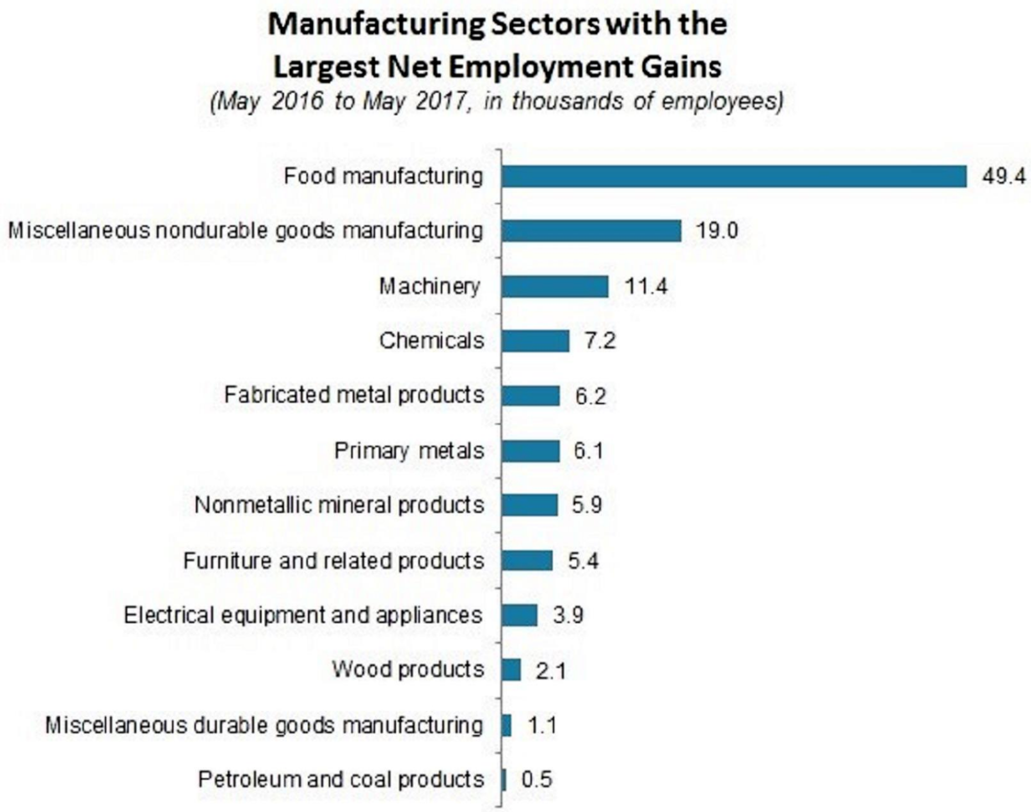

The latest data from the Bureau of Labor Statistics showed disappointing job growth, with the U.S. economy adding just 138,000 net new workers in May, below the consensus estimate of 185,000 and even further from the 253,000 estimate provided by ADP. In addition, there were downward revisions to the March and April data, subtracting a total of 66,000 jobs from those months. There were fewer Americans employed overall, down from 153.2 million in April to 152.9 million in May, a three-month low. As a result, the participation rate dropped from 62.9 percent to 62.7 percent, its lowest level since June 2016. With that in mind, the unemployment rate fell once again, down from 4.4 percent to 4.3 percent, a 10-year low. Likewise, the so-called "real" unemployment rate declined from 8.6 percent to 8.4 percent, a level not seen since November 2007.

Meanwhile, manufacturers were hoping to have a sixth straight month of job gains, much as we saw in the ADP data. Instead, manufacturing employment fell by 1,000 workers in May. On the positive side, revisions to March and April data added another 3,000 employees to what was estimated previously. Overall, manufacturing employment has averaged 12,167 per month since December, which stands in sharp contrast to the loss of 16,000 workers on net in 2016 as a whole. As such, even with the slight decline in May employment for the sector, the general trend for manufacturing employment over the past six months has been favorable. We have seen higher expectations for job growth of late in light of a stronger outlook for demand and production.

Along those lines, the Institute for Supply Management's Manufacturing Purchasing Managers' Index reported that growth in activity remained essentially the same in May. The composite index edged marginally higher, and it was the ninth consecutive monthly expansion in manufacturing activity in the United States, with the sector showing signs of progress after two years of notable challenges. Both new orders and employment grew at a faster pace in May (differing from the Bureau of Labor Statistics data described above), with relatively strong demand in the sector. In contrast, production and exports both eased for the month, even as they remained promising. In addition, prices for raw materials continued to increase strongly, but that measure has slowed since March's pace, which was the quickest rate since May 2011. Beyond the national figure, we learned that manufacturing activity in the Dallas Federal Reserve Bank's district accelerated in May and expanded for the eighth straight month. As such, that region has made significant progress from contracting conditions as recently as September.

With that said, there are some lingering challenges of note. Private manufacturing construction spending pulled back once again. The value of construction put in place in the sector declined 1.9 percent in April to its slowest pace since October 2014. While manufacturing construction has trended mostly higher over the past few years, activity has moved lower since achieving an all-time high in September 2015. Nonetheless, we would expect a turnaround in construction activity in the coming months, especially in light of the improved outlook of late.

Moreover, the trade picture provided mixed levels of comfort. Encouragingly, manufacturing exports have trended in the right direction in the early months of this year-a welcome development after weaker data in each of the past two years. Using non-seasonally adjusted data, U.S.-manufactured goods exports have increased 3.4 percent year to date through April relative to the same time period last year. Yet, the U.S. trade deficit rose to a three-month high, with reduced goods exports and a pickup in goods imports. Interestingly, the petroleum trade deficit fell to its lowest level since September. Therefore, the uptick in April's trade deficit primarily came from the nonpetroleum deficit, which grew to a level not seen since March 2015.

Turning to consumers, personal spending rebounded modestly in April after declining slightly in March. We have seen spending pull back from more robust growth at the end of 2016, but the most recent data suggest Americans have begun to open their pocketbooks once more, albeit still cautiously. The year-over-year data indicate decent growth overall in consumer demand, with personal spending up 4.3 percent since April 2016. That was down from 5.0 percent in the prior release but up from 3.8 percent one year ago. For its part, the saving rate was unchanged at 5.3 percent. Personal incomes rose 0.4 percent in April, with manufacturing wages and salaries up 2.6 percent over the past 12 months. In addition, the Conference Board reported that consumer confidence remained elevated in April despite easing for the second straight month.

After a busy few weeks of economic releases, there will be just a trickle of new indicators out this week. Highlights include new figures on consumer credit, factory orders and shipments, job openings and productivity.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

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

Friday, June 2
BLS National Employment Report
International Trade Report

This Week's Indicators:

Monday, June 5
Factory Orders and Shipments
Productivity and Costs (Revised)

Tuesday, June 6
Job Openings and Labor Turnover Survey

Wednesday, June 7
Consumer Credit

Thursday, June 8
None

Friday, June 9
Wholesale Trade

Summaries for Last Week`s Economic Indicators

ADP National Employment Report

ADP reported that manufacturing employment rose by 8,000 in May, increasing for the sixth straight month. From December through May, the sector added 114,000 net new workers. This was yet another sign that we have turned a corner in the labor market, with employers accelerating their hiring in light of stronger activity and sentiment. In contrast, hiring in 2016 was flat for the year as a whole. We are hopeful the trend of stronger job growth is one that continues in the coming months.

Meanwhile, total private employment increased by 253,000 in May, well above the consensus estimate of around 185,000 and a nice jump from the 174,000 gain in April. Year to date, nonfarm private payrolls have risen by 239,696 per month on average, which is significantly higher than the 180,892 workers added each month in 2016 as a whole.

Beyond manufacturing, the largest employment growth in May included professional and business services (up 88,000), trade, transportation and utilities (up 58,000), education and health services (up 54,000) and construction (up 37,000), among other sectors. However, leisure and hospitality (down 11,000) and information (down 8,000) saw declines. Small and medium-sized businesses (i.e., those with fewer than 500 employees) accounted for 77.5 percent of all net new workers in May.

BLS National Employment Report

According to the latest data from the Bureau of Labor Statistics, job growth in May was disappointing.

The U.S. economy added just 138,000 net new workers in May, below the consensus estimate of 185,000 and even further from the 253,000 estimate provided by ADP (see above). In addition, there were downward revisions to the March and April data, subtracting a total of 66,000 jobs from those months. There were fewer Americans employed overall, down from 153.2 million in April to 152.9 million in May, a three-month low. As a result, the participation rate dropped from 62.9 percent to 62.7 percent, its lowest level since June 2016. With that in mind, the unemployment rate fell once again, down from 4.4 percent to 4.3 percent, a 10-year low. Likewise, the so-called "real" unemployment rate declined from 8.6 percent to 8.4 percent, a level not seen since November 2007.

Meanwhile, manufacturers were hoping to have a sixth straight month of job gains, much as we saw in the ADP data. Instead, manufacturing employment fell by 1,000 workers in May. On the positive side, revisions to March and April data added another 3,000 employees to what was estimated previously. Overall, manufacturing employment has averaged 12,167 per month since December, which stands in sharp contrast to the loss of 16,000 workers on net in 2016 as a whole. As such, even with the slight decline in May employment for the sector, the general trend for manufacturing employment over the past six months has been favorable. We have seen higher expectations for job growth of late in light of a stronger outlook for demand and production.

Digging further into the May data, employment rose by 2,000 workers for durable goods industries, but there were 3,000 fewer workers for nondurable goods firms. The sector-by-sector breakdowns were mixed. The largest monthly job gains included machinery (up 3,700), fabricated metal products (up 3,500), miscellaneous nondurable goods (up 3,300), primary metals (up 2,900) and transportation equipment (up 2,400), among other sectors. At the same time, employment decreased in other segments, including plastics and rubber products (down 3,800), nonmetallic mineral products (down 3,200), wood products (down 2,400), miscellaneous durable goods (down 2,000), printing and related support activities (down 2,000) and computer and electronic products (down 1,700). Overall, manufacturing employment was just shy of 12.4 million workers in May.

Average weekly earnings for manufacturing employees dipped from $1,082.21 in April to $1,077.33 in May. That represented a 1.8 percent year-over-year increase in average weekly earnings, up from $1,057.79 in May 2016. Average weekly hours for manufacturing workers remained the same at 40.7 in May, but with average overtime hours in the sector edging up from 3.2 to 3.3.

Conference Board Consumer Confidence

The Conference Board reported that consumer confidence remained elevated in April despite easing for the second straight month. The Consumer Confidence Index declined from 119.4 in April to 117.9 in May, pulling back once again from March's reading (124.9), which was the highest level since December 2000. Even with the reduced headline number, the data continue to reflect a mostly positive assessment of the economy relative to perceptions one year ago, when the index stood at 92.4. In this release, the easing in the headline number stemmed from weaker perceptions about future conditions (down from 105.4 to 102.6), whereas views about the current economic environment edged slightly higher (up from 140.3 to 140.7). Those Americans suggesting conditions were "good" (29.4 percent) were more than offset by those indicating conditions were "bad" (13.7 percent), even with a marginal weakening in the former in this release.

Looking at the labor market, the percentage of respondents feeling that jobs were "plentiful" declined from 30.3 percent to 29.9 percent, with those saying jobs were "hard to get" also lower, down from 19.4 percent to 18.2 percent. Meanwhile, income expectations were also mixed. The percentage of respondents expecting their incomes to increase rose from 18.7 percent to 19.2 percent, whereas the percentage feeling that their incomes would fall in the coming months also accelerated, up from 7.6 percent to 8.7 percent. It is perhaps that latter point that helped to weaken the expectations component of the headline index above, with Americans somewhat more cautious in their outlook even as their overall assessments of the economy remain mostly favorable.

Construction Spending

The Census Bureau reported that private manufacturing construction spending pulled back once again in April, down 1.9 percent. The value of construction put in place in the sector declined from $69.19 billion in March to $67.84 billion in April, its slowest pace since October 2014. (December 2016's $67.87 billion was not far off from that threshold.) To further illustrate the recent deceleration in activity, construction spending in the sector has averaged just $68.40 billion over the past five months (December to April), down from $75.51 billion in the prior five months (July to November). While manufacturing construction has trended mostly higher over the past few years, activity has moved lower since achieving the all-time high of $82.15 billion in September 2015. Nonetheless, we would expect a turnaround in construction activity in the coming months, especially in light of the improved outlook of late.

Overall, total private nonresidential construction spending decreased 0.6 percent in April, but it has risen 4.3 percent year-over-year. Office (up 1.7 percent), transportation (up 0.8 percent) and amusement and recreation (up 0.3 percent) each had increased construction spending in April, but declines in other sectors more than offset these gains. In addition to manufacturing, the largest drags came from reduced construction spending on projects for the religious (down 3.8 percent), power (down 1.4 percent), health care (down 1.1 percent) and lodging (down 0.8 percent) segments, among others.

Since April 2016, private nonresidential construction spending saw notably strong gains in the following sectors: office (up 14.8 percent), commercial (up 13.5 percent), educational (up 12.6 percent), communication (up 11.8 percent) and amusement and recreation (up 10.9 percent).

Meanwhile, private residential construction spending decreased 0.7 percent in April, but with a healthy 16.0 percent year-over-year gain. For the month, single-family construction increased 0.8 percent, but multifamily activity fell 0.2 percent. Over the past 12 months, single-family and multifamily construction spending rose 7.7 percent and 10.1 percent, respectively. In addition to those components, public construction spending dropped 3.7 percent in April, with a decline of 4.4 percent year-over-year.

Dallas Fed Manufacturing Survey

The Dallas Federal Reserve Bank reported that manufacturing activity accelerated in May for the eighth straight month, picking up somewhat from April's pace. The composite index of general business activity edged up from 16.8 in April to 17.2 in May. The headline number has averaged 19.2 over the past six reports, which would indicate significant progress from contracting conditions as recently as September. The recent gains in business confidence can be attributed largely to better energy commodity prices, improvements in the global economy and a post-election boost in optimism. Nonetheless, the sample comments also suggest challenges with identifying qualified workers and with increased pricing pressures.

Digging into the underlying data points, key measures were mostly higher in May, including new orders (up from 11.5 to 18.1), production (up from 15.4 to 23.3), capacity utilization (up from 11.5 to 19.4), shipments (up from 9.5 to 24.7), hours worked (up from 5.9 to 15.7) and capital expenditures (up from 6.7 to 11.1). According to the responses, 32.1 percent said new orders had increased in May, with 53.9 percent reporting no change and 14.0 percent citing declining sales for the month. In contrast to many of the other indices, employment growth eased a bit for the month (down from 8.5 to 8.3), even as it has expanded modestly for five consecutive months.

Moving forward, manufacturing leaders remained very positive about the next six months. The forward-looking measure rose from 27.1 in April to 31.6 in May. While down from January's 12-year high (43.7), sentiment about future activity has continued to be highly elevated. Expansions in activity are seen improving moving forward, including faster growth rates for new orders (up from 36.1 to 46.5), production (up from 39.6 to 49.7), shipments (up from 41.5 to 46.6), employment (up from 32.7 to 43.1) and hours worked (up from 9.9 to 12.0). At least half of respondents see better demand and output over the next six months, and perhaps even more encouragingly, 47.9 percent predict additional hiring. At the same time, roughly 30 percent see more capital spending.

International Trade Report

The Bureau of Economic Analysis and the Census Bureau reported that the U.S. trade deficit rose from $45.28 billion in March to $47.62 billion in April, a three-month high. The trade deficit has trended higher so far in 2017, averaging $46.65 billion per month year to date relative to $42.07 billion for 2016 as a whole. In April, the increased trade deficit was the result of reduced goods exports (down from $127.48 billion to $126.94 billion) and a pickup in goods imports (up from $193.54 billion to $195.32 billion). Interestingly, the petroleum trade deficit fell from $8.43 billion to $5.43 billion, its lowest level since September. Therefore, the uptick in April's trade deficit primarily came from the nonpetroleum deficit, which grew from $56.50 billion to $61.71 billion, a level not seen since March 2015. Meanwhile, the service-sector surplus edged slightly lower, down from $20.78 billion to $20.77 billion.

The underlying goods exports data were mixed. Exports in April increased for foods, feeds and beverages (up $582 million), industrial supplies and materials (up $429 million) and nonautomotive capital goods (up $19 million), but this was mostly offset by declining exports for consumer goods (down $720 million), automotive vehicles, parts and engines (down $532 million) and other goods (down $160 million). In contrast, goods imports saw larger shifts for the month, including significant decreases for industrial supplies and materials (down $1.47 billion) and automotive vehicles, parts and engines (down $673 million). Reduced petroleum imports were responsible for the decline in industrial supplies and materials imports. At the same time, consumer goods (up $1.94 billion), nonautomotive capital goods (up $933 million), other goods (up $731 million) and foods, feeds and beverages (up $370 million) each experienced higher goods imports in April.

For manufacturers, exports have trended in the right direction in the early months of this year-a welcome development after weaker data in each of the past two years. Using non-seasonally adjusted data, U.S.-manufactured goods exports totaled $353.09 billion year to date in April, up 3.44 percent from $341.33 billion one year ago. This reflects better year-to-date figures in five of the top-six markets for U.S.-manufactured goods: Canada (up from $87.23 billion to $89.67 billion), Mexico (up from $74.69 billion to $77.57 billion), China (up from $33.86 billion to $39.34 billion), Japan (up from $19.72 billion to $22.01 billion) and Germany (up from $10.38 billion to $11.21 billion). The lone exception was a decline in U.S.-manufactured goods exports to the United Kingdom (down from $18.37 billion to $17.80 billion).

ISM Manufacturing Purchasing Managers' Index

The Institute for Supply Management's (ISM) Manufacturing Purchasing Managers' Index reported that growth in activity remained essentially the same in May. The composite index edged marginally higher, up from 54.8 in April to 54.9 in May. On the reassuring front, it was the ninth consecutive monthly expansion in manufacturing activity in the United States, with the sector showing signs of progress after two years of notable challenges. The sample comments tend to echo those improvements, citing better economic conditions, a favorable outlook and increased difficulties in finding labor. At the same time, the headline index has drifted lower since February (57.7), and respondents continue to note some lingering headwinds and increased pricing pressures. The ISM report mostly mirrors other sentiment surveys, which have observed some pullbacks from multiyear highs post-election, even as they remain mostly encouraging.

Digging into the underlying data, activity was mixed. Both new orders (up from 57.5 to 59.5) and employment (up from 52.0 to 53.5) grew at a faster pace in May, with relatively strong demand in the sector. In contrast, production (down from 58.6 to 57.1) and exports (down from 59.5 to 57.5) both eased for the month, even as they remained promising. Supplier deliveries (down from 55.1 to 53.1) and imports (down from 55.5 to 53.5) also decelerated in May, growing modestly.

Prices for raw materials continued to increase strongly (down from 68.5 to 60.5), but that measure has slowed since March's pace (70.5), which was the quickest rate since May 2011. Meanwhile, inventories expanded in May for the third time in the past four months (up from 51.0 to 51.5). With stockpiles quite depleted from declines over the past few years, the recent pickup in demand should necessitate strong growth in production moving forward.

Personal Income and Spending

The Bureau of Economic Analysis reported that personal spending rebounded modestly in April after declining slightly in March. Personal consumption expenditures (PCEs) increased 0.2 percent in April, essentially offsetting the decline of 0.2 percent in March. We have seen spending pull back from more robust growth at the end of 2016, but this report suggests Americans have begun to open their pocketbooks once more, albeit still cautiously. Stronger sales of motor vehicles and parts, which rose for the first time since December, buoyed the rebound in spending. The year-over-year data indicate decent growth overall in consumer demand, with personal spending up 4.3 percent since April 2016. That was down from 5.0 percent in the prior release but up from 3.8 percent one year ago.

For its part, the saving rate was unchanged at 5.3 percent. It mirrors the trends described above, with the saving rate rising from 4.5 percent in December due to a more hesitant consumer. Still, the saving rate has fallen from 5.9 percent one year ago, a sign that Americans have picked up their purchases in general over the past 12 months.

Meanwhile, personal incomes rose 0.4 percent in April, an improvement from the 0.2 percent gain in March. On a year-over-year basis, personal incomes have continued to increase at a decent clip, up 3.6 percent since April 2016. At the same time, manufacturing wages and salaries edged up from $839.8 billion in March to $841.2 billion in April. There has been a steady upward trend in manufacturing compensation in general, with wages and salaries in the sector up 2.6 percent from $819.7 billion in April 2016.

In other news, the PCE deflator increased 0.2 percent in April, up from the decline of 0.2 percent in March. The rebound in prices stemmed from an acceleration in energy costs, up 1.0 percent, which had fallen in both February and March. Excluding food and energy, core inflation also increased 0.2 percent in April. The PCE deflator has risen 1.7 percent since April 2016, its weakest reading since December and down from February's 2.1 percent year-over-year pace. Likewise, core inflation has increased 1.5 percent year-over-year, down from 1.8 percent in February.

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Questions or comments?

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