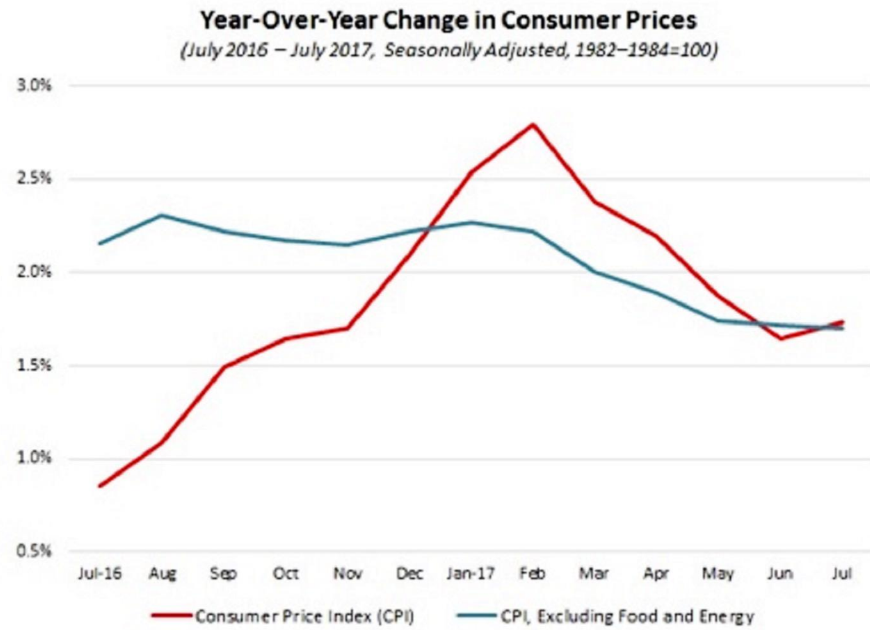

As the Federal Reserve continues to move toward normalization of its monetary policy, it will need to weigh the relative strength in the labor market with cooling inflationary pressures in recent data. The Federal Open Market Committee (FOMC) will meet September 19-20, and it is widely expected to start the process of gradually reducing the size of its balance sheet, which has ballooned to $4.5 trillion since the financial crisis. Less clear, however, is when FOMC participants might opt to raise short-term interest rates again for the third time this year. On the one hand, the employment data reflect improvements in the overall economy, with 209,000 net new workers added in July and the unemployment rate at 4.3 percent. In addition, nonfarm business job openings recorded a new all-time high in June, exceeding 6 million for the first time. The figures for manufacturing have also been encouraging, with the sector adding 16,000 workers in July and with job openings and hiring in the sector also moving in the right direction.

With better economic and labor market data, the Federal Reserve would seem poised to increase the federal funds rate at its September meeting. This had been the consensus as recently as a few months ago. Yet, the pressure to act next month has been lessened, some analysts suggest, because prices have decelerated since the spring. The consumer price index increased 1.7 percent year-over-year in July, inching up from 1.6 percent in June. Pricing pressures had accelerated over much of the past year, increasing from 0.9 percent year-over-year in July 2016 to 2.8 percent year-over-year in February. However, inflation has eased since then. Similar trends exist for producer prices, including at the core level, which excludes food and energy prices. As a result, nearly three-quarters of economists now predict that the FOMC might wait until December to raise rates, according to the latest survey from *The Wall Street Journal.* With that said, I believe action in September remains possible, especially if incoming data between now and then are healthy.

For their part, small business owners were more upbeat in July. The National Federation of Independent Business reported that the Small Business Optimism Index rebounded, up from 103.6 in June to 105.2 in July. The previous reading had been a post-election low-albeit one that still represented a highly positive outlook-and the new one was the highest since February. Overall confidence remained not far from January's assessment (105.9), which was a 12-year high. To illustrate the boost in optimism across the past 12 months, the headline index stood at 94.6 one year ago. Along those lines, the percentage of respondents suggesting that the next three months would be a "good time to expand" increased from 21 percent to 23 percent. In July 2016, just 8 percent said the same thing.

Meanwhile, manufacturing labor productivity grew modestly in the second quarter, up 2.5 percent, rebounding from the 0.3 percent gain in the first quarter. It was the third straight quarterly increase in productivity in the sector, improving from two consecutive declines in mid-2016. This report represents some progress in terms of overall manufacturing productivity, but the longer-term trend remains a concern. Labor productivity in the sector has been essentially stagnant since the Great Recession, and in 2016, it averaged just 0.2 percent. Through the first half of 2017, the annual rate was 1.4 percent. Still, that is well below the 5.2 percent pace for manufacturing output per worker from 2002 to 2008. In general, manufacturers have benefited from being leaner, but the recent sluggishness in productivity and output growth has meant that unit labor costs have risen 9.0 percent since the end of 2011.

This week, there will be a number of economic releases that discuss the status of the manufacturing sector. On Wednesday, July industrial production data are released, which reflected a bounce-back in activity in June but have been highly volatile over the past four months. Manufacturing production rose 0.2 percent in July, with growth of 1.2 percent year-over-year. Overall, manufacturers have made significant progress after global headwinds hit the sector hard in both 2015 and 2016, and continued progress in demand and output growth in the sector should be expected moving forward. The New York and Philadelphia Federal Reserve Bank surveys for August will also be released this week, both of which slowed in July data even as respondents remained optimistic about the next six months. Other highlights this week include the latest data on consumer sentiment, housing starts and permits, leading indicators, retail sales and state employment.

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Chief Economist
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P.S.: *If you have not already done so, please take a moment to complete the latest NAM Manufacturers' Outlook Survey**.** This 20-question survey will help us to gauge how manufacturing sentiment has changed since June's survey. The survey includes special questions on enacting comprehensive business tax reform and the benefits of trade. To complete the survey, click here. Responses are due by Tuesday, August 29, at 5:00 p.m. EDT. As always, all responses are anonymous.*

Editor's Note:*I am excited to announce that there will be excellent guest authors of the Monday Economic Report over the next two weeks: Carolyn Evans (senior data scientist, Intel Corporation) on August 21 and Candice Ensinger (corporate economist, Parker Hannifin Corporation) on August 28. This will give us an opportunity to gain insights from well-respected economists with on-the-ground expertise in the sector.*

Share The Monday Economic Report with your social network:

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

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

This Week's Indicators:

Monday, August 14
None

Tuesday, August 15
NAHB Housing Market Index
New York Fed Manufacturing Survey
Retail Sales

Wednesday, August 16
FOMC Minutes (July 25-26 Meeting)
Housing Starts and Permits

Friday, August 11
Consumer Price Index

Thursday, August 17
Conference Board Leading Indicators
Industrial Production
Philadelphia Fed Manufacturing Survey

Friday, August 18
State Employment Report
University of Michigan Consumer Sentiment

Summaries for Last Week's Economic Indicators

Consumer Credit

The Federal Reserve Board reported that U.S. consumer credit outstanding rose 3.9 percent at the annual rate in June, slowing from the 5.7 percent gain in May. Total consumer credit was $3.856 trillion in June, with $1.022 trillion in revolving credit and $2.834 trillion in non-revolving credit. Across the past 12 months, consumer credit has increased 5.7 percent, with revolving and non-revolving credit up 5.5 percent and 5.8 percent year-over-year, respectively.

Revolving credit, which includes credit cards and credit lines, rose an annualized 4.9 percent in June, decelerating after jumping 8.2 percent in May. This suggests Americans were more cautious in their willingness to take on credit card debt in June, but the data have been highly volatile across the past few months. The longer-term trend remains favorable. Meanwhile, nonrevolving credit, which includes auto and student loans, rose 3.5 percent in June, easing slightly from 4.9 percent growth in May. On a year-over-year basis, motor vehicle loans have risen 5.5 percent, but that pace slowed to 3.7 percent at the annual rate in the first half of 2017. This mirrors softer growth in auto sales overall.

Consumer Price Index

The Bureau of Labor Statistics reported that consumer prices edged up 0.1 percent in July, ticking slightly higher after being unchanged in June. Food prices rose 0.2 percent for the month, but that was offset partially by a 0.1 percent decline in energy costs. Since July 2016, food and energy costs have increased 1.1 percent and 3.4 percent, respectively.

Overall, the consumer price index increased 1.7 percent year-over-year in July, inching up from 1.6 percent in June. Pricing pressures had accelerated over much of the past year, increasing from 0.9 percent year-over-year in July 2016 to 2.8 percent year-over-year in February. However, inflation has cooled since then.

Similarly, core consumer prices, which exclude food and energy costs, have increased 0.1 percent in each of the past four months. Excluding food and energy costs, consumer prices have also risen 1.7 percent over the past 12 months, pulling back from its recent peak of 2.3 percent in January. As such, overall pricing pressures remain modest and mostly under control for now. The recent deceleration trend in pricing pressures should give the Federal Reserve some breathing room on monetary policy.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics reported that manufacturing job openings bounced back from 350,000 in May-its slowest pace so far this year-to 388,000 in June. That was the best number since March's reading of 404,000, which was a 16-year high. In June, both durable (up from 201,000 to 214,000) and nondurable (up from 149,000 to 174,000) goods firms had more job postings. Openings in the sector have averaged 372,000 year to date in 2017, an improvement from the average of 342,000 for all of 2016. 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 remained soft but positive. Manufacturers hired 322,000 workers in June, down slightly from 329,000 in May. Hiring has trended upward over the past 12 months, with the sector adding 280,000 workers in June 2016. In the latest figures, durable goods firms increased hiring, up from 183,000 to 188,000, its highest level since January 2008. Yet, hiring fell from 146,000 to 135,000 for nondurable goods businesses in June. Meanwhile, total separations-including layoffs, quits and retirements-also ticked lower, down from 325,000 to 321,000. As a result, net hiring (or hires minus separations) increased by 1,000 in June, slowing from a gain of 4,000 in May.

Turning to the larger economy, nonfarm payroll businesses recorded a new all-time high for job openings, up from 5,702,000 in May to 6,163,000 in June. It was the first time in the survey's 17-year history that job openings have exceeded 6 million, with increased postings in every major industry except for the information sector. Nonetheless, net hiring in the nonfarm sector eased from 214,000 in May to 132,000 in June.

NFIB Small Business Survey

The National Federation of Independent Business reported that the Small Business Optimism Indexrebounded, up from 103.6 in June to 105.2 in July. The previous reading had been a post-election low-albeit one that still represented a highly positive outlook-and the new one was the highest since February. Overall confidence remained not far from January's assessment (105.9), which was a 12-year high. To illustrate the boost in optimism across the past 12 months, the headline index stood at 94.6 one year ago. Along those lines, the percentage of respondents suggesting that the next three months would be a "good time to expand" increased from 21 percent to 23 percent. In July 2016, just 8 percent said the same thing.

The percentage expecting sales to increase over the next three months also ticked higher in July, up from 17 percent to 22 percent. While this was lower than the 31 percent seen in December, which was the highest level since October 2005, it continued to be a strong reading. One year ago, it was 1 percent. Likewise, the net percentage planning to add workers in the next three months increased from 15 percent to 19 percent, its strongest reading since December 1999. Similarly, 52 percent said there were few or no qualified applicants for job openings, up from 46 percent in the prior release.

With that said, investment data have been a little softer since the spring. The percentage of respondents who made a capital expenditure over the past six months fell from 62 percent in May to 57 percent in both June and July. That was still a healthy figure, but off from March's 64 percent response, which was the highest reading since December 2013. Likewise, the percentage planning to make a capital expenditure in the next three to six months edged down from 30 percent in June to 28 percent in July. While slightly lower, that pace was consistent with the year-to-date average and up from 25 percent one year ago.

Respondents cited taxes as the "single most important problem" (21 percent), highlighting the need for comprehensive business tax reform. The quality of labor (19 percent) and government regulations and red tape (16 percent) also topped the list.

Producer Price Index

The Bureau of Labor Statistics reported that producer prices for final demand goods and services inched down 0.1 percent in July, offsetting the 0.1 percent gain in June. For manufacturers, producer prices for final demand goods fell 0.1 percent in July after rising 0.2 percent in June. Energy prices pulled back for the third straight month, down 0.3 percent, with food prices flat. On a year-over-year basis, final demand food and energy costs have risen 1.9 percent and 4.3 percent, respectively. Excluding food and energy, producer prices for final demand goods also declined 0.1 percent.

Overall, producer prices for final demand goods and services have increased 2.0 percent since July 2016, remaining steady with June's rate but decelerating from April's 2.5 percent year-over-year reading, which was the fastest pace since February 2012. Nonetheless, raw material costs have accelerated across the past 12 months, as the year-over-year rate was 0 percent one year ago. In a similar way, core producer prices, which exclude food, energy and trade services, have grown 1.9 percent year-over-year, slowing from 2.1 percent in the prior release but up from 1.0 percent in July 2016.

Productivity and Costs

The Bureau of Labor Statistics reported that manufacturing labor productivity grew modestly in the second quarter, up 2.5 percent, rebounding from the 0.3 percent gain in the first quarter. It was the third straight quarterly increase in productivity in the sector, improving from two consecutive declines in mid-2016. In this release, manufacturing output rose 1.6 percent, slowing somewhat from the first quarter's 2.4 percent increase. The increase in productivity stemmed from a 0.9 percent decrease in hours worked, and as a result, unit labor costs edged down 0.3 percent in the second quarter.

There were large sectoral differences in the data, with labor productivity for durable goods firms jumping 3.8 percent in the second quarter and bouncing back from a 0.9 percent decline in the first quarter. Durable goods output increased 0.9 percent in the second quarter, with unit labor costs down 0.8 percent. In contrast, labor productivity for nondurable goods manufacturers slipped 0.1 percent in the second quarter, off from a 2.6 percent gain in the first quarter. Nondurable goods output rose 2.3 percent in the latest data, its best quarterly increase in just more than four years, but this was offset by more hours worked. Unit labor costs for nondurable goods businesses increased 1.2 percent.

This report represents some progress in terms of overall manufacturing productivity, but the longer-term trend remains a concern. Labor productivity in the sector has been essentially stagnant since the Great Recession, down 0.05 percent, and in 2016, it averaged just 0.2 percent. Through the first half of 2017, the annual rate was 1.4 percent. Still, that is well below the 5.2 percent pace for manufacturing output per worker from 2002 to 2008. In general, manufacturers have benefited from being leaner, but the recent sluggishness in productivity and output growth has meant that unit labor costs have risen 9.0 percent since the end of 2011.

In the larger economy, nonfarm labor productivity increased 0.9 percent in the second quarter, an improvement after eking out a 0.1 percent gain in the first quarter. Nonfarm output rose 3.4 percent in the second quarter, its fastest rate in more than two years, with hours worked and unit labor costs up 2.5 percent and 0.6 percent, respectively. 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 was up only 0.2 percent in 2016, with an annualized 0.5 percent increase through the first half of 2017. This compares to 2.7 percent growth from 2000 to 2007.

Questions or comments?

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