



The manufacturing sector [added](#) 16,000 net new workers in July, extending the gain of 12,000 workers in June and reflecting growth in seven of the past eight months. Over that eight-month span (since November), manufacturers have averaged 12,500 new jobs per month—definite improvement from the loss of 16,000 workers on net in 2016. In July, there were 12,425,000 manufacturing workers. At the same time, average weekly earnings for manufacturing workers have risen 2.8 percent over the past 12 months. At the same time, the U.S. economy increased nonfarm payroll employment by 209,000 in July, exceeding 200,000 for the third time in the past four months. The unemployment rate fell from 4.4 percent in June to 4.3 percent in July, returning to the pace in May, which was a 10-year low. Such strong labor market growth should further cement the Federal Reserve's normalization plans, including raising short-term rates and reducing the size of its balance sheet, perhaps doing both at its upcoming meeting in September.

The good news is that the outlook for business remained encouraging. The Institute for Supply Management (ISM) reported that manufacturing activity continued to expand strongly in July, even as it pulled back from nearly a three-year high in June. The [ISM Manufacturing Purchasing Managers' Index](#) decreased from 57.8 in June—its strongest reading since August 2014—to 56.3 in July. Despite some easing in many of the key measures in this survey, the underlying data reflect healthy expansions in demand and output, with manufacturers mostly upbeat in their outlook. In a similar way, the Dallas Federal Reserve Bank [reported](#) that

manufacturing activity remained strong in July. Many of the key measures strengthened in July, including new orders, production and hiring, among others, and more importantly, manufacturing leaders in Texas remained very upbeat about the next six months. Likewise, other regional surveys also have reported expanding levels of activity in July.

Meanwhile, other measures on the health of the manufacturing sector were mixed. On the positive side, the [U.S. trade deficit](#) narrowed to its lowest level since October, and U.S.-manufactured goods exports have continued to trend in the right direction through the first half of this year. Using non-seasonally adjusted data, U.S.-manufactured goods exports have risen 3.86 percent year to date relative to the same time frame last year. This is welcome news after weaknesses across the past two years. In addition, [new factory orders](#) rose 3.0 percent in June to its highest level since October 2014. Yet, the bulk of that increase stemmed from a jump in nondefense aircraft and parts orders, likely centering around the International Paris Air Show. As a result, durable goods orders leapt 6.4 percent for the month but edged up just 0.1 percent with transportation equipment excluded. With that said, new manufactured goods orders have soared over the past 12 months, up 9.8 percent since June 2016. Excluding transportation, the gains were a still healthy 6.9 percent year-over-year.

In contrast to those figures, private [manufacturing construction spending](#) continued to be weak, slipping further in June. The value of construction put in place in the sector declined 1.9 percent in June to \$67.70 billion, its lowest level since September 2014. To further illustrate the recent deceleration in activity, construction spending in the sector averaged \$69.92 billion in the first half of 2017, down from the average of \$75.97 billion in the same time frame in 2016. While manufacturing construction has trended mostly higher over the past few years, activity has moved lower since achieving the all-time high of \$82.13 billion in May 2015. Nonetheless, we would continue to expect a turnaround in construction activity in the coming months, especially considering the improved outlook of late. Overall, private nonresidential construction spending edged up 0.1 percent in June, with 1.1 percent growth year-over-year.

Meanwhile, [personal spending](#) inched up 0.1 percent in June, slowing from 0.2 percent growth in May. Personal consumption expenditures (PCEs) declined for both durable and nondurable goods, but service-sector spending increased. We have seen spending pull back from more robust growth at the end of last year. Even with some easing, however, consumer purchases continue to expand at a decent clip, with personal spending up 3.8 percent year-over-year. This can be also seen in the saving rate data, which dropped to 3.8 percent in June. One year ago, the saving rate was 5.1 percent. This is a sign that Americans have accelerated their purchases in general over the past 12 months. In other news from that same report, personal incomes were flat in June, off from a 0.3 percent gain in May. Over the past 12 months, personal incomes have risen by a modest 2.6 percent in June, down from 3.4 percent in February and March.

This week, we will get new data on consumer and producer prices. I would expect to see a similar trend to what we observed in the [PCE deflator](#), which was unchanged in June. 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. Since June 2016, the PCE deflator has increased 1.4 percent, its lowest year-over-year rate since November. Similarly, excluding food and energy, core inflation increased 0.1 percent in June, or 1.5 percent year-over-year. Other highlights this week include the latest figures for consumer credit, job openings, labor productivity and small business optimism.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, July 31

Dallas Fed Manufacturing Survey

Tuesday, August 1

Construction Spending
ISM Manufacturing Purchasing Managers' Index
Personal Income and Spending

Wednesday, August 2

ADP National Employment Report

Thursday, August 3

Factory Orders and Shipments

Friday, August 4

BLS National Employment Report
International Trade Report

This Week's Indicators:

Monday, August 7

Consumer Credit

Tuesday, August 8

Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, August 9

Productivity and Costs

Thursday, August 10

Producer Price Index

Friday, August 11

Consumer Price Index

Summaries for Last Week's Economic Indicators

ADP National Employment Report

ADP reported that [manufacturing employment](#) fell by 4,000 in July, declining for the first time since November. Overall, the sector has added 98,000 net new workers year to date. Despite the weaker data in this report, manufacturers have noted better employment growth this year compared to last, with employers accelerating their hiring in light of stronger activity and sentiment. In contrast, hiring in 2016 was flat for the year overall. With that in mind, we are hopeful that the trend of stronger job growth returns in the coming months.

Meanwhile, total private employment increased by 178,000 in July, pulling back somewhat from the 191,000 workers added in June but mostly in line with consensus expectations. Nonfarm private payrolls have risen by 217,458 per month on average, notably higher than the 179,327 workers added each month in the second half of 2016. As such, the labor market has strengthened year to date, which is promising. The largest employment growth in July included professional and business services (up 65,000), education and health services (up 43,000), trade, transportation and utilities (up 24,000), leisure and hospitality (up 15,000) and financial activities (up 13,000). Small and medium-sized businesses (i.e., those with fewer than 500 employees) accounted for nearly three-quarters of

all net new workers in July.

BLS National Employment Report

The Bureau of Labor Statistics reported that manufacturers [added](#) 16,000 net new workers in July, extending the gain of 12,000 workers in June. (June was estimated originally to be a gain of just 1,000 workers, and the May data were also revised from a decline of 2,000 to 0.) The July increase in manufacturing was the fastest since February, and the sector has now increased employment in seven of the past eight months. Over that eight-month span (since November), manufacturers have averaged 12,500 new jobs per month-definite improvement from the loss of 16,000 workers on net in 2016. In July, there were 12,425,000 manufacturing workers. At the same time, average weekly earnings for manufacturing workers rose from \$1,086.30 in June to \$1,092.03 in July, up 2.8 percent over the past 12 months from \$1,062.02.

Durable and nondurable goods firms added 13,000 and 3,000 workers, respectively, for the month. Fabricated metal products (up 5,000), transportation equipment (up 3,800, including 1,600 from motor vehicles and parts), machinery (up 2,100), electrical equipment and appliances (up 1,400) and computer and electronic products (up 1,300) had the largest increases in employment in July, among others. In contrast, employment fell for furniture and related products (down 1,600), food manufacturing (down 1,000), apparel (down 600) and textile mills (down 300).

Meanwhile, the U.S. economy increased nonfarm payroll employment by 209,000 in July, easing from an increase of 231,000 in June but exceeding 200,000 for the third time in the past four months. The unemployment rate fell from 4.4 percent in June to 4.3 percent in July, returning to the pace in May, which was a 10-year low. Such strong labor market growth should further cement the Federal Reserve's normalization plans, including raising short-term rates and reducing the size of its balance sheet, perhaps doing both at its upcoming meeting in September.

Construction Spending

The Census Bureau reported that private [manufacturing construction spending](#) slipped further in June, down 1.9 percent. The value of construction put in place in the sector declined from \$68.98 billion in May to \$67.70 billion in June, its lowest level since September 2014. To further illustrate the recent deceleration in activity, construction spending in the sector averaged \$69.92 billion in the first half of 2017, down from the average of \$75.97 billion in the same time frame in 2016. While manufacturing construction has trended mostly higher over the past few years, activity has moved lower since achieving the all-time high of \$82.13 billion in May 2015. Nonetheless, we would continue to expect a turnaround in construction activity in the coming months, especially considering the improved outlook of late.

Overall, private nonresidential construction spending edged up 0.1 percent in June, with 1.1 percent growth year-over-year. The sector-by-sector breakdowns were mixed. The office (up 2.9 percent), communication (up 2.6 percent) and health care (up 0.8 percent) segments grew the fastest in June. In contrast, the largest declines-outside of manufacturing-included religious (down 1.7 percent), transportation (down 1.3 percent), power (down 0.8 percent) and commercial (down 0.4 percent).

Meanwhile, private residential construction spending decreased 0.2 percent in June, but with a healthy 9.2 percent year-over-year gain. For the month, single-family construction rose 0.3 percent; however, multifamily activity decreased 2.9 percent. Since June 2016, single-family and multifamily construction spending grew 9.0 percent and 0.6 percent, respectively. In addition to those components, public construction spending dropped 5.4 percent in June, with a 9.5 percent decrease year-over-year.

Dallas Fed Manufacturing Survey

The Dallas Federal Reserve Bank [reported](#) that manufacturing activity remained strong in July. The composite index of general business activity increased from 15.0 in June to 16.8 in July, expanding for the 10th straight month. 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 18.5 through the first seven months of 2017. Despite the optimism in the headline number, the sample comments provided mixed assessments of the current economic climate, with two respondents suggesting their activity was "good, not great." Another referred to it as the "summertime blues." Yet, the majority remained mostly positive in their outlook even as they grapple with challenges ranging from foreign competition to difficulties in identifying qualified workers.

Many of the key measures strengthened in July, including new orders (up from 9.6 to 16.1), production (up from 12.3 to 22.8), capacity utilization (up from 12.3 to 18.1), shipments (up from 8.5 to 11.6), employment (up from 9.6 to 11.2) and hours worked (up from 8.9 to 9.8). The percentage of respondents suggesting that new orders had decreased in the month fell from 22.9 percent in June to 16.4 percent in July-the difference-maker for that measure. Similarly, those indicating production increased for the month rose from 28.8 percent in June to 37.3 percent in July. Nonetheless, capital spending eased a little in July (down from 12.7 to 11.6), even as it remained encouraging.

Moving forward, manufacturing leaders remained very positive about the next six months. The forward-looking measure edged down slightly from 31.9 in June to 31.6 in July but has averaged a rather robust 35.1 since November. Expected growth remains quite promising. More than half of those completing the survey felt new orders would rise over the next six months, and 41.1 percent and 33.6 percent anticipate more hiring and capital spending, respectively.

Factory Orders and Shipments

The Census Bureau reported that [new factory orders](#) rose 3.0 percent in June, up from \$467.1 billion to \$481.1 billion, rebounding from 0.3 percent declines in both April and May. This was the highest level since October 2014. Nonetheless, the bulk of that increase stemmed from a jump in nondefense aircraft and parts orders, up from \$11.0 billion to \$25.3 billion, likely centering around the International Paris Air Show. As a result, durable goods orders leapt 6.4 percent for the month but edged up just 0.1 percent with transportation equipment excluded. At the same time, nondurable goods orders fell 0.3 percent in June, declining for the second straight month. Overall, new factory orders, which have struggled mightily over the past few years, have trended largely in the right direction more recently, up 9.8 percent since June 2016. Excluding transportation, the gains were a still healthy 6.9 percent year-over-year.

Looking specifically at durable goods activity in June, the data were mixed but mostly higher. Demand strengthened for furniture and related products (up 1.9 percent), machinery (up 0.4 percent), primary metals (up 0.2 percent), fabricated metal products (up 0.1 percent) and motor vehicles and parts (up 0.1 percent). In contrast, orders decreased for electrical equipment and appliances (down 2.1 percent) and computers and electronic products (down 0.2 percent). Core capital goods-or nondefense capital goods excluding aircraft-were essentially unchanged in June but with a gain of 5.7 percent over the past 12 months.

Meanwhile, manufactured goods shipments fell 0.2 percent in June, pulling back from the 0.3 percent gain in May. Nondurable goods shipments declined 0.3 percent for the month, with shipments of durable goods products flat. On a year-over-year basis, factory shipments have risen 4.1 percent since June 2016, or 4.5 percent with transportation excluded.

International Trade Report

The Bureau of Economic Analysis and the Census Bureau reported that the [U.S. trade deficit](#) declined from \$46.39 billion in May to \$43.64 billion in June, its lowest level since October. In June, the reduced trade deficit was largely the result of an increase in goods exports (up from \$127.26 billion to \$129.01 billion) to a two-year high, with goods imports slipping a little (down from \$194.65 billion to \$194.25 billion). Meanwhile, the service-sector surplus also rose to its highest point since June 2015, up from \$21.00 billion in May to \$21.60 billion in June.

The underlying goods exports data were mostly higher. Exports increased for non-automotive capital goods (up \$826 million), foods, feeds and beverages (up \$664 million), automotive vehicles and parts (up \$386 million) and industrial supplies and materials (up \$192 million), with reduced exports for consumer goods (down \$325 million). In contrast, higher goods imports for automotive vehicles (up \$1.01 billion), non-automotive capital goods (up \$84 million) and foods, feeds and beverages (up \$72 million) were offset by declines for industrial supplies and materials (down \$1.06 billion) and consumer goods (down \$719 million).

For manufacturers, exports have trended in the right direction through the first half of this year—a welcome development after weaker data across the past two years. Using non-seasonally adjusted data, U.S.-manufactured goods exports totaled \$541.15 billion year to date in June, up 3.86 percent from \$521.04 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 \$134.57 billion to \$139.86 billion), Mexico (up from \$113.09 billion to \$118.79 billion), China (up from \$51.23 billion to \$59.24 billion), Japan (up from \$30.10 billion to \$32.77 billion) and Germany (up from \$24.40 billion to \$26.12 billion). The lone exception was our fifth-largest trading partner, the United Kingdom (down from \$27.50 billion to \$27.40 billion), with marginally softer exports to that nation this year versus last.

ISM Manufacturing Purchasing Managers' Index

The Institute for Supply Management (ISM) reported that manufacturing activity continued to expand strongly in July, even as it pulled back from nearly a three-year high in June. The [ISM Manufacturing Purchasing Managers' Index](#) decreased from 57.8 in June—its strongest reading since August 2014—to 56.3 in July. Despite some easing in many of the key measures in this survey, the underlying data reflect healthy expansions in demand and output, with manufacturers mostly upbeat in their outlook. The sample comments tend to echo these sentiments, noting strong sales, exports and profits. In addition, better growth in the sector has exacerbated workforce challenges, with one respondent suggesting, "Labor shortages are pretty universal, leading to longer lead times through the supply chain."

As noted, many of the underlying indices decelerated somewhat in July, including new orders (down from 63.5 to 60.4), production (down from 62.4 to 60.6), employment (down from 57.2 to 55.2) and exports (down from 59.5 to 57.5). The index for new orders has now exceeded 60, which would indicate more robust growth, in six of the past eight months, and it has reflected expansions in activity for 11 straight months.

Prices for raw materials accelerated in July at its fastest pace since April (up from 55.0 to 62.0). While we have seen decelerating pricing pressures over much of the spring, this pickup reflects a rebound in some commodity costs. Meanwhile, inventories stabilized in July (up from 49.0 to 50.0) after contracting briefly in June. Nonetheless, even with some expansions in April and May, stockpiles remain quite low. This should necessitate healthy gains in production moving forward to meet additional demand.

Personal Income and Spending

The Bureau of Economic Analysis reported that [personal spending](#) inched up 0.1 percent in June, slowing from 0.2 percent growth in May. Personal consumption expenditures (PCEs) declined for both durable and nondurable goods, but service-sector spending increased. We have seen spending pull back from more robust growth at the end of last year. To illustrate this shift, personal spending rose 2.9 percent at the annual rate in the first half of 2017, easing from the annualized 4.8 percent rate in the second half of 2016. On a year-over-year basis, personal spending has risen 3.8 percent.

Even with some easing, however, consumer purchases continue to expand at a decent clip. This can be seen in the saving rate data, which dropped to 3.8 percent in June. One year ago, the saving rate was 5.1 percent. This is a sign that Americans have accelerated their purchases in general over the past 12 months.

Meanwhile, personal incomes were flat in June, off from a 0.3 percent gain in May. Over the past 12 months, personal incomes have risen by a modest 2.6 percent in June, down from 3.4 percent in February and March. In addition, manufacturing wages and salaries edged up from \$826.1 billion in May to \$827.2 billion in June.

In other news, the PCE deflator was also flat in June. Reduced food and energy costs contributed to the decline in this release. 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. Since June 2016, the PCE deflator has increased 1.4 percent, its lowest year-over-year rate since November. Similarly, excluding food and energy, core inflation increased 0.1 percent in June, or 1.5 percent year-over-year.

Questions or comments?

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