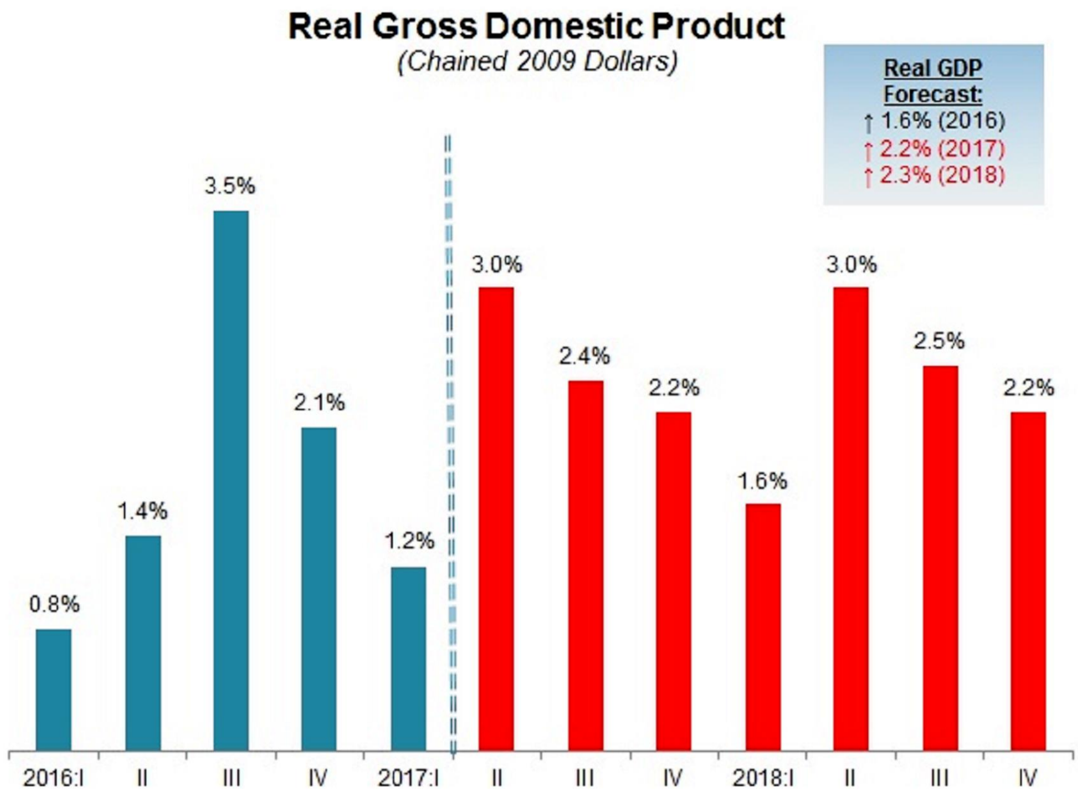

In the minutes of the May 2-3 Federal Open Market Committee meeting, members noted that while "aggregate spending in the first quarter had been weaker than [expected], they viewed the slowing as likely to be transitory." With that in mind, the Federal Reserve is likely to raise short-term interest rates at its June 13-14 meeting. On Friday, the Bureau of Economic Analysis reported that the U.S. economy grew1.2 percent in the first quarter in newly revised figures. This improved slightly from the earlier estimate of 0.7 percent growth, but nonetheless, it continued to represent a slow start to the year. Yet, I anticipate a strong rebound in the second quarter. My current forecast is for at least 3.0 percent growth in real GDP in the second quarter, with the economy expanding 2.2 percent for 2017 as a whole.

Data continued to reflect some easing in manufacturing activity, even as the longer-term trend has been favorable. For instance, new durable goods orders declined 0.7 percent in April, ending four straight months of gains. New orders have edged up just 0.9 percent since April 2016, but excluding transportation, the year-over-year gain was 4.9 percent. The bottom line is that new orders for core capital goods (or non-defense capital goods excluding aircraft) remained flat in April after six consecutive months of growth. This figure is often seen as a proxy for capital spending in the U.S. economy. On a year-over-year basis, core capital goods have risen 2.9 percent since April 2016.

Turning to survey data, the IHS Markit Flash U.S. Manufacturing PMI eased in May to its slowest growth rate since September. Nonetheless, we continue to see modest growth overall in the sector nationally, even with slower accelerations across-the-board. Looking ahead 12 months, manufacturers in the

United States continue to be optimistic about future output. Meanwhile, the Kansas City Federal Reserve Bank reported that manufacturing activity expanded for the sixth straight month even as it pulled back once again from March's six-year high. New orders were slightly higher, but growth in output contracted for the first time since August. In contrast, manufacturing activity in the Richmond Federal Reserve Bank's district stalled in May, pulling back for the second straight month from March's seven-year high to an ever-so-slight expansion. Respondents in both regions remained mostly upbeat in their outlook even with the softer current figures.

One of the brighter spots globally of late has been Europe. The IHS Markit Flash Eurozone Manufacturing PMI inched up to its fastest pace since April 2011. This suggests that manufacturers in Europe have mostly brushed off political uncertainties, with economic growth on the continent continuing to trend in the right direction. Activity in Germany mirrored the larger Eurozone headline number, with its manufacturing PMI figure also rising to a 73-month high. At the same time, French manufacturers cited modest expansions in activity in May, even as it decelerated somewhat from April's six-year high. The larger story for France, however, is that manufacturing has expanded for eight straight months-a sign that the sector is beginning to turn around.

Returning to the United States, existing and new home sales were both lower in April. Even with softer demand for the month, however, inventories of existing homes remain low, even as sales have risen 1.6 percent year-over-year. This has led to higher median prices, which have risen 6.0 percent since April 2016. At the same time, new home sales dropped to a four-month low but have generally moved higher as an overall trend. Even with decelerated activity in the latest data, new home sales have averaged 604,250 year to date in 2017, a notable improvement from the 536,000 average during the first four months of 2016.

Furthermore, the University of Michigan and Thomson Reuters reported that consumer confidence edged marginally higher in May. After notching its best reading since the 13-year high recorded in January, the Index of Consumer Sentiment, which remains elevated, has dipped somewhat. With that said, confidence has remained sharply divided along partisan lines since the election.

There will be a number of important data releases out this week. The Institute for Supply Management's (ISM) Manufacturing Purchasing Managers' Index has expanded for eight straight months, and manufacturers will be looking for continued modest growth for new orders and production in May. However, the ISM report might show some easing in activity, much like other surveys. The Dallas Federal Reserve Bank's survey will also be released this week, which might show a similar trend. Beyond sentiment releases, the other big headline will be the latest jobs numbers. Manufacturing employment should extend its streak to six consecutive months of job growth, building on the improved outlook of late. Other highlights this week include new data on construction spending, consumer confidence, international trade and personal income, spending and productivity.

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 22
Chicago Fed National Activity Index

Tuesday, May 23
Markit Flash Manufacturing PMIs for the United States and Eurozone
New Home Sales
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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)

This Week's Indicators:

Monday, May 29
MEMORIAL DAY HOLIDAY

Tuesday, May 30
Conference Board Consumer Confidence
Dallas Fed Manufacturing Survey
Personal Income and Spending

Wednesday, May 31
None

Thursday, June 1
ADP National Employment Report
Construction Spending
ISM Manufacturing Purchasing Managers' Index
Productivity and Costs (Revised)

Friday, June 2
BLS National Employment Report
International Trade Report

Summaries for Last Week`s Economic Indicators

Chicago Fed National Activity Index

The Chicago Federal Reserve Bank reported that growth in the U.S. economy accelerated in April. The National Activity Index (NAI) increased from 0.07 in March to 0.49 in April, its highest reading since November 2014. In addition, it was the fourth time in the past five months that the NAI has been positive. Index readings below zero suggest the economy is growing below its historical trend, with positive readings indicating the opposite. As such, this report continues to reflect that overall economic conditions have begun to move in the right direction after more than two years of subpar performance. This was consistent with the three-year moving average, which rose from zero in March to 0.23 in April, a level not seen since December 2014.

For its part, production-related indicators added 0.46 to the NAI in April, up from a negligible contribution in March (0.01). Manufacturing production rose 1.0 percent for the month, with year-over-year gains of 0.8 percent. Employment-related indicators contributed 0.10 to the NAI on stronger job growth in April. In the manufacturing sector, we have seen 14,200 net new workers per month since December. Meanwhile, personal consumption and housing provided a slight negative contribution, primarily because the residential market remains below its historical average, even with progress of late.

Durable Goods Orders and Shipments

The Census Bureau reported that growth in new durable goods orders declined 0.7 percent in April, ending four straight months of gains. New orders fell from $232.7 billion in March to $231.2 billion in April. With that said, much of the decrease in April stemmed from a drop in nondefense aircraft and parts orders (down 9.2 percent), which can often be quite volatile from month to month. Excluding transportation, new durable goods orders fell 0.4 percent, down from $153.3 billion to $152.7 billion. Despite the weaker data in this release, new durable goods orders have trended generally in the right direction lately after stalling for much of the past two years. New durable goods orders have edged up just 0.9 percent since April 2016, but excluding transportation, the year-over-year gain was 4.9 percent.

Looking more closely at the various durable goods sectors for new orders, the data were mixed but mostly lower. Sales decreased for electrical equipment, appliances and components (down 1.7 percent), fabricated metal products (down 0.9 percent), machinery (down 0.8 percent), other durable goods (down 0.4 percent) and primary metals (down 0.2 percent). In contrast, sales increased for computers and electronic products (up 1.4 percent) and motor vehicles and parts (up 0.3 percent).

The bottom line is that new orders for core capital goods (or nondefense capital goods excluding aircraft) remained flat in April after six consecutive months of growth. This figure is often seen as a proxy for capital spending in the U.S. economy. On a year-over-year basis, core capital goods have risen 2.9 percent, up from $61.1 billion in April 2016 to $62.9 billion in this release.

Meanwhile, durable goods shipments edged down by 0.3 percent. Much like the new orders data described above, the long-term picture has stabilized and is trending higher. Since April 2016, durable goods shipments have risen modestly (up 2.8 percent), with year-over-year growth of 4.6 percent when excluding transportation equipment. In addition, shipments of core capital goods have also improved over the past 12 months, up 1.7 percent and only the third positive year-over-year reading since July 2015, building on the progress in the February report.

Existing Home Sales

The National Association of Realtors (NAR) reported that existing home sales fell 2.3 percent in April. Sales declined from an annualized 5.70 million units in March to 5.57 million units in April. Activity increased in the Midwest but declined in other parts of the country. In addition, sales fell slightly for both single-family (down from 5.07 million to 4.95 million) and condo/co-op (down from 630,000 to 620,000) units. On a year-over-year basis, existing home sales increased 1.6 percent, up from 5.48 million units in April 2016.

In terms of inventories, there were 4.2 months of supply on the market in April, up from 3.8 months in March but down from 4.6 months one year ago. Despite the uptick in the latest figures, inventory levels remain low. NAR Chief Economist Lawrence Yun said, "Demand is easily outstripping supply in most of the country, and it's stymieing many prospective buyers from finding a home to purchase." The result is higher prices. The median price for an existing home sold in April was $244,800, up 6.0 percent year-over-year.

Gross Domestic Product (Revised)

The Bureau of Economic Analysis reported that the U.S. economy grew 1.2 percent in the first quarter in newly revised figures. This improved slightly from the earlier estimate of 0.7 percent growth, but nonetheless, it continued to represent a slow start to the year. The upward revision stemmed mainly from improved data on consumer and business spending, even as the drag from inventory spending was somewhat larger.

To be fair, we traditionally have a sluggish first quarter followed by a strong rebound in the second quarter. My current forecast is for at least 3.0 percent growth in real GDP in the second quarter, with the economy expanding 2.2 percent for 2017 as a whole. Of course, these estimates might drift higher with passage of more pro-growth policies, especially in terms of the outlook later this year and into 2018.

Digging further into the data, consumer spending slowed to a near crawl in the first quarter, up just 0.6 percent at the annual rate. This was an improvement from the earlier estimate of 0.3 percent growth but well below the 3.5 percent growth rate during the fourth quarter. Durable goods spending declined 1.4 percent in this report, pulled lower by a 3.7 percent decrease in motor vehicles and parts. Spending on nondurable goods and services was also soft, up 1.2 percent and 0.8 percent, respectively. Overall, personal consumption expenditures added 0.44 percentage points to the top-line GDP growth figure, up from 0.23 percent in the prior release.

At the same time, the business investment picture was mixed. On the bright side, nonresidential fixed investment jumped 11.4 percent, its strongest pace in five years and boosted by large gains in spending on structures, up 28.4 percent. In addition, residential spending accelerated for the second straight release, up 13.8 percent in the first quarter. In sum, residential and nonresidential fixed investment contributed 1.84 percentage points to headline GDP. However, reduced spending on inventories partially offset this figure, subtracting 1.07 percent. In the previous estimate, the drag from inventories was 0.93 percent. The silver lining is that better spending on inventories in the second quarter should help to propel a rebound in growth.

Meanwhile, net exports served as a large drag on growth in the fourth quarter, with economic headwinds abroad and the strong U.S. dollar challenging manufacturers. That stabilized somewhat in the first quarter, with goods exports rising 8.4 percent and goods imports increasing 4.2 percent. As a result, net exports added 0.13 percent to real GDP. While that contribution was rather paltry, it was significantly better than the 1.82 percentage point subtraction to the headline number in the fourth quarter.

Finally, government spending subtracted 0.20 percentage points from real GDP, ending two quarters of positive contributions, with reduced spending at all levels. Federal government spending fell 2.0 percent, led by a 3.9 percent decrease in defense, and state and local government spending fell 0.6 percent.

International Trade in Goods (Preliminary)

The Census Bureau released advance statistics on the international trade in goods. Specifically, the goods trade deficit widened from $65.05 billion in March to $67.55 billion in April in preliminary data.

The higher figure stemmed from a reduction in goods exports (down from $127.00 billion to $125.89 billion) combined with an uptick in goods imports (up from $192.06 billion to $193.44 billion). Final data will be released on June 2. Note that a surplus in service-sector activity, which was $21.80 billion in March, also assisted the U.S. trade deficit.

In April, goods exports fell mainly on reductions for automotive vehicles (down $980 million), consumer goods (down $686 million) and other goods (down $125 million). The decline in goods exports in those segments were enough to offset increases for foods, feeds and beverages (up $481 million), capital goods (up $111 million) and industrial supplies (up $85 million). Meanwhile, higher imports for consumer goods (up $1.82 billion), other goods (up $943 million), capital goods (up $833 million) and foods, feeds and beverages (up $352 million) exceeded reductions in imports for industrial supplies (down $1.84 billion) and automotive vehicles (down $726 million).

Kansas City Fed Manufacturing Survey

The Kansas City Federal Reserve Bank reported that manufacturing activity expanded for the sixth straight month even as it pulled back once again from March's six-year high. The composite index of general business conditions edged higher, up from 7 in April to 8 in May. In general, manufacturers report notable improvements in activity relative to this time last year, despite some easing in activity in many measures in this latest survey. Along those lines, the underlying data points were mixed in May. Growth for new orders (up from 8 to 9), employment (up from 9 to 11) and the average workweek (up from -4 to 1) accelerated slightly for the month, whereas shipments (down from 11 to 3) and production (down from 12 to -1) both softened. It was the first contraction in output since August. On an encouraging note, exports grew for the fourth consecutive month (unchanged at 4).

Meanwhile, manufacturers continued to be optimistic about the next six months. The forward-looking composite index rose from 17 to 30. That was not far from the level in March (32), which was the highest reading in the survey's history. More than half of respondents expect sales, production and shipments to be higher moving forward, with 36 percent and 33 percent anticipating more hiring and capital spending, respectively. At the same time, business leaders in the district also see pricing pressures remaining quite elevated relative to just a few months ago (down from 45 to 37), despite some softening from the quickest pace in just more than four years in March's report (59).

Markit Flash Manufacturing PMIs for the United States and Eurozone

The IHS Markit Flash Eurozone Manufacturing PMI inched up from 56.7 in April to 57.0 in May, its fastest pace since April 2011. This suggests that manufacturers in Europe have mostly brushed off political uncertainties, with economic growth on the continent continuing to trend in the right direction. The underlying data were encouraging, including new orders (unchanged at 57.7), output (up from 57.9 to 58.4), exports (up from 57.4 to 57.6) and employment (up from 55.5 to 56.2). Activity in Germany (up from 58.2 to 59.4) mirrored the larger Eurozone headline number, with its manufacturing PMI figure also rising to a 73-month high. At the same time, French manufacturers (down from 55.1 to 54.0) cited modest expansions in activity in May, even as it pulled back from April's six-year high. The larger story for France, however, is that manufacturing has expanded for eight straight months-a sign that the sector is beginning to turn around.

Meanwhile, the IHS Markit Flash U.S. Manufacturing PMI eased to its slowest growth rate since September, down from 52.8 in April to 52.5 in May. It was the fourth consecutive monthly decline, down from 55.0 in January, which was the fastest growth rate in nearly two years. Nonetheless, we continue to see modest growth overall in the sector nationally, even with slower accelerations across-the-board, including new orders (down from 53.7 to 53.4), output (down from 53.5 to 53.3), exports (down from 52.1 to 51.3) and hiring (down from 52.5 to 51.9). Looking ahead 12 months, manufacturers in the United States continue to be optimistic about future output (up from 65.9 to 66.5).

New Home Sales

The Census Bureau and the Department of Housing and Urban Development reported that new home salesdropped 11.4 percent, down from 642,000 in March to 569,000 in April. That was its weakest pace since December, representing a notable pullback after achieving a nine-and-a-half-year high in March. The softer demand for new single-family homes was lower in April in all regions of the country, but with sizable declines in sales in both the Midwest and West. Even with decelerated activity in the latest data, new home sales have averaged 604,250 year to date in 2017, a notable improvement from the 536,000 average during the first four months of 2016. As such, the longer-term trend remains favorable.

With weaker sales in this release, the number of months of supply on the market swelled from 4.9 in March to 5.7 in April. Therefore, there was a notable increase in inventories of new homes for sale. The median sales price was $309,200 in April, down 3.8 percent from $321,300 one year ago.

Richmond Fed Manufacturing Survey

The Richmond Federal Reserve Bank reported that manufacturing activity in its district stalled in May, pulling back for the second straight month from March's seven-year high. The composite index of general business activity declined from 22 in March, to 20 in April, to 1 in May. On the positive side, it was the seventh straight monthly expansion in the mid-Atlantic region. Still, manufacturers in the region expressed less optimism about current conditions in this month's survey, including neutral growth for new orders (down from 26 to 0) and reduced activity for shipments (down from 25 to -2), capacity utilization (down from 22 to -9) and the average workweek (down from 8 to -3). Nonetheless, hiring picked up slightly (up from 5 to 6).

Despite the softer current data in the latest report, manufacturing respondents remained mostly upbeat about the next six months, even with some easing in most measures. The key variables all suggested healthy gains in the months ahead for new orders (down from 46 to 35), shipments (down from 42 to 39), capacity utilization (down from 43 to 29), hiring (down from 25 to 20), the average workweek (down from 13 to 8) and capital expenditures (up from 26 to 34). Encouragingly, the expected capital spending figure was the second highest in the survey's history following February's 46 reading. This would suggest that even with weaker data in the May survey, manufacturers are more enthusiastic about investing in their firms for the future.

Meanwhile, inflationary pressures decelerated in May. Manufacturers in the district said that prices paid for raw materials decreased from 1.96 percent at the annual rate in April to 1.37 percent in May. It was 1.00 percent in May 2016. Raw material prices are expected to grow 1.41 percent at the annual rate six months from now, down from 1.81 percent in March. The current expected rate was nearly identical to the May 2016 figure, which was 1.40 percent.

University of Michigan Consumer Sentiment (Revised)

The University of Michigan and Thomson Reuters reported that consumer confidence edged marginally higher in May. The Index of Consumer Sentiment rose from 97.0 in April to 97.1 in May. This was off from the preliminary estimate of 97.7, and while consumer sentiment has generally been elevated, especially relative to a few months ago, the headline index has dipped after notching its best reading since the 13-year high recorded in January (98.5). Surveys of Consumers Chief Economist Richard Curtin 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 May figures, respondents felt somewhat more upbeat in their assessments about future conditions (up from 87.0 to 87.7), but their views of current conditions declined slightly (down from 112.7 to 111.7).

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