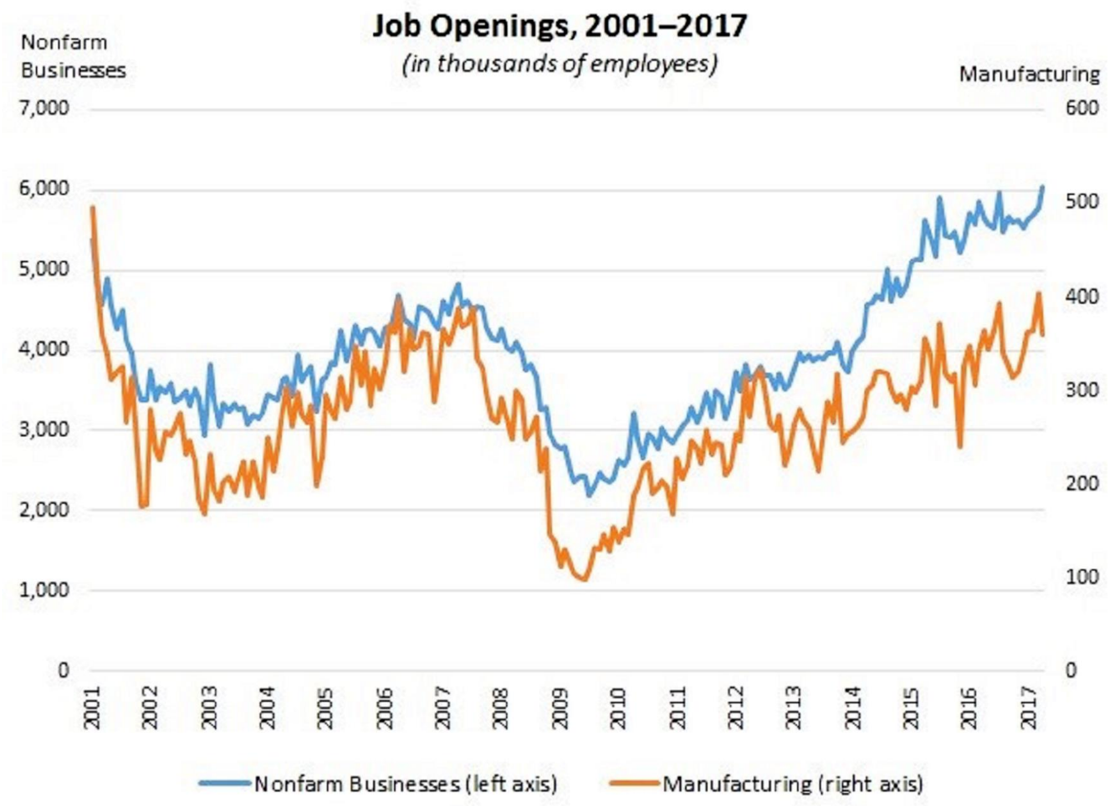

After a busy few weeks of data, there was a bit of a breather on new economic indicators out last week. Of the reports that were released, one of the standouts was nonfarm job openings, which exceeded 6 million for the first time ever. This was yet another sign that the labor market has improved significantly in recent months. Not surprisingly, with the U.S. economy approaching "full employment," many businesses cite challenges with attracting new talent as one of their top concerns. Postings in the manufacturing sector have also been elevated in recent months, including March's all-time high of 404,000. However, in April, the pace of job openings decelerated to 359,000, and net hiring weakened. Nonetheless, I would continue to expect stronger job openings and hiring data moving forward, especially given recent improvements in the economic outlook for the sector.

Business economists continue to expect modest growth in the U.S. economy, with real GDP up 2.2 percent and 2.4 percent in 2017 and 2018, respectively. With that said, nearly 60 percent of respondents in the latest National Association for Business Economics Outlook Survey felt that there were more upside risks to the economy, especially given possible fiscal policy changes, with 36.2 percent feeling there were more downside risks. For manufacturers, economists see industrial production rising 1.5 percent in 2017, with 2.4 percent growth in 2018. On the other hand, light vehicle sales in 2017 are expected to slow somewhat while continuing to remain strong overall, down from an estimate of 17.5 million units in March to 17.2 million units in this release. The forecast is for 17.1 million units sold in 2018. At the same time, housing starts are anticipated to increase from 1.27 million units in 2017 to 1.35 million units in 2018.

Meanwhile, new factory orders edged down in April, pulling back slightly from March's fastest pace since November 2014. Much of that decline stemmed largely from a decrease in nondefense aircraft and parts orders, which often can be quite volatile from month to month. Overall, new factory orders, which have struggled mightily over the past few years, have trended largely in the right direction over the past few months, up 3.8 percent since April 2016. Excluding transportation, the gains were slightly larger, up 6.0 percent year-over-year. There were similar trends for manufactured goods shipments, despite being unchanged in April. Shipments remain not far from February's level, which was the highest since December 2014. On a year-over-year basis, factory shipments have risen 4.7 percent since April 2016, or 5.9 percent excluding transportation.

The overarching trend in much of the latest data released across the past few weeks has been quite similar. There have been notable improvements in activity, especially relative to one year ago, even as we have seen some slippage from the paces earlier this year. This includes manufacturing data as well as retail sales. Along those lines, the April U.S. consumer credit outstanding figures suggest that Americans held back somewhat in their willingness to take on credit when making purchases. Consumer credit rose 2.6 percent at the annual rate in April, its slowest monthly rate since December 2015. This would indicate a more cautious consumer, and it would be a turnaround from the larger trend over the past year. Prior to this report, data suggested an increased willingness for Americans to spend and take on credit. With that in mind, we will see if the April data were an outlier or the beginning of a new trend in future releases.

Much of the focus this week will be on the Federal Reserve, which is widely expected to raise short-term interest rates for the second time this year at the conclusion of its June 13-14 meeting. The Federal Reserve will also release May industrial production data. Manufacturing output rebounded strongly in April, and another expansion in the latest figures is expected. In general, the data should continue to reflect progress for the sector relative to what was seen one year ago, with manufacturing production up 0.8 percent since April 2016. There will also be surveys from the New York and Philadelphia Federal Reserve Banks for June, which both diverged in their May reports, with respondents to the Philadelphia Federal Reserve survey still reporting strong growth but the Empire State report stagnating.

Other highlights include new data on consumer confidence, consumer and producer prices, retail sales, small business optimism and state employment.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

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Summaries for Last Week`s Economic Indicators

Consumer Credit

The Federal Reserve Board reported that U.S. consumer credit outstanding rose 2.6 percent at the annual rate in April, slowing from the 6.2 percent gain in March. That was the slowest monthly growth rate since December 2015. Total consumer credit was $3.821 trillion in April, with $1.011 trillion in revolving credit and $2.810 trillion in nonrevolving credit. Across the past 12 months, consumer credit has increased 5.8 percent, with revolving and nonrevolving credit up 5.7 percent and 5.9 percent year-over-year, respectively.

Nonrevolving credit, which includes auto and student loans, rose an annualized 2.9 percent in April, easing from 6.1 percent in March. Similarly, growth in revolving credit, which includes credit cards and other credit lines, also softened for the month, down from 6.5 percent at the annual rate in March to 1.8 percent in April. The data suggest that Americans held back somewhat in their willingness to take on credit when making purchases. This would indicate a more cautious consumer, and it would be a turnaround from the larger trend over the past year. Prior to this report, data suggested an increased willingness for Americans to spend and take on credit. With that in mind, we will see if the April data were an outlier or the beginning of a new trend in future releases.

Factory Orders and Shipments

The Census Bureau reported that new factory orders edged down 0.2 percent in April, pulling back slightly from March's fastest pace since November 2014. Much of that decline stemmed largely from a decrease in nondefense aircraft and parts orders, down 9.1 percent, which often can be quite volatile from month to month. Excluding transportation, manufactured goods orders increased 0.1 percent. Durable goods orders fell 0.8 percent, or down 0.5 percent excluding transportation equipment. In contrast, nondurable goods orders rose 0.4 percent. Nonetheless, new factory orders, which have struggled mightily over the past few years, have trended largely in the right direction more recently, up 3.8 percent since April 2016. Excluding transportation, the gains were slightly larger, up 6.0 percent year-over-year.

Looking specifically at durable goods activity in April, the data were mixed but mostly lower. Demand weakened for the month for electrical equipment, appliances and components (down 2.0 percent), fabricated metal products (down 1.0 percent), machinery (down 0.7 percent), primary metals (down 0.7 percent) and furniture and related products (down 0.2 percent). Improved sales data for computers and electronic products (up 1.6 percent) and motor vehicles and parts (up 0.6 percent), among other sectors, more than offset the declines for the month. Core capital goods-or nondefense capital goods excluding aircraft-increased 0.1 percent in April, with a gain of 3.0 percent over the past 12 months.

Meanwhile, manufactured goods shipments were flat in April, improving from the decline of 0.2 percent in March. Despite drifting marginally lower since then, shipments in April ($470.8 billion) were not far from February's level ($471.6 billion), which was the highest since December 2014. On a year-over-year basis, factory shipments have risen 4.7 percent since April 2016, or 5.9 percent excluding transportation.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics reported that nonfarm job openings increased from 5,785,000 in March to 6,044,000 in April, a new all-time high. This continued an upward trend that began after job postings fell to 5,491,000 in August. In this release, construction, educational services, government, financial activities, leisure and hospitality and wholesale trade all saw increased openings for the month. Yet, net hiring in the overall economy slowed, down from 106,000 in March to 78,000 in April.

It was this latter trend that was pervasive in the manufacturing sector. Job openings among manufacturers pulled back from March's all-time high of 404,000 to 359,000 in April. The prior report, however, appears to be a bit of an outlier. After soaring in March, both durable (down from 230,000 to 200,000) and nondurable (down from 174,000 to 159,000) returned to a more normal trend in April. For instance, manufacturing job openings have averaged 352,000 over the past 12 months-not far from the current level. Ideally, we would expect stronger job openings data moving forward, especially given recent improvements in the economic outlook for the sector, and this should lead to better hiring figures.

For now, however, net hiring for manufacturers fell back into negative territory for the first time since November. Total hiring in manufacturing declined from 325,000 in March-its highest rate since April 2008-to 308,000 in April. Even with the easing, hiring in the sector has risen over the past 12 months, up from 259,000 one year ago. In April, hiring rose for nondurable goods firms (up from 147,000 to 151,000, nearly a 10-year high), whereas it was lower for durable goods businesses (down from 177,000 to 157,000). At the same time, total separations, which include quits, layoffs and retirements, edged down from 318,000 to 315,000. Separations in each of the past two months were at the fastest pace since June 2009. As a result, net hiring (hires minus separations) dropped from 7,000 in March to -7,000 in April.

NABE Outlook Survey

Business economists continue to expect modest growth in the U.S. economy, with real GDP up 2.2 percent and 2.4 percent in 2017 and 2018, respectively. With that said, nearly 60 percent of respondents in the latest National Association for Business Economics Outlook Survey felt that there were more upside risks to the economy, especially given possible fiscal policy changes, with 36.2 percent feeling there were more downside risks. Meanwhile, consumer spending was seen expanding slightly slower in the June survey (2.5 percent) than it was three months ago (2.7 percent), but growth remained decent overall. Business spending, however, was more encouraging, with residential and nonresidential fixed investment expected to rise 5.7 percent and 4.3 percent, respectively, this year. In terms of job growth, respondents predict nonfarm payroll growth averaging 178,000 per month in 2017.

For manufacturers, economists see industrial production rising 1.5 percent in 2017, with 2.4 percent growth in 2018. Each figure was unchanged from the March survey. On the other hand, light vehicle sales in 2017 are expected to slow somewhat while continuing to remain strong overall, down from an estimate of 17.5 million units in March to 17.2 million units in this release. The forecast is for 17.1 million units sold in 2018. At the same time, housing starts are anticipated to increase from 1.27 million units in 2017 to 1.35 million units in 2018.

Productivity and Costs (Revised)

The Bureau of Labor Statistics reported that manufacturing labor productivity rose 0.5 percent in the first quarter of 2017, slightly better than the 0.4 percent gain in an earlier estimate. It was the second straight quarterly increase in productivity in the sector, with first quarter activity rebounding from declines in both of the two prior quarters. In this release, manufacturing output rose 2.6 percent, its fastest quarterly rate since the second quarter of 2014. Unit labor costs increased 2.4 percent. There were large sectoral differences in the data, with labor productivity for durable goods firms down 0.7 percent in the first quarter but up 2.7 percent for nondurable goods manufacturers. As a result, unit labor costs increased 2.4 percent and 2.1 percent for durable and nondurable goods businesses in the quarter, respectively.

Overall, since the Great Recession, the data continue a trend of lethargic manufacturing productivity growth, which rose just 0.2 percent in 2016. For instance, manufacturing output per worker essentially stagnated from 2013 to 2016, down 0.05 percent per year on average, well below the 5.2 percent pace from 2002 to 2008. Over the longer term, manufacturers have benefited from being leaner, but the recent sluggishness in productivity and output growth has meant that unit labor costs have risen 11.4 percent since the end of 2011.

In the larger economy, nonfarm labor productivity was unchanged in the first quarter. This was an improvement from the original estimate, which showed a 0.6 percent decline. Nonetheless, it represents an easing from the 1.8 percent gain in the fourth quarter. Nonfarm output eased from 2.7 percent in the fourth quarter to 1.7 percent in the first quarter. Output was previously seen growing 1.0 percent, and the difference helps to explain the upward revision. Similar to the manufacturing data described above, nonfarm labor productivity has slowed considerably since the Great Recession, averaging 0.5 percent per year from 2011 to 2016. It increased only 0.2 percent in 2016. This compares to 2.7 percent growth from 2000 to 2007.

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Questions or comments?

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