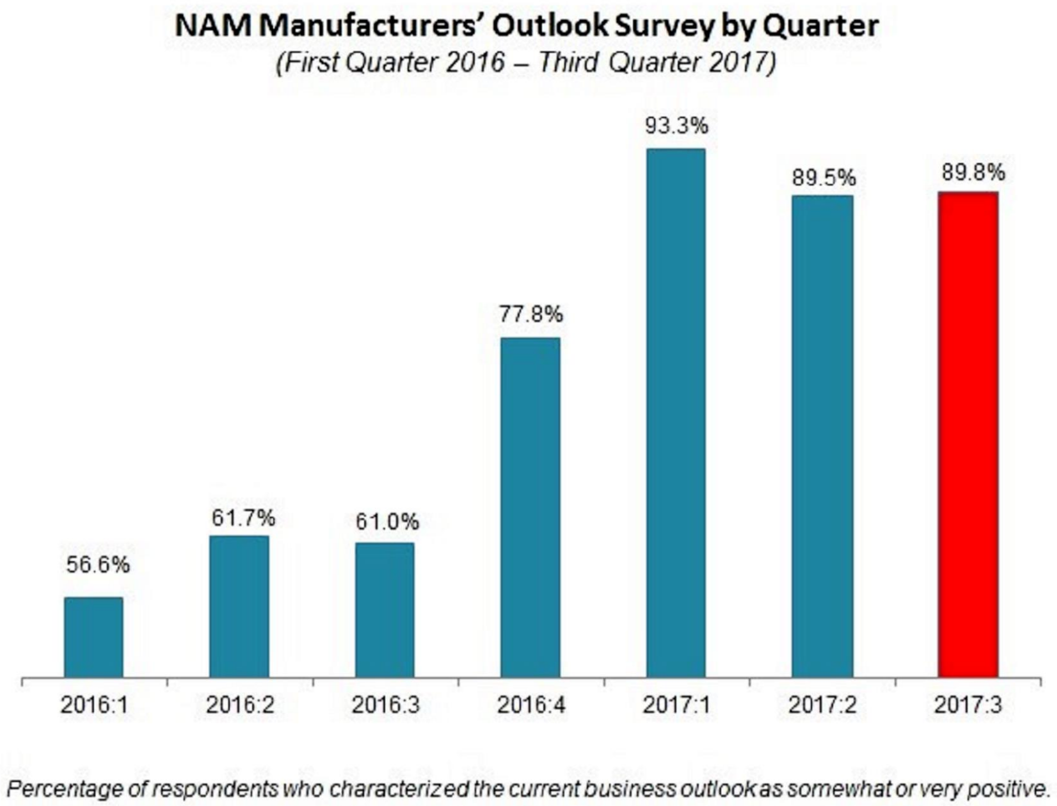

In the latest [NAM Manufacturers' Outlook Survey](), the historically high levels of optimism that manufacturers in the United States expressed during the first two quarters of 2017 continued unabated through the third quarter. In March, 93.3 percent of respondents felt positive about their own company's outlook, an all-time high in the survey's 20-year history. That dropped slightly in the second quarter to 89.5 percent, then rose a bit again in the third quarter to 89.8 percent. As a result, this year we have seen the highest consecutive three-quarter average-90.9 percent having a positive outlook for their company-in the survey's history.

As a sign that improvements in the global economy have had a positive impact (especially when combined with a weaker U.S. dollar), export expectations rose once again in the latest data. Respondents predict 1.3 percent growth in exports on average over the next 12 months, up from 1.1 percent in the prior survey and the highest rate in three years. Other data were also encouraging, including sales and production growth that are expected to increase 4.5 percent over the next year. Hiring and capital spending plans were also promising, albeit with both pulling back from multiyear highs in the previous release. Full-time employment in manufacturing is predicted to grow by an average of 2.2 percent over the next 12 months, whereas capital spending was seen rising 2.7 percent over that time frame.

There were also encouraging signs about activity in reports from the Dallas, Kansas Cityand RichmondFederal Reserve Banks. In each case, manufacturing respondents were the most upbeat that we have seen them since the beginning of the year. Perhaps more importantly, they also remained very positive about the next six months in all three regions. Beyond sentiment surveys, new durable goods ordersincreased 1.7 percent in August, bouncing back somewhat after dropping 6.8 percent in July. The data have been highly volatile over the past three months, mostly on large swings in nondefense aircraft and parts orders. The long-term picture reflects robust growth over the past 12 months. In fact, new durable goods have risen 5.1 percent since August 2016.

Consumer confidence pulled back slightly in September, both in the Conference Board and University of Michigansurveys. Hurricane damage might have been a factor in ebbing some confidence in the data. With that said, Americans continue to be significantly more optimistic today than at this point last year, with improved perceptions about income and labor market growth. Along those lines, personal spendingincreased 0.1 percent in August, slowing from a gain of 0.3 percent in July. Despite some easing, consumers have continued to spend at relatively healthy rates overall. Indeed, personal spending has increased 3.9 percent over the past 12 months. For its part, the saving rate was unchanged at 3.6 percent in August, and it also continued to indicate accelerated spending, down from a saving rate of 4.9 percent one year ago.

Meanwhile, the second revision to real GDP growthfor the second quarter changed slightly from its last estimate. The Bureau of Economic Analysis upped its estimate of growth in the U.S. economy in the second quarter from 3.0 percent to 3.1 percent. I continue to anticipate 2.2 percent growth for 2017 as a whole. However, Hurricanes Harvey, Irma and Maria will impact forecasts for the third and fourth quarters. I expect 2.3 percent growth in the third quarter, with weather reducing overall output by at least 0.5 percent in the current quarter. However, fourth-quarter growth will be better than predicted originally as cleanup efforts continue in Florida, Texas and the Caribbean. I estimate 3.0 percent growth in the fourth quarter-at least for now.

Manufacturers have seen robust job growth this year, averaging 17,222 new jobs per month since December. Analysts will be looking for signs of continued strong hiring growth in new employment data out this Friday. Tightness in the labor market has corresponded with improvements in the economic outlook, and manufacturers will get an update on sentiment with September's figures from the Institute for Supply Management's Manufacturing Purchasing Managers' Index released this morning. The survey is expected to show continued strong growth in new orders, output and employment. Other highlights this week include new data on construction spending, factory orders and shipments and international trade.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

This Week's Indicators:

Monday, September 25
Dallas Fed Manufacturing Survey

Tuesday, September 26
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)

Monday, October 2
Construction Spending
ISM Manufacturing Purchasing Managers' Index

Tuesday, October 3
None

Wednesday, October 4
ADP National Employment Report

Thursday, October 5
Factory Orders and Shipments
International Trade Report

Friday, October 6
BLS National Employment Report

Summaries for Last Week`s Economic Indicators

Conference Board Consumer Confidence

The Conference Board reported that consumers felt slightly less confident in September, even as overall sentiment remained mostly elevated. The Consumer Confidence Index decreased from 120.4 in August to 119.8 in September. While somewhat lower, the index remained not far from March's 16-year high (124.9). To illustrate the jump in sentiment, the headline index has averaged 118.6 through the first three quarters of this year, up from 97.2 in the same time period last year. Reflecting the slippage in the headline index, the percentage of respondents saying business conditions were "good" dipped from 34.5 percent to 33.9 percent, with those suggesting conditions were "bad" ticked up from 13.2 percent to 13.8 percent.

Similarly, the percentage of respondents feeling jobs were "plentiful" declined from 34.4 percent to 32.6 percent, with those saying jobs were "hard to get" slipping from 18.4 percent to 18.1 percent. Even with the easing, the labor market trends remained mostly favorable. Indeed, the percentage expecting their incomes to increase in the coming months rose from 19.9 percent to 20.5 percent, with the percentage feeling their incomes would fall in the coming months declining from 8.4 percent to 8.3 percent.

Dallas Fed Manufacturing Survey

The Dallas Federal Reserve Bank reported that manufacturing activity strengthened once again. The composite index of general business activity rose from 17.0 in August to 21.3 in September, its fastest pace since February. Overall, the data reflect continued progress in the Texas economy, buoyed by a recovery in the energy sector most importantly. One year ago, the headline index was -2.1, and year to date through the first three quarters of 2017, it has averaged 18.6, illustrating significant improvements over the past 12 months. In September, the underlying data were mixed but still encouraging overall. This included new orders (up from 14.3 to 18.6), production (down from 20.3 to 19.5), shipments (up from 18.1 to 27.4), employment (up from 9.9 to 16.3), hours worked (up from 14.5 to 18.4) and capital expenditures (down from 14.5 to 13.6).

Moving forward, manufacturing leaders remained very positive about the next six months, with the forward-looking measure increasing from 29.2 to 34.5. More than 55 percent felt production would rise in the coming months, and 45.1 percent and 34.6 percent anticipate more hiring and capital spending, respectively. At the same time, pricing pressures for raw materials were also anticipated to accelerate somewhat (up from 26.0 to 35.9).

Durable Goods Orders and Shipments

The Census Bureau reported that growth in new durable goods orders increased 1.7 percent in August, bouncing back somewhat after dropping 6.8 percent in July. The data have been highly volatile over the past three months, mostly on large swings in nondefense aircraft and parts orders, which are often bulked together surrounding major trade shows. Excluding transportation equipment, new durable goods orders increased 0.2 percent in August, easing from the 0.8 percent gain in July. New durable goods orders have trended generally in the right direction across the past 12 months. New durable goods have risen 5.1 percent since August 2016, or excluding transportation equipment, the year-over-year gain was 6.1 percent.

Looking more closely at the various durable goods sectors in August, the data were mostly higher. Sales increased for motor vehicles and parts (up 1.5 percent), computers and electronic products (up 1.3 percent), machinery (up 0.3 percent) and primary metals (up 0.3 percent). In contrast, orders fell for fabricated metal products (down 0.4 percent), with other durable goods demand unchanged. The bottom line is that new orders for core capital goods (or nondefense capital goods excluding aircraft) increased 0.9 percent in August. 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 3.6 percent, up from $62.5 billion in August 2016 to $64.8 billion in this release.

Meanwhile, durable goods shipments grew 0.3 percent in August. Much like the new orders data described above, the long-term picture continues to be quite favorable. Since August 2016, durable goods shipments have risen at a decent rate, up 4.5 percent, with year-over-year growth of 5.7 percent when excluding transportation equipment shipments. In addition, shipments of core capital goods have also improved over the past 12 months, up 6.5 percent year-over-year.

Gross Domestic Product (Second Revision)

The second revision to real GDP growth for the second quarter changed slightly from its last estimate. The Bureau of Economic Analysis upped its estimate of growth in the U.S. economy in the second quarter from 3.0 percent to 3.1 percent. While there were small tweaks in a few areas, the higher figure mainly corresponded with slightly better spending on inventories.

I continue to anticipate 2.2 percent growth for 2017 as a whole. However, Hurricanes Harvey, Irma and Maria will impact forecasts for the third and fourth quarters. I expect 2.3 percent growth in the third quarter, with weather reducing overall output by at least 0.5 percent in the current quarter. However, fourth-quarter growth will be better than predicted originally as cleanup efforts continue in Florida, Texas and the Caribbean. I estimate 3.0 percent growth in the fourth quarter-at least for now.

Looking specifically at the second-quarter data, here are some highlights:

- Personal consumption expenditures rose 3.3 percent in the second quarter, accelerating from the 1.9 percent pace in the first quarter on an increased willingness to purchase goods. Along those lines, durable goods spending was marginally negative in the first quarter with consumers more cautious but jumped 7.6 percent at the annual rate in the second quarter. With that said, spending on motor vehicles remained softer than desired.

- Nonresidential fixed investment increased 6.7 percent in the second quarter, extending the 7.2 percent growth rate from the first quarter. Most promisingly, equipment spending soared in the latest data to its fastest pace since the third quarter of 2015, up 8.8 percent, with 7.0 percent growth in structures spending.
- Residential investment fell 7.3 percent, pulling back from strong gains in the previous two quarters. At the same time, private inventories stabilized in the second quarter but added just 0.12 percentage points to headline growth. The drag came mainly from the farm sector.
- The trade picture has improved so far in 2017 relative to challenges across the past two years, with positive contributions to real GDP in both the first and second quarters. Goods exports increased 2.2 percent in the second quarter, with goods imports up 1.3 percent. The export of services rose 6.2 percent in this release. Therefore, net exports added 0.21 percentage points to real GDP growth.

International Trade in Goods (Preliminary)

The Census Bureau released advance statistics on international trade in goods. Specifically, the goods trade deficit declined from $63.86 billion in July to $62.94 billion in August in preliminary data. The lower figure stemmed from both a slight increase in goods exports (up from $128.60 billion to $128.87 billion) and a drop in goods imports (down from $192.46 billion to $191.81 billion). Final data will be released on October 5. Note that a surplus in service-sector activity, which was $21.64 billion in July, helped to improve the U.S. trade deficit.

In August, the goods exports picture was mixed, but increased exports for consumer goods (up $1.18 billion) and capital goods (up $535 million) were enough to offset reductions for industrial supplies (down $1.02 billion) and foods, feeds and beverages (down $418 million). Meanwhile, the decrease for goods imports came largely from declines in industrial supplies (down $738 million) and capital goods (down $562 million). There were more imports, however, for automotive vehicles (up $654 million) and other goods (up $137 million).

Kansas City Fed Manufacturing Survey

The Kansas City Federal Reserve Bank reported that manufacturing activity expanded at a six-month high in the latest survey data. The composite index of general business conditions edged up from 16 in August to 17 in September, its highest point since February. With that said, the underlying data were mixed. On the positive side, there was continued strength in production (unchanged at 22), shipments (up from 23 to 25) and employment (up from 14 to 18). Exports also grew modestly (up from 4 to 6). At the same time, new orders (down from 25 to 10) and the average workweek (down from 9 to 7) slowed somewhat in September, even as the pace of growth for both remained decent overall.

Meanwhile, manufacturers continued to be optimistic about the next six months. The forward-looking composite index increased from 23 to 26. Roughly half of those completing the survey expect sales, production and shipments to be higher moving forward, with 37 percent and 32 percent seeing more hiring and capital spending, respectively. Beyond those issues, 49 percent of business leaders also predict a pickup in raw material costs in the months ahead.

NAM Manufacturers' Outlook Survey

In the latest NAM Manufacturers' Outlook Survey, the historically high levels of optimism that manufacturers in the United States expressed during the first two quarters of 2017 continued unabated through the third quarter. In March, 93.3 percent of respondents felt positive about their own company's outlook, an all-time high in the survey's 20-year history. That dropped slightly in the second quarter to 89.5 percent, then rose a bit again in the third quarter to 89.8 percent. As a result, this year we have seen the highest consecutive three-quarter average-90.9 percent having a positive outlook for their company-in the survey's history.

As a sign that improvements in the global economy have had a positive impact (especially when combined with a weaker U.S. dollar), export expectations rose once again in the latest data. Respondents predict 1.3 percent growth in exports on average over the next 12 months, up from 1.1 percent in the prior survey and the highest rate in three years. Other data were also encouraging, including sales and production growth that are expected to increase 4.5 percent over the next year. Hiring and capital spending plans were also promising, albeit with both pulling back from multiyear highs in the previous release. Full-time employment in manufacturing is predicted to grow by an average of 2.2 percent over the next 12 months, whereas capital spending was seen rising 2.7 percent over that time frame.

Rising health insurance costs were once again noted as a top business challenge by 72.0 percent of manufacturers, with costs anticipated to increase 8.3 percent over the next year. Respondents also listed attracting and retaining a quality workforce as a top worry, with 71.6 percent noting it as a primary challenge. At the same time, the business environment remained in third place, where it has been in every survey so far in 2017. An unfavorable business climate was cited by 51.4 percent of respondents; prior to this year, that issue regularly vied for first place on the list with health care costs, never falling below 70 percent. The likely reason for this drop is manufacturers' optimism that the new administration will continue to provide regulatory relief and make progress on tax reform.

Manufacturers are optimistic about the chance that long-sought-after comprehensive business tax reform will be enacted into law. In this survey, more than 87 percent of respondents said that a comprehensive plan that included these tax policy changes would address their concerns with the current tax system. In general, the survey results and comments indicate support for a simpler and modern tax code that would allow manufacturers to be more competitive in the global marketplace. Along those lines, nearly 65 percent of respondents said comprehensive business tax reform would encourage their company to increase capital spending. This was closely followed by significant proportions suggesting they would expand their businesses (64.3 percent), hire more workers (57.3 percent), increase employee wages and benefits (52.2 percent) and invest more dollars in the community (34.2 percent).

New Home Sales

The Census Bureau and the Department of Housing and Urban Development reported that new home sales
fell 3.4 percent in August, falling for the second straight month. New residential sales decreased from an annualized 580,000 units in July to 560,000 units in August, the slowest pace so far in 2017. In fact, new home sales have continued to drift lower since peaking at March's nine-and-a-half-year high (638,000). In the latest data, sales of new single-family homes declined in every region of the country except the Midwest, which was unchanged. On a year-over-year basis, new home sales have slipped 1.2 percent from August 2016's pace of 567,000.

In August, the number of months of supply on the market rose from 5.7 to 6.1. This was up from 5.0 months in March, indicating a notable pickup in the inventories of new homes for sale since then. The average sales price was $368,100 in August, up 3.7 percent from $355,100 one year ago.

Personal Spending and Income

The Bureau of Economic Analysis reported that personal spending increased 0.1 percent in August, slowing from a gain of 0.3 percent in July. Nondurable goods spending rose 0.3 percent for the month, but that was offset by a 1.1 percent decline in durable goods, especially for motor vehicles. Despite the mixed results in the latest data, Americans have continued to spend at relatively healthy rates overall. Indeed, personal spending has increased 3.9 percent over the past 12 months. Breaking that figure down, spending on durable and nondurable goods has risen 3.5 percent and 3.1 percent year-over-year, respectively. For its part, the saving rate was unchanged at 3.6 percent in August, and it continued to indicate accelerated spending, down from a saving rate of 4.9 percent one year ago.

Meanwhile, personal incomes rose 0.2 percent in August, easing a bit from the 0.3 percent increase in July. Over the past 12 months, personal incomes have risen 2.8 percent, up from 2.6 percent in July. In addition, manufacturing wages and salaries grew 1.5 percent from $823.9 billion in August 2016 to $835.9 billion in this report.

In other news, the personal consumption expenditure (PCE) deflator increased 0.2 percent in August, a four-month high. 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 August 2016, the PCE deflator has increased 1.4 percent, matching June and July's rates. Similarly, excluding food and energy, core inflation increased 0.1 percent in August, or 1.3 percent year-over-year, a rate not seen since November 2015.

Richmond Fed Manufacturing Survey

The Richmond Federal Reserve Bank reported that manufacturing activity in its district expanded more strongly in September, with activity accelerating at its fastest pace since February. The composite index of general business activity rose from 14 in August to 19 in September. Overall, this report continues to reflect a manufacturing sector that has progressed significantly over the past year, and in September, new orders (up from 17 to 20), shipments (up from 8 to 22), capacity utilization (up from 10 to 16) and the average workweek (up from 10 to 16) indicated relatively solid growth. At the same time, employment in the region slowed slightly for the month, even as hiring activity remained quite robust (down from 17 to 15).

Looking ahead six months, manufacturing respondents felt very optimistic in their outlook. The key variables all suggested healthy gains in the months ahead for new orders (up from 41 to 42), shipments (down from 45 to 43), capacity utilization (unchanged at 36), employment (up from 30 to 33), the average workweek (up from 16 to 25) and capital expenditures (down from 30 to 18). Encouragingly, the hiring figure matched July's level, which was the highest reading in the survey's history. This would suggest manufacturers have picked up their employment plans as the overall outlook has improved.

Meanwhile, manufacturers in the district said prices paid for raw materials increased 1.82 percent at the annual rate in September, up from 1.49 percent in August. Moving forward, respondents anticipate pricing pressures to accelerate somewhat. Raw material prices are expected to grow 1.93 percent at the annual rate six months from now, up from 1.43 percent in August and the fastest pace since February.

University of Michigan Consumer Sentiment (Revision)

The University of Michigan and Thomson Reuters reported that consumer confidence pulled back somewhat in September. The Index of Consumer Sentiment declined from 96.8 in August to 95.1 in September, easing slightly from the preliminary estimate of 95.3 released a few weeks earlier. 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 84.4); however, their views of the current economy improved (up from 110.9 to 111.7). In fact, the headline index continues to reflect a more enthusiastic assessment of economic conditions. It has averaged 96.2 year to date in 2017, up from 91.8 for 2016 as a whole.

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