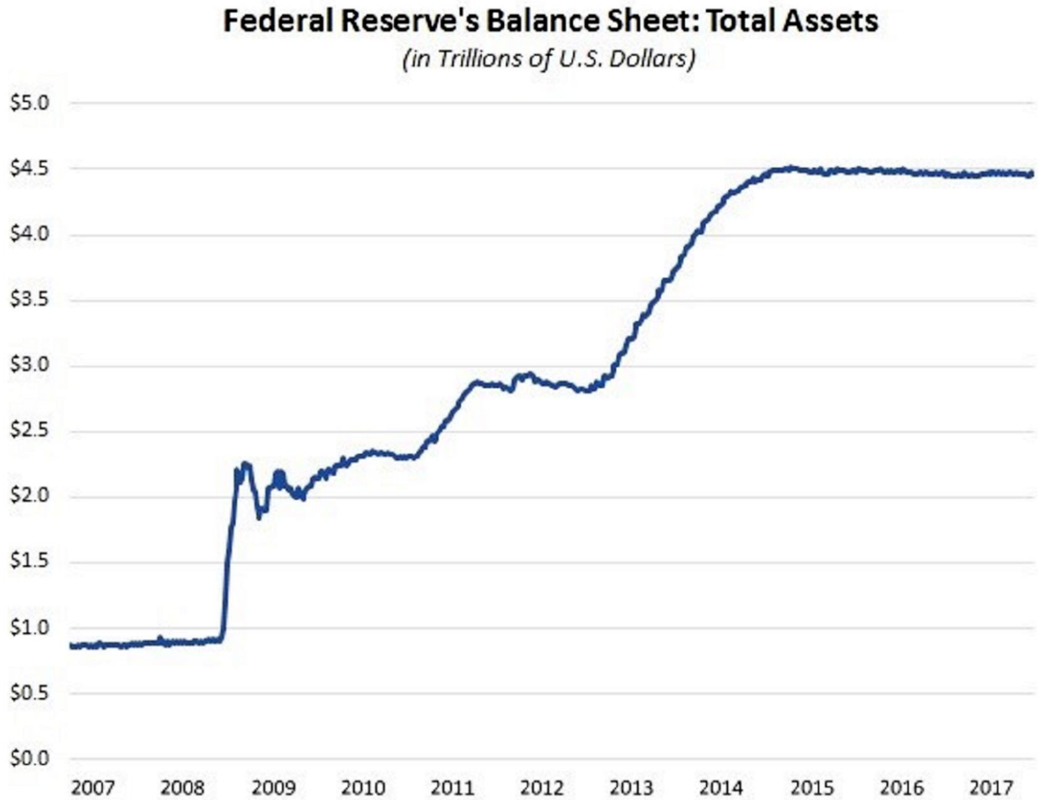

As expected, the Federal Reserve opted to not raise short-term interest rates at its September 19-20 meeting, with a hike now more likely at its December 12-13 meeting, reflecting the recent deceleration in pricing pressures. Federal Open Market Committee (FOMC) participants did vote to start the process of normalizing its balance sheet as outlined in its June 13-14 meeting. Total assets at the Federal Reserve ballooned to $4.5 trillion in the aftermath of the financial crisis, and beginning in October, it will stop reinvesting $10 billion per month in government and mortgage-backed securities. That will eventually grow to $50 billion per month. As such, the balance sheet will start to decline gradually over the next few years, even as it is expected to be highly elevated. For comparison purposes, the balance sheet never exceeded $1 trillion before the financial crisis.

The FOMC did suggest that "the labor market has continued to strengthen" and that "economic activity has been rising moderately so far this year," even as it cited "severe hardship" from Hurricanes Harvey, Irma and Maria. Beyond policy actions, participants also outlined their economic projections for the next few years, which can always be enlightening and a window into what they might be thinking. On the positive side, the Federal Reserve now sees real GDP growth of 2.4 percent in 2017, up from a forecast of 2.2 percent three months ago, and it estimates that the unemployment rate will decline to 4.3 percent. Participants also see modest pricing pressures, with core inflation at 1.5 percent this year. One of the notable shifts occurred in the long-term view of possible rate increases. Participants now estimate one more rate hike in 2017, three federal funds rate increases in 2018 and two in 2019, whereas the prior releases had three in both 2018 and 2019. However, a lot can happen between now and then.

Meanwhile, the manufacturing data continue to be encouraging, especially in Europe. The IHS Markit Flash Eurozone Manufacturing PMI rose in September to a level not seen since February 2011. Likewise, the data for France and Germany also rose to 77-month highs in the latest survey. In the Eurozone report, there were healthy gains in both output (up from 58.3 to 59.5) and employment (up from 55.5 to 56.8). Closer to home, the IHS Markit Flash U.S. Manufacturing PMI edged up from 52.8 to 53.0, growing modestly in September. Nonetheless, the underlying data were mixed. Output, exports and employment all increased, with the hiring pace growing at its fastest pace since June 2015. Both reports suggested robust growth in output over the next six months, and we saw similarly promising manufacturing activity figures in the latest Philadelphia Federal Reserve Bank survey.

Beyond manufacturing, one of the other highlights last week was housing, which showed mixed results. On the one hand, new residential construction edged down from 1,190,000 units at the annual rate in July to 1,180,000 units in August. It is possible Hurricane Harvey negatively impacted the data, much as seen in the homebuilder confidence numbers. With that said, starts have risen 1.4 percent over the past 12 months. Much of the weakness-and month-to-month volatility-in the data have come from the multifamily segment. In contrast, single-family starts rose from 838,000 to 851,000, and on a year-over-year basis, single-family starts have jumped 17.1 percent, up from 727,000 units in August 2016. As such, the data are perhaps more encouraging than the headline number might suggest. Indeed, housing permits rose to 1,300,000 in August, its best reading since January.

There will be a number of releases this week that focus on the current health of the manufacturing sector. Manufacturers will be looking for a rebound in August durable goods orders after July's decline, which was largely a function of swings in the nondefense aircraft segment. There will be new regional surveys showing manufacturing sentiment in the Dallas, Kansas City and Richmond Federal Reserve Bank districts. The Texas survey-and perhaps other indicators as well-will likely show some effects from Hurricane Harvey. In addition, there will be a new revision for second-quarter real GDP growth, with updates for consumer confidence, the international trade in goods, personal spending and income and new home sales.

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, September 18 NAHB Housing Market Index	**Monday, September 25** Dallas Fed Manufacturing Survey
Tuesday, September 19	**Tuesday, September 26**

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

Conference Board Consumer Confidence
New Home Sales
Richmond Fed Manufacturing Survey

Wednesday, September 27
Durable Goods Orders and Shipments

Thursday, September 28
Gross Domestic Product (Second Revision)
International Trade in Goods (Preliminary)
Kansas City Fed Manufacturing Survey

Friday, September 29
Personal Spending and Income
University of Michigan Consumer Sentiment (Revision)

Summaries for Last Week`s Economic Indicators

Conference Board Leading Indicators

The Conference Board's Leading Economic Index (LEI) increased 0.4 percent in August, extending the strong 0.6 percent and 0.3 percent gains in June and July, respectively. Over the past six months, the LEI rose 2.3 percent, signaling modest growth in the months ahead. Manufacturing new orders added 0.11 percentage points to headline growth, continuing to show healthy growth in demand for the sector. Other positive contributions in August came from building permits, consumer confidence, stock prices, the interest rate spread and overall lending conditions. In contrast, there was a slight drag on the LEI in August from average weekly unemployment claims, but that could reflect some weaknesses due to Hurricane Harvey more than anything else.

Meanwhile, the Coincident Economic Index (CEI), which assesses current conditions, remained unchanged in August. The slower CEI mainly came from reduced industrial production in August, which fell 0.9 percent for the month, largely on a notable drag from Hurricane Harvey. Each of the other components of the CEI-nonfarm payrolls, personal income and manufacturing and trade sales-contributed positively to the index for the month.

Existing Home Sales

The National Association of Realtors (NAR) reported that existing home sales fell 1.7 percent, down from 5.44 million units at the annual rate in July to 5.35 million units in August. After peaking at 5.70 million units in February, existing home sales activity has drifted lower since then. NAR Chief Economist Lawrence Yun explained the decline, saying, "What's ailing the housing market and continues to weigh on overall sales is the inadequate levels of available inventory and the upward pressure it's putting on prices in several parts of the country. Sales have been unable to break out because there are simply not enough homes for sale." On a year-over-year basis, existing home sales changed little since August 2016, up just 0.2 percent from 5.34 million units.

In the latest release, sales grew stronger in the Midwest and Northeast, with softer data in the South and West. In addition, single-family sales decreased 2.1 percent (down from 4.84 million to 4.74 million), whereas co-op and condominium sales rose 1.7 percent (up from 600,000 to 610,000). There were 4.2 months of supply on the market in August, up from 3.5 months in January but down from 4.5 months one year ago. The median sales price in August was $253,500, up 5.6 percent over the past 12 months from $240,000 in August 2016.

Housing Starts and Permits

The Census Bureau and the Department of Housing and Urban Development reported that new housing starts declined 0.8 percent in August. New residential construction edged down from 1,190,000 units at the annual rate in July to 1,180,000 units in August. It is possible Hurricane Harvey negatively impacted the data, much as seen in the homebuilder confidence numbers below. Outside of weather effects, housing starts have been softer than desired year to date, drifting lower since peaking at 1,288,000 units in February. With that said, starts have risen 1.4 percent over the past 12 months, up 1.4 percent since August 2016.

Much of the weakness-and month-to-month volatility-in the data have come from the multifamily segment. Indeed, multifamily housing starts fell from 352,000 units in July to 329,000 units in August, the slowest pace since November. Moreover, housing permits were 437,000 one year ago, representing a steep decline of 24.7 percent over the past 12 months. (To be fair, the data have large swings from report to report, which impact the year-over-year figures.) In contrast, single-family starts rose from 838,000 to 851,000. While single-family activity in August was lower than in February's post-recession high of 877,000 units, it has trended higher overall. In fact, single-family starts have jumped 17.1 percent year-over-year, up from 727,000 units in August 2016. As such, the data are perhaps more encouraging than the headline number might suggest.

Along those lines, housing permits increased from an annualized 1,230,000 units in July to 1,300,000 units in August. It was the best reading since January, and the good news was permits have now exceeded 1.2 million units in 11 of the past 12 months. Permits are a proxy of future activity, so the data suggest strong growth moving forward. Nonetheless, the underlying data were mixed in August, with single-family permitting down from 812,000 to 800,000 but multifamily activity up to a 10-month high from 418,000 to 500,000. Overall, new residential construction permits have increased 8.3 percent since August 2016, up from 1,200,000 units last year. Single-family and multifamily residential permits have risen 7.7 percent and 9.4 percent year-over-year, respectively.

IHS Markit Flash Manufacturing PMIs for the United States and Eurozone

The IHS Markit Flash Eurozone Manufacturing PMI continued to reflect strong expansions on the continent, with sentiment in the sector at a six-and-a-half-year high in September. The headline index rose from 57.4 in August to 58.2 in September, a level not seen since February 2011. Likewise, the data for France (up from 55.8 to 56.0) and Germany (up from 59.3 to 60.6) also rose to 77-month highs in the latest survey. Healthy gains in both output (up from 58.3 to 59.5) and employment (up from 55.5 to 56.8) helped to buoy the overall PMI value for the Eurozone, with decent growth also seen in new orders (unchanged at 58.3) and exports (down from 58.5 to 57.1), even with the latter easing slightly for the month. In addition, manufacturers in the Eurozone remained very optimistic about future output (up from 65.9 to 67.2), suggesting anticipated robust increases in production over the next six months.

Meanwhile, the IHS Markit Flash U.S. Manufacturing PMI edged up from 52.8 to 53.0, growing modestly in September. Nonetheless, the underlying data were mixed. Output (up from 52.2 to 52.4), exports (up from 49.7 to 50.3) and employment (up from 52.9 to 54.3) all increased, with the hiring pace growing at its fastest rate since June 2015. At the same time, new orders (down from 53.1 to 52.5) decelerated a little in September, and the index for future output (down from 67.8 to 66.6) declined slightly, while continuing to indicate healthy increases moving forward. At the same time, input prices (up from 54.7 to 59.6) jumped at their briskest rate since December 2013.

NAHB Housing Market Index

The National Association of Home Builders and Wells Fargo reported that the Housing Market Index (HMI) slipped a little in its latest report, down from 67 in August to 64 in September. The decline in sentiment likely stemmed from concerns about damage from Hurricanes Harvey and Irma. This is true even though rebuilding from those devastating storms should lead to increased building activity in the coming months. Moreover, even with some easing, the HMI reflects a mostly positive assessment of the housing market, with index readings greater than 50 indicating favorable conditions in the overall outlook for the sector. The headline index has now exceeded 60 for 13 straight months, averaging 66.2 over that time frame.

In September, homebuilders were slightly more upbeat in their perceptions about activity in the Northeast and West, but confidence edged down in both the Midwest and South. Nonetheless, the index for future single-family sales remained highly elevated, even while dropping from 77 to 73 in this release, suggesting that builders are still optimistic about sales over the next six months.

Philadelphia Fed Manufacturing Survey

The Philadelphia Federal Reserve Bank reported that manufacturing activity in its district continued to expand strongly, with its headline index rising to a three-month high. The composite index of general business conditions increased from 18.9 in August to 23.8 in September. This included stronger growth for new orders (up from 20.4 to 29.5), shipments (up from 29.4 to 37.8) and unfilled orders (up from 14.5 to 17.0). Indeed, the percentage of survey respondents saying their orders had risen for the month increased from 39.2 percent in August to 44.8 percent in September, with those citing reduced sales down from 18.7 percent to 15.3 percent. At the same time, employment (down from 10.1 to 6.6) and the average workweek (down from 18.8 to 11.9) slowed somewhat for the month, even as both continued to expand modestly.

Looking ahead six months, manufacturers in the Philadelphia Federal Reserve region remain very upbeat regarding future activity, with the expectations composite measure jumping from 42.3 to 55.2 in this report. The increased optimism flows through to anticipated healthy gains in new orders (up from 49.1 to 56.9), shipments (up from 44.1 to 55.8) and the average workweek (up from 15.3 to 18.1). Hiring (down from 33.1 to 30.1) and capital expenditures (down from 39.2 to 39.0) also continue to be seen as strong growth drivers moving forward despite some easing in the latest survey.

Contact Chief Economist Chad Moutray at cmoutray@nam.org

To update your subscription profile, click here.

FAMA/FEMSA, FAMA P.O. Box 3065, Ocala, FL 34478,
FEMSA P.O. Box 147, Lynnfield, MA 01940