4.4) and unfilled orders (down from 12.4 to -3.7), with the percentage of respondents saying new orders were higher for the month dropping from 32.6 percent in April to 20.7 percent in May. Roughly one-quarter of respondents cited declining new orders in both surveys. At the same time, other measures continued to report modest growth in May, albeit with some easing in the latest results, including shipments (down from 13.7 to 10.6), employment (down from 13.9 to 11.9) and the average workweek (down from 8.8 to 7.5).

Even with some weaker data in May, manufacturers in the New York region remained quite upbeat about the next six months. Indeed the forward-looking composite index edged down from 39.9 to 39.3, with more than half of those responding suggesting that future conditions had improved in this release. Along those lines, data improved for expected new orders (up from 31.0 to 33.2) and shipments (up from 29.2 to 37.8). Anticipated growth in employment (down from 19.7 to 17.2), capital expenditures (down from 27.7 to 13.4) and technology spending (down from 15.3 to 13.4) remained decent despite some deceleration in May's indices. With that said, the average workweek was seen notably slowing over the next six months (down from 17.5 to 5.2), and pricing pressures are expected to remain highly elevated (up from 37.2 to 38.1).

Philadelphia Fed Manufacturing Survey

The Federal Reserve Bank of Philadelphia reported that manufacturing activity continued to expand at a robust pace in May. The composite index of general business activity increased from 22.0 in April to 38.8 in May. February's 43.3 figure was the highest reading since November 1983, and this latest figure was the best since then. Strong growth in shipments (up from 23.4 to 39.1) boosted the headline number in May, with the percentage of respondents suggesting that their shipments had increased rising from 38.5 percent in April to 48.4 percent in May. In addition, there were strong gains for new orders (down from 27.4 to 25.4), employment (down from 19.9 to 17.3) and the average employee workweek (up from 18.9 to 21.7), even with some easing in a few of these measures. The rate of expansion for the average employee workweek was at a level not seen since October 1987.

Meanwhile, manufacturers in the region remained quite optimistic about the next six months despite the forward-looking composite index falling from 59.5 in March-a 31-month high-to 34.8 in May. Nearly 55 percent of respondents felt that new orders would rise over the next six months, with 48.8 percent predicting more shipments. More importantly, especially given the cautious hiring and investing seen over the past year, at least 37 percent of respondents see more employment and capital expenditures growth moving forward. On the downside, business leaders also see pricing pressures remaining elevated, even with some deceleration from previous months. In a series of special questions, firms see consumer prices increasing 2.5 percent over the next year, with employee compensation growing 3.0 percent.

State Employment Report

Texas created the most net new manufacturing jobs in April, according to the Bureau of Labor Statistics, adding 8,100 workers in the month. Michigan (up 7,900), Wisconsin (up 5,100), Georgia (up 2,200), Illinois (up 1,900), Idaho (up 1,200) and Minnesota (up 1,100) also topped the list of manufacturing employment gains in April. In addition, Texas also saw the greatest job gains over the past 12 months, with manufacturing employment in the state up 16,600 since April 2016. Other states with the fastest manufacturing job growth year-over-year included Florida (up 11,100), Wisconsin (up 7,500), South Carolina (up 7,400) and Michigan (up 6,800).

The national unemployment rate fell to 4.4 percent in April, a rate not seen since May 2007. Colorado had the lowest unemployment rate in the country at 2.3 percent. A number of states were not far behind, including Hawaii (2.7 percent), North Dakota (2.7 percent), New Hampshire (2.8 percent), South Dakota (2.8 percent), Maine (3.0 percent) and Nebraska (3.0 percent). In contrast, New Mexico (6.7 percent), Alaska (6.6 percent), the District of Columbia (5.9 percent), Louisiana (5.8 percent) and Alabama (5.4 percent) had the highest unemployment rates.

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Questions or comments?

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