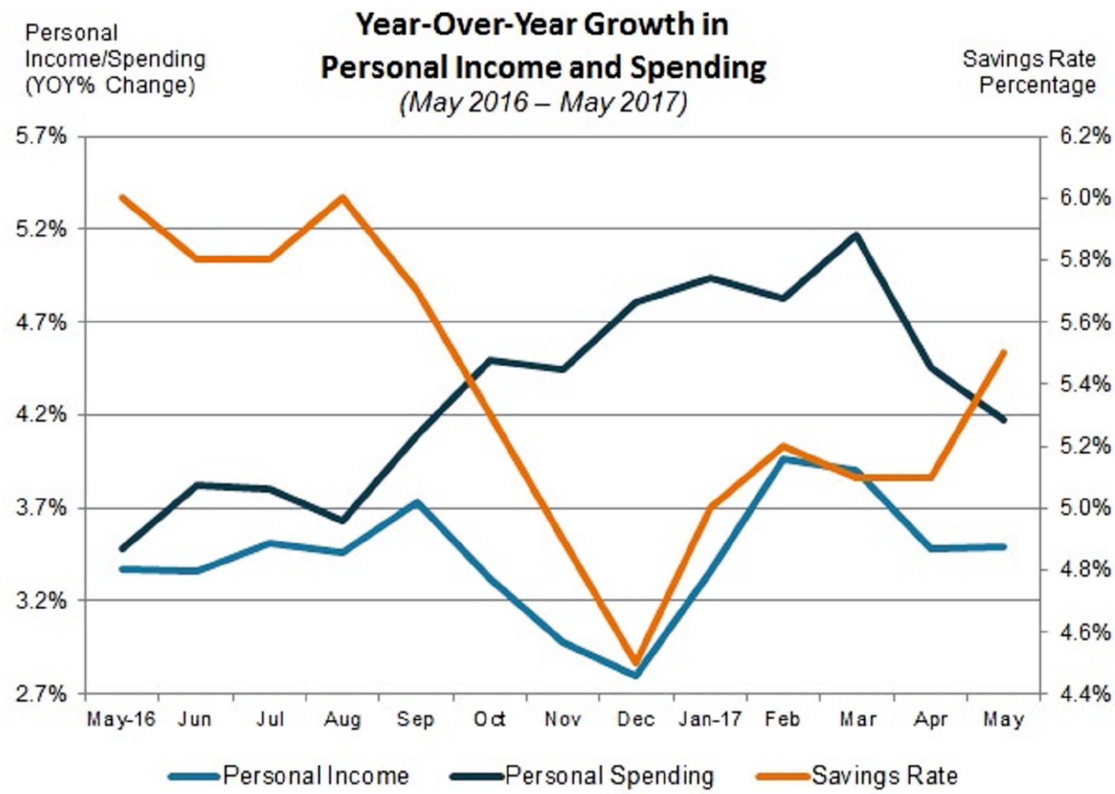

There were mixed reports on the consumer last week. Real GDP grew an annualized 1.4 percent in the first quarter in newly revised figures, with nonresidential fixed investment being one of the larger bright spots but with inventory spending serving as the largest drag on growth. Consumer spending rose 1.1 percent at the annual rate in the first quarter, improving from earlier estimates but still reflecting reduced purchases of durable goods, especially motor vehicles and parts. We would expect a strong rebound in second quarter data, likely around 3.0 percent. The U.S. economy should expand by 2.3 percent for 2017 as a whole.

Overall, we have seen personal spending pull back from more robust growth at the end of 2016, but Americans have begun to open their pocketbooks once more, albeit still cautiously. Personal consumption expenditures (PCEs) have risen 4.2 percent over the past 12 months. One year ago, the year-over-year rate was 3.5 percent, illustrating the pickup in spending since then, and yet, the current year-over-year pace is down from 5.2 percent in March and 4.5 percent in April. Mirroring those trends, the saving rate rose from 5.1 percent in April to 5.5 percent in May, with the increase in income outpacing spending growth. That was the highest saving rate since September. In addition, personal incomes have also continued to increase at a decent clip, up 3.5 percent since May 2016.

Meanwhile, there were divergent views on consumer confidence in the two surveys out last week. On the positive side, the Conference Board reported that consumers were more confident in June after their sentiment fell back a little in April and May from March's 16-year high. Respondents were more upbeat in their assessments about employment and income expectations, with more Americans saying that business conditions were "good" and fewer suggesting that conditions were "bad." At the same time, the competing survey from the University of Michigan and Thomson Reuters also indicated a favorable long-term trend but noted that consumer confidence declined in June to its lowest point since November. Sentiment reached a 13-year high in January but has pulled back since then. As noted in prior surveys, there continue to be wide disparities in opinions based on partisan affiliation in the University of Michigan data. Despite some easing in confidence since earlier in the year, the latest figures are consistent with 2.3 percent growth in personal spending in 2017.

Likewise, the manufacturing releases out last week also provided mixed news. Surveys from the Dallas and Richmond Federal Reserve Banks both reflected continued expansions in their respective districts, with business leaders remaining quite upbeat about activity over the next six months. With that said, both regions cited progress from one year ago but some easing in activity from earlier in the year. Moreover, new durable goods orders fell for the second straight month in May, but with transportation equipment excluded, these orders edged slightly higher. The difference was a large decline in defense and non-defense aircraft and parts orders, which can often be volatile from month to month. Despite the softer-than-desired data in May, new durable goods orders have trended generally in the right direction across the past 12 months, growing modestly. New durable goods have risen 2.7 percent since May 2016, but excluding transportation, the year-over-year gain was a more robust 5.5 percent.

The Richmond Federal Reserve survey regularly asks about the prices paid for raw materials, and in the June report, it noted that input prices have declined from 1.96 percent at the annual rate in April to 1.31 percent in June. This deceleration in inflationary pressures was also seen in the forward-looking figures, with raw materials expected to grow 1.66 percent at the annual rate six months from now, down from 1.81 percent in April. This trend was also seen in the latest PCE deflator data-the measure most closely watched by Federal Reserve policymakers. The PCE deflator decreased for the second time in the past three months in May, largely on reduced energy costs. Since May 2016, the PCE deflator has increased 1.4 percent, its lowest year-over-year rate since November. Similarly, excluding food and energy, core inflation was 1.4 percent. After seeing pricing pressures accelerate strongly earlier this year-with the PCE deflator peaking at 2.2 percent year-over-year in February-inflation has pulled back since then.

The Institute for Supply Management's Manufacturing Purchasing Managers' Index for June will be released this morning. The May figures continued to reflect relative strength in new orders and production, even as sentiment has pulled back from highs earlier in the year. It is hoped the June survey will build on the expansions seen since last autumn. In addition, jobs will once again be in focus this week. After disappointing employment numbers in May, manufacturers will be looking for a rebound in job growth in the latest figures. Other highlights this week include new data on construction spending and factory orders and shipments as well as international trade.

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

Share The Monday Economic Report with your social network:

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

This Week's Indicators:

Monday, June 26
Chicago Fed National Activity Index
Dallas Fed Manufacturing Survey
Durable Goods Orders and Shipments

Tuesday, June 27
Conference Board Consumer Confidence
Richmond Fed Manufacturing Survey

Wednesday, June 28
International Trade in Goods (Preliminary)

Thursday, June 29
Gross Domestic Product (Second Revision)

Friday, June 30
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)

Monday, July 3
Construction Spending
ISM Manufacturing Purchasing Managers' Index

Tuesday, July 4
INDEPENDENCE DAY HOLIDAY

Wednesday, July 5
Factory Orders and Shipments

Thursday, July 6
ADP National Employment Report
International Trade Report

Friday, July 7
BLS National Employment 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 pulled back again in May, continuing the seesaw volatility in this measure from month to month so far this year. The National Activity Index (NAI) decreased from 0.57 in April-its highest reading since March 2014-to -0.26 in May, a one-year low. Index readings below zero suggest the economy is growing below its historical trend, with positive readings indicating the opposite. As such, the May data suggest that overall economic conditions were weaker than desired, with a number of key subcomponents decelerating in the latest data. With that said, the three-month moving average was barely positive, down from 0.21 in April to 0.04 in May, which would indicate growth just slightly above the historical trend.

For its part, production-related indicators subtracted 0.16 from the NAI in May, down sharply after adding 0.53 to the headline index in April. This reflects the shift from a 1.1 percent increase in manufacturing production in April to a decline of 0.4 percent in May. Employment-related indicators also provided a slight drag on the NAI, subtracting 0.02, with soft nonfarm payroll and manufacturing hiring for the month. Meanwhile, personal consumption and housing reduced the NAI by 0.09 on weak retail sales and residential starts and permits figures.

Conference Board Consumer Confidence

The Conference Board reported that consumers were more confident in June after their sentiment fell back a little in April and May from March's 16-year high (124.9). The Consumer Confidence

Index increased from 117.6 in May to 118.9 in June. To illustrate the jump in sentiment, the headline index has averaged 118.1 in the first half of 2017, up from 95.4 and 104.3 in the first and second halves of 2016, respectively. In this report, the improvement in perceptions stemmed from a better assessment of current conditions (up from 140.6 to 146.3), but the measure for future conditions slipped for the third straight month (down from 102.3 to 100.6). Overall, more consumers said business conditions were "good," up from 29.8 percent to 30.8 percent, with fewer citing "bad" conditions, down from 13.9 percent to 12.7 percent.

In addition, the percentage of respondents feeling jobs were "plentiful" rose from 30.0 percent to 32.8 percent, with those saying jobs were "hard to get" edging down from 18.3 percent to 18.0 percent. Those were the best readings since 2001. Meanwhile, income expectations were mixed, but more favorable than not. The percentage expecting an improvement in their incomes rose from 19.1 percent to 22.2 percent; however, the percentage feeling their incomes would fall in the coming months also accelerated, up from 8.7 percent to 9.2 percent.

Dallas Fed Manufacturing Survey

The Dallas Federal Reserve Bank reported that manufacturing activity accelerated in June for the ninth straight month, but the pace of growth slowed a little. The composite index of general business activity decreased from 17.2 in May to 15.0 in June. Overall, the data reflect some progress in the Texas economy, with the headline index jumping from an average of 4.0 in the second half of 2016 to 18.8 in the first half of 2017. The sample comments reflect improvements relative to this time last year, but they also show activity has weakened more recently-although still positive. Respondents once again noted difficulties in identifying qualified workers, especially as the labor market has tightened.

Many of the key measures in June continued to reflect growth but with some easing from May, including new orders (down from 18.1 to 9.6), production (down from 23.3 to 12.3), capacity utilization (down from 19.4 to 12.3), shipments (down from 24.7 to 8.5) and hours worked (down from 15.7 to 8.9). Encouragingly, this latest release also suggests that manufacturers in the district continue to invest in their businesses, with faster growth in hiring (up from 8.3 to 9.6) and capital expenditures (up from 11.1 to 12.7).

Moving forward, manufacturing leaders remained very positive about the next six months. The forward-looking measure rose from 31.6 in May to 31.9 in June. Over the past eight months, sentiment about future activity has averaged 35.5-a sharp contrast to its -0.7 reading one year ago. Expected growth is seen as remaining quite promising. More than 57 percent of respondents felt that new orders would rise over the next six months, and 40.9 percent and 29.9 percent anticipate more hiring and capital spending, respectively.

Durable Goods Orders and Shipments

The Census Bureau reported that growth in new durable goods orders fell for the second straight month in May, down 1.1 percent. New orders decreased from $230.7 billion in April to $228.2 billion in May. Much of the decline in May stemmed from a drop in defense and nondefense aircraft and parts, down 30.8 percent and 11.7 percent, respectively, which can often be quite volatile from month to month. Excluding transportation, new orders for durable goods edged up 0.1 percent from $152.6 billion to $152.8 billion. Despite the weaker overall data in this release, new durable goods orders have trended generally in the right direction across the past 12 months, growing modestly. New durable goods have risen 2.7 percent since May 2016, but excluding transportation, the year-over-year gain was a more robust 5.5 percent.

Looking more closely at the various durable goods sectors, the data were mixed. Sales increased for motor vehicles and parts (up 1.2 percent), electrical equipment, appliances and components (up 1.0 percent), machinery (up 0.6 percent) and primary metals (up 0.3 percent). In contrast, sales decreased for computers and electronic products (down 0.2 percent), fabricated metal products (down 0.2 percent) and other durable goods (down 0.2 percent). The bottom line is that new orders for core capital goods (or nondefense capital goods excluding aircraft) fell 0.2 percent in May. 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 5.0 percent, up from $59.9 billion in May 2016 to $62.9 billion in this release.

Meanwhile, durable goods shipments rose 0.8 percent in May. Much like the new orders data described above, the long-term picture continues to trend higher. Since May 2016, durable goods shipments have risen at a decent rate, up 4.0 percent, with year-over-year growth of 4.9 percent when excluding transportation equipment shipments. In addition, shipments of core capital goods have also improved over the past 12 months, up 2.8 percent year-over-year.

Gross Domestic Product (Second Revision)

The Bureau of Economic Analysis reported that the U.S. economy grew an annualized 1.4 percent in the first quarter in newly revised figures, up from 1.2 percent in its prior estimate. The increase stemmed largely from better consumer spending and export data in this revision. Personal consumption expenditures rose 1.1 percent at the annual rate in the first quarter, which was an improvement from the prior estimate of 0.6 percent but still weaker than desired. Durable goods spending declined 1.6 percent in this report, pulled lower by a sharp decrease in motor vehicles and parts. Nonetheless, consumer spending added 0.75 percentage points to headline GDP growth, up from 0.44 percent in the estimate released last month.

At the same time, goods exports increased 10.5 percent at the annual rate, an improvement from the 8.4 percent gain in the prior report. In addition, the decline in goods imports shifted from 4.5 percent to 4.4 percent in this release. As a result, the contribution to GDP growth from net exports rose from 0.13 percent in the earlier estimate to 0.23 percent. After a large drag on growth in the fourth quarter of 2016 from net exports, this was a sign that international activity had stabilized somewhat in the early months of 2017.

Meanwhile, business spending pulled back slightly, even as that category remained a bright spot in the first quarter data. Nonresidential fixed investment slipped from an annualized 11.4 percent gain in the prior report to a still healthy 10.4 percent increase in this release. It added 1.23 percentage points to top-line real GDP growth, boosted by strong jumps in spending on equipment and structures. The increase in nonresidential investment in structures, for instance, was the best in three years. Moreover, residential investment also saw healthy gains in the first quarter, increasing an annualized 13.0 percent and adding 0.48 percent to GDP growth.

In contrast to those measures, reduced spending on inventories subtracted 1.11 percentage points from real GDP-its largest drag. The silver lining is that better spending on inventories in the second quarter should help to propel a rebound in growth. Finally, government spending subtracted 0.16 percentage points from headline growth, ending two quarters of positive contributions, with reduced spending at all levels.

Overall, 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 2.3 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.

International Trade in Goods (Preliminary)

The Census Bureau released advance statistics on the international trade in goods. Specifically, the goods trade deficit narrowed from $67.14 billion in April to $65.90 billion in May in preliminary data. The lower figure stemmed from a slight pickup in goods exports (up from $126.63 billion to $127.10 billion) that corresponded with reduced goods imports (down from $193.77 billion to $193.00 billion). Final data will be released on July 6. Note that a surplus in service-sector activity, which was $20.77 billion in April, also assisted the U.S. trade deficit.

In May, the boost to goods exports came largely from increases in consumer goods (up $948 million) and automotive vehicles (up $608 million). In contrast, goods exports decreased for foods, feeds and beverages (down $794 million), capital goods (down $166 million) and industrial supplies (down $144 million). Meanwhile, goods imports for consumer goods (down $1.53 billion) and automotive vehicles (down $704 million) dropped sharply for the month.

Personal Income and Spending

The Bureau of Economic Analysis reported that personal spending edged higher in May, up 0.1 percent, after 0.4 percent gains in both March and April. In May, personal consumption expenditures (PCEs) were lower on reduced goods purchases, down 0.5 percent, but service-sector spending increased slightly, up 0.3 percent. 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. PCEs have risen 4.2 percent over the past 12 months. One year ago, the year-over-year rate was 3.5 percent, illustrating the pickup in spending since then, and yet, the current year-over-year pace is down from 5.2 percent in March and 4.5 percent in April.

Mirroring those trends, the saving rate rose from 5.1 percent in April to 5.5 percent in May, with the increase in income outpacing spending growth. That was the highest saving rate since September. Still, the saving rate has fallen from 6.0 percent one year ago, a sign that Americans have accelerated their purchases in general over the past 12 months.

Meanwhile, personal incomes rose 0.4 percent in May, an improvement from the 0.3 percent gain in April. On a year-over-year basis, personal incomes have continued to increase at a decent clip, up 3.5 percent since May 2016. Nonetheless, manufacturing wages and salaries declined from $841.4 billion in April to $837.0 billion in May. There has been a steady upward trend in manufacturing compensation in general, with wages and salaries in the sector rising 1.5 percent over the past six months (or 3.1 percent at the annual rate over that time frame), up from $824.5 billion in November.

In other news, the PCE deflator decreased 0.1 percent in May, down for the second time in the past three months. Reduced energy costs contributed to the decline in this release, with food prices unchanged. Since May 2016, the PCE deflator has increased 1.4 percent, its lowest year-over-year rate since November. Similarly, excluding food and energy, core inflation was 1.4 percent. After seeing pricing pressures accelerate strongly earlier this year-with the PCE deflator peaking at 2.2 percent year-over-year in February-inflation has pulled back since then.

Richmond Fed Manufacturing Survey

The Richmond Federal Reserve Bank reported that manufacturing activity in its district picked up somewhat in June, bouncing back from May's more sluggish expansion. The composite index of general business activity rose from 1 in May to 7 in June. While the sector has grown for eight straight months in the region, activity has eased from March's seven-year high (22). Manufacturers in the mid-Atlantic area felt more optimistic about new orders (up from 0 to 6), shipments (up from -2 to 11) and capacity utilization (up from -9 to 1). Hiring has expanded in every month so far in 2017 (down from 6 to 5), albeit at a slower pace than in February and March. Despite those mostly positive trends, the backlog of orders (up from -15 to -4) and the average workweek (down from -3 to -5) remained in contraction territory in June.

Looking ahead six months, manufacturing respondents were quite optimistic in their outlook. The key variables all suggested healthy gains in the months ahead for new orders (up from 35 to 41), shipments (down from 39 to 38), capacity utilization (up from 29 to 32), employment (up from 20 to 31), the average workweek (up from 8 to 16) and capital expenditures (down from 34 to 26). Encouragingly, the hiring figure saw the highest reading in the survey's history. This would suggest that manufacturers are more enthusiastic about investing in their firms for the future.

Meanwhile, manufacturers in the district said that prices paid for raw materials edged down from 1.96 percent at the annual rate in April, to 1.37 percent in May, to 1.31 percent in June. Yet, moving forward, respondents anticipate pricing pressures to accelerate somewhat. Raw material prices are expected to grow 1.66 percent at the annual rate six months from now, down from 1.81 percent in April but up from 1.41 percent in May.

University of Michigan Consumer Sentiment (Revision)

The University of Michigan and Thomson Reuters reported that consumer confidence declined in June to its lowest point since November. The Index of Consumer Sentiment declined from 97.1 in May to 95.1 in June. While this was somewhat better than the estimate of 94.5 two weeks ago, it reflects some increased anxieties since peaking at 98.5 in January. As noted in prior surveys, there continue to be wide disparities in opinions based on partisan affiliation. The Surveys of Consumers Chief Economist Richard Curtin noted, "The average level of the Sentiment Index during the first half of 2017 was 96.8, the best half-year average since the second half of 2000, and the partisan gap between Democrats and Republicans stood at 39 index points in June, nearly identical to the 38-point gap in February."

In the June data, consumers were more optimistic about the current economic environment (up from 111.7 to 112.5) but less upbeat about future conditions (down from 87.7 to 83.9). Despite some easing in confidence since earlier in the year, the latest figures are consistent with 2.3 percent growth in personal spending in 2017.

Questions or comments?

Contact Chief Economist Chad Moutray at cmoutray@nam.org

NATIONAL ASSOCIATION OF Manufacturers