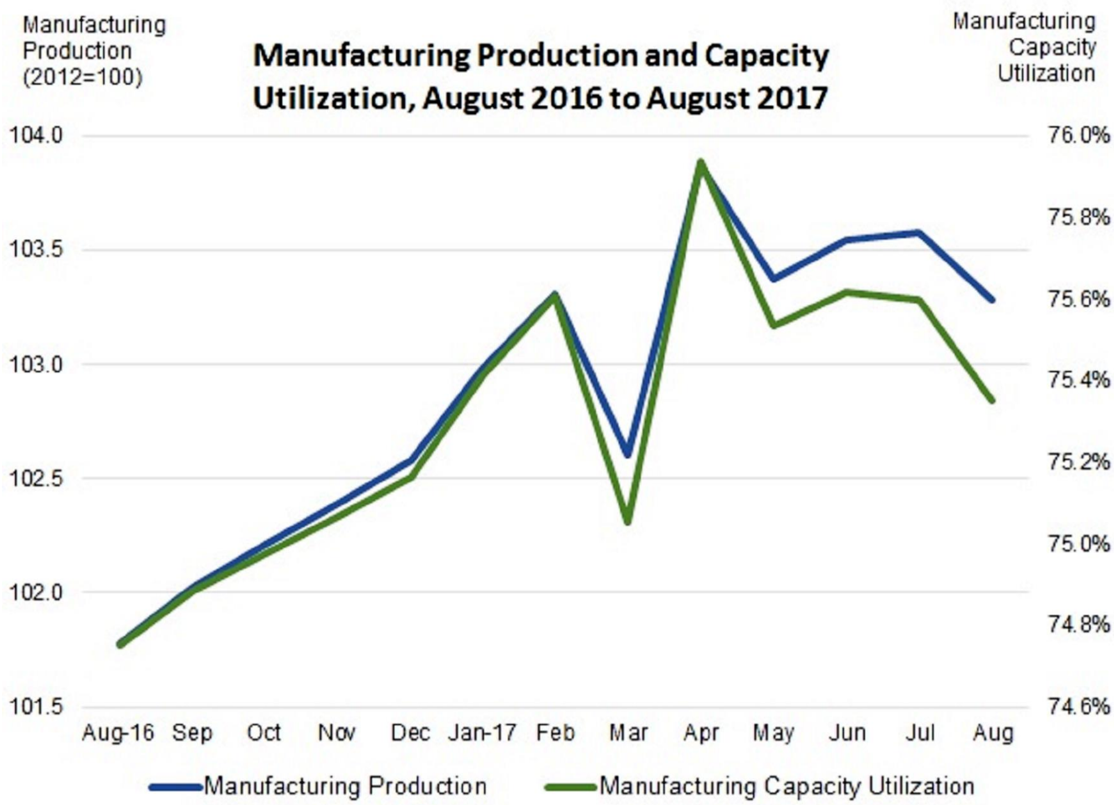

We are already starting to see the impacts from Hurricanes Harvey and Irma in the economic data. For our sector, manufacturing production fell 0.3 percent in August, and the Federal Reserve estimates reduced output by 0.75 percent in August. Beyond weather, we have seen a lot of volatility in manufacturing production since the spring-essentially seesawing from month to month since March. Yet, even with that weakness, the longer-term trend for output among manufacturers has been encouraging. Over the course of the past 12 months, manufacturing production has risen 1.5 percent. In the larger economy, total industrial production fell by 0.9 percent in August, its first decline since January. All three subcomponents of industrial production were lower for the month. In addition to manufacturing, mining (down 0.8 percent) and utilities activity (down 5.5 percent) were also sharply reduced. Industrial production has also increased by 1.5 percent year-over-year.

Consumers have also reacted to the devastating storms in Florida and Texas, with many participants in the latest University of Michigan and Thomson Reuters survey citing the hurricanes in their responses. As a result, the Index of Consumer Sentiment declined from 96.8 in August to 95.3 in September, with Americans less positive in their perceptions about future conditions. Interestingly, their views of the current economy rose to their highest level since 2000, and overall, the headline index continues to reflect a more enthusiastic assessment of economic conditions, especially relative to the views seen last year.

For the most part, American consumers have been more willing to open their pocketbooks this year than last, with spending helping to prop up the U.S. economy. Nonetheless, there has been a bit more caution on the part of the consumer in the past few months than we might have expected, and in the most recent data, Hurricane Harvey also likely played a role. Retail spending was down 0.2 percent in August. Sales have risen 3.2 percent over the past 12 months, but the year-over-year rate has drifted lower since peaking at 5.6 percent in January. Excluding motor vehicles, retail sales increased 3.6 percent year-over-year in August, up from 2.4 percent in June but down from 5.4 percent in January.

There were a number of signs of reassurance about the economy. The Empire State Manufacturing Survey continued to reflect strong growth in the sector in September. The composite index of general business conditions remained highly elevated despite easing from 25.2 in August, its highest level in nearly three years, to 24.4 in September, with faster expansions for new orders, shipments and employment. Manufacturers in the New York Federal Reserve Bank's district remained upbeat about the next six months. More than 55 percent of those completing the survey predict better new orders over the next 6 months, with 26.0 percent and 32.5 percent anticipating increased hiring and capital spending, respectively. Technology spending also picked up. In a similar manner, the National Federation of Independent Business (NFIB) said that the Small Business Optimism Index edged up from 105.2 in July to 105.3 in August, its highest level since February.

Meanwhile, the Bureau of Labor Statistics said total manufacturing hires in July was the highest since December 2007, the first official month of the Great Recession. The sector hired 341,000 workers in July, up from 324,000 in June. At the same time, total separations-including layoffs, quits and retirements-also increased, up from 315,000 to 321,000. The level of separations was the highest since June 2009, which coincidently was the last official month of the recession. As a result, net hiring (or hires minus separations) was 20,000 in July, up from 9,000 in June, its strongest monthly pace since December 2014. Job openings in the manufacturing sector remained highly elevated at 390,000 in July, but postings for nonfarm payroll businesses reached a new all-time high at 6,170,000. It was only the second time in the survey's 17-year history that job openings have exceeded 6 million. That should bode well for additional hiring moving forward nationally.

The highlight this week will be the Federal Reserve. Inflationary pressures have decelerated since the spring months, even with higher energy costs pushing up consumer and producer prices in August. Therefore, the Federal Open Market Committee is not expected to raise short-term interest rates at its September 19-20 meeting, with a hike now more likely at its December 12-13 meeting, but participants will likely vote to start the process of normalizing its balance sheet. Other highlights for the week include new data on housing starts and permits, leading indicators and manufacturing surveys from the IHS Markit and the Philadelphia Federal Reserve Bank.

Chad Moutray, Ph.D., CBE
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P.S.: *I invite you and your colleagues to join us for our* ***Executive Forum on the Industrial Internet of Things at District Hall in Boston, MA on November 1 from 8:30 am to 2:00 pm****. The event will focus on innovation and technology and feature a keynote address from* ***Harvard Business Professor Michael Porter and PTC President and CEO Jim Heppelmann*** *on their highly anticipated Harvard Business Review article on why organizations need an augmented reality strategy. There will be numerous presentations from manufacturing experts on how they have leveraged the internet of things to transform their companies, a live tech demonstration and opportunities to network with industry leaders. Click HERE to learn more.*

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, September 11
None

Tuesday, September 12
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, September 13
Producer Price Index

Thursday, September 14
Consumer Price Index

Friday, September 15
Industrial Production
New York Fed Manufacturing Survey
Retail Sales
State Employment Report
University of Michigan Consumer Sentiment

This Week's Indicators:

Monday, September 18
NAHB Housing Market Index

Tuesday, September 19
Housing Starts and Permits

Wednesday, September 20
Existing Home Sales
FOMC Monetary Policy Statement

Thursday, September 21
Conference Board Leading Indicators
Philadelphia Fed Manufacturing Survey

Friday, September 22
IHS Markit Flash Manufacturing PMIs for U.S. and Eurozone

Summaries for Last Week`s Economic Indicators

Consumer Price Index

The Bureau of Labor Statistics said that consumer prices rose by 0.4 percent in August, the fastest monthly rate since January. The uptick stemmed largely from higher energy costs, which increased by 2.8 percent in August, ending 3 months of declines, with gasoline prices up 6.3 percent. (It is important to note that this run-up in energy prices pre-dates Hurricanes Harvey or Irma and their effects on the market.) At the same time, food prices edged up 0.1 percent, mostly from food purchased away from home. Since August 2016, food and energy costs have increased 1.1 percent and 6.4 percent, respectively.

Overall, the consumer price index (CPI) increased 1.9 percent year-over-year in August, up from 1.7 percent in July. Pricing pressures had accelerated over much of the past year, increasing from 1.1 percent year-over-year in August 2016 to 2.8 percent year-over-year in February. However, inflation has cooled since then, even with the recent increases in energy costs noted above.

Similarly, core consumer prices, which exclude food and energy costs, increased by 0.2 percent in August, a 6-month high. Excluding food and energy costs, consumer prices have 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.

Industrial Production

The Federal Reserve said that manufacturing production fell 0.3 percent in August, pulling back from being flat in July and declining for the first time since May. We have seen a lot of volatility in the output data for the manufacturing sector since the spring-essentially seesawing from month to month since March. This means that production has grown less than we would have desired or expected, especially given the robust outlook seen in other data sources. In the August data, though, the main culprit was Hurricane Harvey, which the Federal Reserve estimates reduced production by 0.75 percent in August.

Yet, even with that weakness, the longer-term trend for output among manufacturers has been encouraging. Over the past 12 months, manufacturing production has risen 1.5 percent. It was the tenth consecutive positive year-over-year reading for manufacturing output and definite progress from a decline of 0.6 percent year-over-year observed in August 2016. Similarly, manufacturing capacity utilization decreased from 75.6 percent in July to 75.3 percent in August. Utilization rates have trended lower since peaking at 75.9 percent in April, but capacity continues to exceed the 74.7 percent rate seen at this time last year.

The underlying data were mixed. Durable goods production increased by 0.3 percent in August, but nondurable goods output fell by 0.9 percent for the month. The largest gains were in these sectors: motor vehicles and parts (up 2.2 percent), aerospace and miscellaneous transportation equipment (up 1.7 percent), primary metals (up 1.1 percent), paper (up 0.9 percent), computer and electronic products (up 0.8 percent) and fabricated metal products (up 0.7 percent). In contrast, apparel and leather (down 2.5 percent), electrical equipment and appliances (down 2.5 percent), chemicals (down 2.2 percent), petroleum and coal products (down 1.6 percent), machinery (down 1.4 percent) and nonmetallic mineral products (down 1.2 percent) were some of the sectors with reduced output in August.

Meanwhile, total industrial production fell by 0.9 percent in August-its first decline since January. All three subcomponents of industrial production were lower for the month. In addition to manufacturing, mining (down 0.8 percent) and utilities activity (down 5.5 percent) were also sharply reduced. Over the past 12 months, industrial production has risen 1.5 percent, down from 2.4 percent in the prior release. Nonetheless, this was still notably better than the 1.3 percent year-over-year decline seen in August 2016. Mining production rose 9.7 percent year-over-year, with utilities production off by 7.8 percent over the past 12 months. In addition, capacity utilization fell from 76.9 percent in July-its best reading since April 2015, to 76.1 percent in August. One year ago, the capacity rate was 75.8 percent.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics said total manufacturing hires in July was the highest since December 2007, the first official month of the Great Recession. The sector hired 341,000 workers in July, up from 324,000 in June. Both durable (up from 190,000 to 196,000) and nondurable (up from 134,000 to 145,000) goods firms added employees in July, with the level of durable goods hiring at a nine-and-a-half-year high. At the same time, total separations-including layoffs, quits and retirements-also increased, up from 315,000 to 321,000. The level of separations was the highest since June 2009, which coincidently was the last official month of the recession. As a result, net hiring (or hires minus separations) was 20,000 in July, up from 9,000 in June, its strongest monthly pace since December 2014.

Meanwhile, manufacturing job openings pulled back from June's 16-and-a-half-year high of 419,000 to 390,000 in July. The July level was still the second-highest reading of the past 12 months, reflecting an upward trend in overall postings for the sector. Openings in the sector have averaged 379,000 year-to-date in 2017, an improvement from the average of 341,750 seen for all of 2016. Nonetheless, job openings were lower for both durable (down from 232,000 to 211,000) and nondurable (down from 187,000 to 179,000) goods businesses in July. 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.

Turning to the larger economy, non-farm payroll businesses recorded a new all-time high for job openings, up from 6,116,000 in June to 6,170,000 in July. It was only the second time in the survey's 17-year history that job openings have exceeded 6 million. In the latest data, the largest monthly increases in postings were in the construction, information, leisure and hospitality, mining and logging and retail trade segments. Moreover, net hiring in the non-farm sector increased from 123,000 in June to 169,000 in July, with the total non-farm hires up to 5,501,000 in July, its highest level since March 2001.

New York Fed Manufacturing Survey

The Empire State Manufacturing Survey continued to reflect strong growth in the sector in September. The composite index of general business conditions remained highly elevated despite easing from 25.2 in August, its highest level in nearly 3 years, to 24.4 in September. Encouragingly, there were faster paces of expansions in September for new orders (up from 20.6 to 24.9), shipments (up from 12.4 to 16.2) and employment (up from 6.2 to 10.6). The shift for new orders stemmed mostly from a decline in the percentage of respondents saying that their sales had declined relative to the month before, down from 21.5 percent in August to 13.7 percent in September. In this release, 38.7 percent (down from 42.0 percent) said that new orders had risen for the month. Beyond those measures, the average workweek (down from 10.9 to 5.7) increased at a softer rate in September, but pricing pressures (up from 31.0 to 35.8) accelerated.

Meanwhile, manufacturers in the New York Federal Reserve Bank's district remained upbeat about the next six months despite most of the forward-looking gauge pulling back a little in this report. The expectations composite index decreased from 45.2 to 39.3 but continued to suggest strong growth for the months ahead. More than 55 percent of those completing the survey predict better new orders over the next 6 months, with 26.0 percent and 32.5 percent anticipating increased hiring and capital spending, respectively. Technology spending (up from 9.3 to 17.1) also picked up.

NFIB Small Business Survey

The National Federation of Independent Business (NFIB) said that the Small Business Optimism Index edged up from 105.2 in July to 105.3 in August, its highest level since February. The headline index has rebounded from June's 103.6 pace, which was a post-election low-albeit one that still represented a highly positive outlook. Overall confidence remained not far from January's assessment (105.9), which was a 12-year high. To illustrate the boost in optimism seen over the past 12 months, the headline index stood at 94.4 one year ago. Along those lines, the percentage of respondents suggesting that the next 3 months would be a "good time to expand" increased from 23 percent to 27 percent. In August 2016, just 9 percent said the same thing.

The percentage expecting sales to increase over the next 3 months also ticked higher in August, up from 22 percent to 27 percent. While this was lower than the 31 percent seen in December, which was its highest level since October 2005, it continued to be a very strong reading. One year ago, it was slightly negative. Likewise, the percentage planning to make a capital expenditure in the next 3 to 6 months rose from 28 percent to 32 percent, its best reading in 11 years.

The hiring data remained encouraging despite easing a little in August. The net percentage planning to add workers in the next 3 months inched down from 19 percent, its strongest reading since December 1999, to 18 percent. Demonstrating recent tightening in the labor market, 52 percent of those completing the survey said that there were few or no qualified applicants for job openings, which was unchanged since the prior release.

The top "single most important problem" was taxes (20 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 said that producer prices for final demand goods and services rose by 0.2 percent in August, bouncing back from a decline of 0.1 percent in July. For manufacturers, producer prices for final demand goods were also up by 0.2 percent after being flat in the prior release. The gain in August stemmed largely from an acceleration in energy prices, up 3.3 percent and the first monthly increase since April. Those rises were enough to offset a 1.3 percent decrease in food prices for the month. On a year-over-year basis, final demand food and energy costs have risen 1.8 percent and 8.6 percent, respectively. Excluding food and energy, producer prices for final demand goods were also up by 0.2 percent.

Overall, producer prices for final demand goods and services have increased 2.4 percent since August 2016, up from 2.0 percent year-over-year in July. Raw material costs have accelerated over the course of the past 12 months, as the year-over-year rate was zero percent one year ago. Nonetheless, core producer prices-which exclude food, energy and trade services-appear to have stabilized of late, hovering between 1.9 percent and 2.1 percent year-over-year since April. In this data, core inflation was 2.0 percent year-over-year in August, up slightly from 1.9 percent in July. For comparison purposes, core producer prices were 1.1 percent year-over-year in August 2016.

Retail Sales

Retail spending was down 0.2 percent in August, according to the Census Bureau, and it is likely that Hurricane Harvey might have negatively impacted those figures. Weather aside, retail sales have continued to increase modestly overall, helping to provide a boost to the U.S. economy. Along those lines, Americans were more willing to open their pocketbooks this year than last, especially more than in the beginning months of 2016. Over the past 12 months, spending has risen by 3.2 percent. Still, there has been a bit more caution on the part of the American consumer in the past few months than we might have expected. The year-over-year rate has drifted lower since peaking at 5.6 percent in January, for instance. Excluding motor vehicles and parts, retail sales increased 3.6 percent year-over-year in August, up from 2.4 percent in June but down from 5.4 percent in January.

Looking at the August report, the data were mixed. Businesses with increased sales for the month included gasoline stations (up 2.5 percent), miscellaneous store retailers (up 1.4 percent), furniture and related furnishings (up 0.4 percent) and food and beverage stores (up 0.3 percent), among others. The increase in gasoline station sales likely came from higher prices. Indeed, the average price of West Texas intermediate crude oil rose from $46.63 in July to $48.04 in August. In contrast, there was reduced spending seen in the following segments: motor vehicles and parts (down 1.6 percent), non-store retailers (down 1.1

percent), clothing and accessories (down 1.0 percent), electronics and appliances (down 0.7 percent) and building materials and garden supplies (down 0.5 percent).

Since August 2016, the largest gains in retail spending were for non-store retailers (up 8.4 percent), building material and garden supply stores (up 7.5 percent), gasoline stations (up 6.4 percent), furniture and home furnishings stores (up 5.4 percent) and miscellaneous store retailers (up 5.2 percent).

State Employment Report

California created the most net new manufacturing jobs in August, according to the Bureau of Labor Statistics, adding 6,600 workers in the month. Missouri (up 5,700), Georgia (up 4,100), Michigan (up 4,100), Texas (up 2,200) and Ohio (up 1,600) also topped the list of manufacturing employment gains in June. In addition, Texas saw the greatest job gains over the past 12 months, with manufacturing employment in the state up 35,600 since August 2016. Other states with the fastest manufacturing job growth year-over-year included Florida (up 12,100), Wisconsin (up 10,200), South Carolina (up 10,100) and Michigan (up 9,700).

The national unemployment rate was 4.4 percent in August. North Dakota (2.3 percent) had the lowest unemployment rate in the country. A number of states were not far behind, including Colorado (2.4 percent), Hawaii (2.6 percent), New Hampshire (2.7 percent), Nebraska (2.8 percent), Idaho (2.9 percent) and Vermont (3.0 percent). In contrast, Alaska (7.2 percent), New Mexico (6.3 percent) and the District of Columbia (6.4 percent) had the highest unemployment rates.

University of Michigan Consumer Sentiment

The University of Michigan and Thomson Reuters reported that consumer confidence pulled back somewhat in preliminary data for September. The Index of Consumer Sentiment declined from 96.8 in August to 95.3 in September. Several of the survey participants cited Hurricanes Harvey and Irma in their responses, suggesting that the devastation from those storms had negatively impacted the psyche for those individuals.

Americans were less positive in their perceptions about future conditions (down from 87.7 to 83.4); however, their views of the current economy rose to their highest level since 2000 (up from 110.9 to 113.9). In fact, the headline index continues to reflect a more enthusiastic assessment of economic conditions. It has averaged 96.3 year-to-date in 2017, up from 91.8 for 2016 as a whole.

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