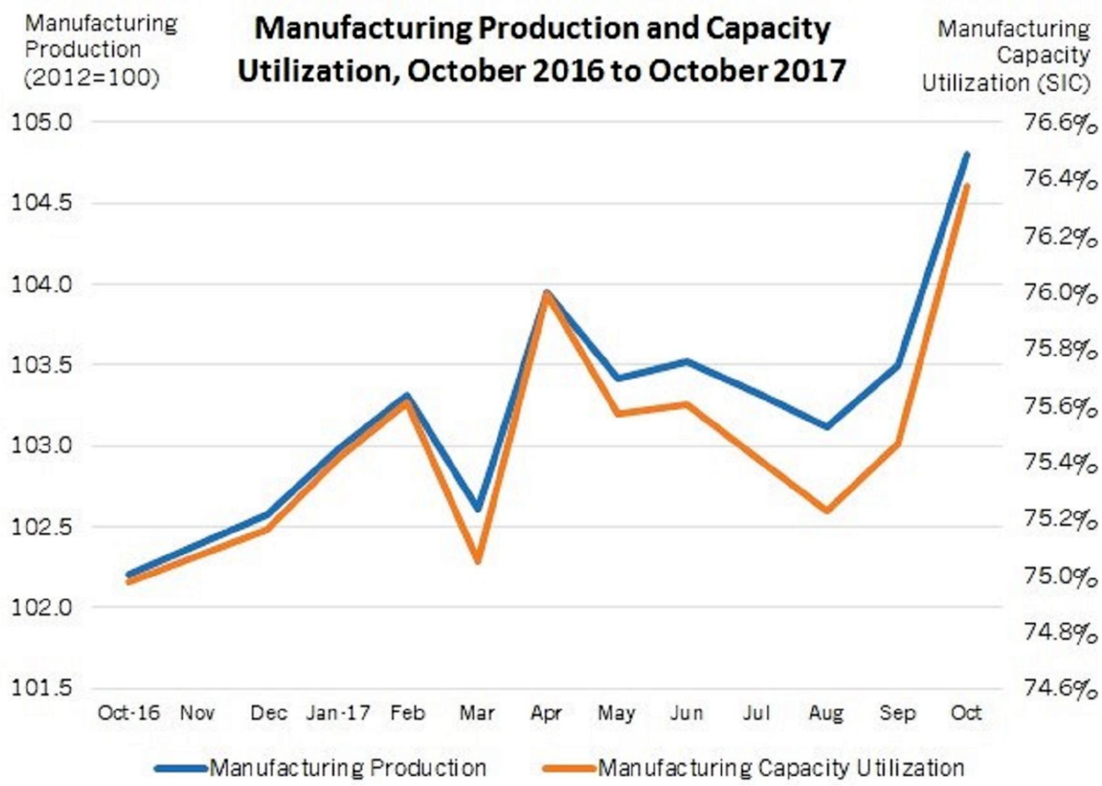

There were several reports out last week highlighting strength in the U.S. economy. Along those lines, manufacturing production expanded robustly in October, up 1.3 percent, its fastest monthly pace of growth since April. In October, durable and nondurable goods production rose by 0.4 percent and 2.3 percent, respectively, with the latter rebounding from significant declines in activity in August and September in the chemicals and petroleum and coal products segments due to Hurricanes Harvey and Irma. As a result, manufacturing production has risen by 2.5 percent over the past 12 months, the best year-over-year rate since August 2014. In a similar manner, manufacturing capacity utilized soared from 75.5 percent in September to 76.4 percent in October, a reading not seen since May 2008.

At the same time, manufacturing activity in the Kansas City, New York and Philadelphia Federal Reserve Bank districts continued to expand at rather robust paces despite a little softening in each of the most recent surveys. The Kansas City and New York reports reflected some easing from multiyear highs in the previous release, with still-high rates of expansions for new orders, shipments and employment in all of the regional Fed surveys so far in November. More importantly, manufacturers continued to be very optimistic in their outlook for the next six months. In terms of downsides in the current data, those completing the latest surveys once again cited challenges in attracting talent, and raw material costs have trended higher in recent months. *(More on that topic below.)*

In addition to manufacturing, there were also healthy figures for the housing and retail markets. For instance, new housing starts jumped 13.7 percent to 1,290,000 units at the annual rate in October, its fastest pace in 12 months. That is encouraging news, and yet, it is worth noting that the bulk of that increase stemmed from better multifamily activity, which can often be highly volatile from month to month. Multifamily housing starts soared from 302,000 to 413,000 in this release, the best reading since January. New single-family construction was also higher, up from 833,000 to 877,000, an eight-month high. Single-family starts have largely trended in the right direction, averaging 841,300 year-to-date in 2017 versus 778,200 in the same time period in 2016. Housing permits and builder optimism numbers suggest that residential activity should continue to improve in the coming months, which is promising.

Consumer spending has been a bright spot in the economy, but there was more caution in the data in the summer months than we might have preferred. The good news is that Americans have opened their pocketbooks more since then. Indeed, retail spending edged higher in October, up 0.2 percent, building on September's strong 1.7 percent gain. On a year-over-year basis, retail sales have risen 4.6 percent since October 2016, off just slightly from 4.8 percent in the previous report, which was a six-month high. There has been robust growth in motor vehicle and parts sales in the past two months, up 4.6 percent and 0.7 percent in September and October, respectively, with the segment benefiting from hurricane-related replacements. Excluding automobiles, retail sales were up 0.1 percent in October, with year-over-year growth of 4.3 percent.

Meanwhile, producer prices for final demand goods and services rose by 0.4 percent in October for the second straight month. Overall, producer prices have increased 2.7 percent since October 2016, up from 2.5 percent year-over-year last month and a pace not seen since February 2012. Raw material costs have accelerated over the course of the past 12 months, as the year-over-year rate was 1.2 percent one year ago. Nonetheless, core producer prices-which exclude food, energy and trade services-continue to be modest at 2.2 percent, up from 2.1 percent in September. For comparison purposes, core producer prices were 1.6 percent year-over-year in October 2016.

Similar trends exist for consumer prices, which edged up by 0.1 percent in October. The consumer price index increased 2.0 percent year-over-year in October, down from 2.2 percent in September. In addition, core consumer prices, which exclude food and energy costs, have risen 1.8 percent over the past 12 months, inching up slightly from 1.7 percent in the prior release. As such, overall pricing pressures remain mostly under control for now, even with some acceleration. Nonetheless, the Federal Open Market Committee is still likely to raise short-term interest rates at its December 12-13 meeting, mostly on improvements in the macroeconomy and from general tightening in labor markets.

This week, there will be new data on manufacturing and housing activity to digest before the Thanksgiving holiday. It is hoped that durable goods orders for October will build on the gains in both August and September. Other highlights this week include new data on consumer confidence, existing home sales, leading indicators and the Chicago Federal Reserve's National Activity Index.

Chad Moutray, Ph.D., CBE
Chief Economist
National Association of Manufacturers

***P.S.:** If you have not already done so, please take a moment to complete the latest NAM Manufacturers' Outlook Survey**.** This 30-question survey will help us to gauge how manufacturing sentiment has changed since September's survey. The survey includes some special questions on enacting comprehensive business tax reform, assessing regulatory paperwork burdens and addressing workforce challenges. To complete the survey, click here. Responses are due by **Thursday, November 30, at 5:00 p.m. EDT**. As always, all responses are anonymous.*

Share The Monday Economic Report with your social network:

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, November 13
None

Tuesday, November 14
NFIB Small Business Survey
Producer Price Index

Wednesday. November 15
Consumer Price Index
New York Fed Manufacturing Survey
Retail Sales

Thursday, November 16
Industrial Production
NAHB Housing Market Index
Philadelphia Fed Manufacturing Survey

Friday, November 17
Housing Starts and Permits
Kansas City Fed Manufacturing Survey
State Employment Report

This Week's Indicators:

Monday, November 20
Conference Board Leading Indicators

Tuesday, November 21
Chicago Fed National Activity Index
Existing Home Sales

Wednesday, November 22
Durable Goods Orders and Shipments
University of Michigan Consumer Sentiment

Thursday, November 23
THANKSGIVING

Friday, November 24
IHS Markit Flash U.S. Manufacturing PMI

Summaries for Last Week`s Economic Indicators

Consumer Price Index

The Bureau of Labor Statistics said that consumer prices edged up by 0.1 percent in October, slowing from more robust growth in both August and September. The increases in the prior two months were led by significant growth in energy costs, which were up by 2.8 percent and 6.1 percent in those months, respectively, largely on negative impacts from recent hurricanes. Energy prices began normalizing in October, off by 1.0 percent, with gasoline prices down 2.4 percent. At the same time, food prices were unchanged. Since October 2016, food and energy costs have increased 1.3 percent and 6.4 percent, respectively. Excluding food and energy, core consumer inflation increased by 0.2 percent in October, buoyed by higher costs for medical and transportation services, shelter expenses and used cars and trucks.

Overall, the consumer price index (CPI) increased 2.0 percent year-over-year in October, down from 2.2 percent in September. There has been an acceleration in pricing pressures since June's 1.6 percent year-over-year reading, but the current pace remains well below the 2.7 percent pace seen in February. In addition, core consumer prices, which exclude food and energy costs, have risen 1.8 percent over the past 12 months, inching up slightly from 1.7 percent in the prior release.

As such, overall pricing pressures remain modest-even with the recent pickup-and mostly under control for now. Nonetheless, the Federal Open Market Committee is still likely to raise short-term interest rates at its December 12-13 meeting, mostly on improvements in the macroeconomy and from general tightening in labor markets.

Housing Starts and Permits

The Census Bureau and the U.S. Department of Housing and Urban Development said that new housing starts jumped to a one-year high in October, bouncing back from hurricane-related softness in the prior release. New residential construction rose 13.7 percent from 1,135,000 units at the annual rate in September to 1,290,000 units in October, its fastest pace in 12 months. That is encouraging news, and yet, it is worth noting that the bulk of that increase stemmed from better multifamily activity, which can often be highly volatile from month to month. Multifamily housing starts soared from 302,000 to 413,000 in this release, the best reading since January. New single-family construction was also higher, up from 833,000 to 877,000, an eight-month high.

Despite the strong gain in the latest figures, new housing starts were actually 2.9 percent lower than 12 months ago, with activity at 1,328,000 units in October 2016. To be fair, last year's reading was a significant outlier, with housing starts averaging 1,177,250 units in 2016 as a whole. The difference stemmed mostly from multifamily activity, which was 9.6 percent lower in this current data than at this point last year. In contrast, new single-family starts have largely trended in the right direction, averaging 841,300 year-to-date in 2017 versus 778,200 in the same time period in 2016.

Fortunately, housing permits remain highly elevated. Residential permits increased from 1,225,000 units in September to 1,297,000 in October, its fastest rate since January. Permits are a proxy of future activity and have now exceeded 1.2 million units in 13 of the past 14 months. That bodes well for strong growth moving forward. This is consistent with optimism from the home builders, discussed below, which rose to its second-best reading since July 2005. Single-family permits were at levels not seen since September 2007, up from 823,000 to 839,000. At the same time, the bulk of the increase in October came mostly from the highly volatile multifamily segment, up from 402,000 to 458,000.

On a year-over-year basis, multifamily permits edged up 0.9 percent, up from 1,285,000 units in October 2016. Single-family permitting increased 7.7 percent over the past 12 months, but this was offset by a decline of 9.5 percent year-over-year for multifamily permits.

Industrial Production

The Federal Reserve said that manufacturing production expanded robustly in October, up 1.3 percent, its fastest monthly pace of growth since April. Output, especially for nondurable goods, jumped significantly in October, bouncing back from slowdowns related to recent hurricanes. In October, durable and nondurable goods production rose by 0.4 percent and 2.3 percent, respectively, with the latter rebounding from significant declines in activity in August and September in the chemicals and petroleum and coal products segments due to Hurricanes Harvey and Irma. These data have seesawed from month to month since the spring, but production in the manufacturing sector as a whole has now expanded for two straight months.

As a result, manufacturing production has risen by 2.5 percent over the past 12 months, the best year-over-year rate since August 2014. In a similar manner, manufacturing capacity utilized soared from 75.5 percent in September to 76.4 percent in October, a reading not seen since May 2008.

The underlying data in October were mostly higher. The largest gains in the manufacturing sector were seen in chemicals (up 5.8 percent), petroleum and coal products (up 4.0 percent), textile and product mills (up 1.6 percent), apparel and leather (up 1.3 percent) and motor vehicles and parts (up 1.0 percent), among others. In contrast, output was lower for plastics and rubber products (down 0.9 percent), nonmetallic mineral products (down 0.3 percent), food, beverage and tobacco products (down 0.2 percent), and miscellaneous durable goods (down 0.1 percent).

Meanwhile, total industrial production increased by 0.9 percent in October, extending the 0.4 percent gain seen in September. In addition to manufacturing, utilities output also rose strongly, up 2.0 percent for the month. On the other hand, mining production was off by 1.3 percent, falling because "Hurricane Nate caused a sharp but short-lived decline in oil and gas drilling and extraction" for the month, according to the press release.

Over the past 12 months, industrial production has risen 2.9 percent, the best year-over-year pace since January 2015. Mining and utilities output increased 6.4 percent and 0.9 percent year-over-year, respectively, in the latest data. In addition, capacity utilization rose from 76.4 percent to 77.0 percent, a 2½-year high.

Kansas City Fed Manufacturing Survey

The Kansas City Federal Reserve Bank said that manufacturing activity pulled back somewhat in November but "remained solid," according to the latest survey data. The composite index of general business conditions declined from 23 in October, a level not seen since March 2011, to 16 in November. Even with some easing, manufacturers in the district are more upbeat today than one year ago, when the headline index was zero. In November, most of the key measures softened a little, while continuing to indicate healthy expansions overall. This included new orders (down from 27 to 22), production (down from 20 to 15), shipments (down from 25 to 20), employment (down from 21 to 16) and the average workweek (down from 12 to 7). On the hiring front, the sample comments once again cited challenges in attracting talent. In terms of downsides in the current data, exports (down from 8 to -2) contracted for the first time in four months, and raw material prices (down from 25 to 24) remained elevated.

Meanwhile, manufacturers were optimistic about the next six months, albeit with some weakening in confidence from the prior survey, much like the current data. The forward-looking composite index decreased from 32 to 27. Still, more than 60 percent of respondents expect production and shipments to increase in the coming months, with roughly half forecasting rising new orders and employment and 39 predicting additional capital spending. Beyond those measures, 68 percent of business leaders also predict a pickup in raw material costs over the next six months, consistent with the acceleration in input prices seen in other measures. The raw material costs index was the highest in November since December 2012.

NAHB Housing Market Index

The National Association of Home Builders (NAHB) and Wells Fargo reported that the Housing Market Index(HMI) increased from 68 in October to 70 in November. That is the highest figure since March (71), which was the best reading since July 2005. As such, builders remain very positive in their outlook, with index readings greater than 50 indicating favorable conditions in the overall outlook for the sector. The headline index has now exceeded 60 for 14 straight months, averaging 66.7 over that time frame. NAHB Chief Economist Robert Dietz said, "Demand for housing is increasing at a consistent pace, driven by job and economic growth, rising homeownership rates and limited housing inventory." On the latter point, respondents also cited ongoing challenges in attracting workers and with raw material price increases.

In November, homebuilders were slightly more upbeat about current single-family sales activity (up from 75 to 77), with sales expectations for the next six months (down from 78 to 77) remaining quite elevated despite easing marginally in the latest survey. The largest gains in perceptions were in the Northeast, with improvements also seen in the South and West.

New York Fed Manufacturing Survey

Manufacturing activity in the New York Federal Reserve Bank's district pulled back in November from October's three-year high but remained strong. In the latest Empire State Manufacturing Survey, the composite index of general business conditions declined from 30.2 in October, a pace not seen since September 2014, to 19.4 in November. The underlying indicators were somewhat mixed. On the positive side, new orders (up from 18.0 to 20.7) accelerated, which was encouraging. The percentage of respondents saying that sales had increased in the month rose from 32.3 percent in October to 40.7 percent in November, which was more than enough to offset the gain in those suggesting reduced orders, up from 14.3 percent to 20.0 percent. Shipments (down from 27.5 to 18.4) and employment (down from 15.6 to 11.5) continued to expand at decent rates despite some easing, but unfilled orders (down from 2.3 to -4.6) and the average workweek (down from 0.0 to -0.8) both turned slightly negative.

Nonetheless, manufacturers in the New York region remained very upbeat about the next six months. The expectations composite index rose from 44.8 to 49.9, its highest point since January 2012. In addition, most of the key measures about the next six months reflect optimism about improved activity. This included stronger growth for new orders (up from 44.8 to 53.7), shipments (up from 43.4 to 50.8), hiring (up from 17.2 to 20.8), the average workweek (up from 4.7 to 6.9) and capital expenditures (up from 21.9 to 25.4). In fact, 59.4 percent of those completing the survey anticipated higher new orders in the coming months, with one-third predicting increased employment.

Technology spending (down from 16.4 to 10.8) was also seen expanding modestly despite slowing somewhat in this survey, and pricing pressures (up from 41.4 to 48.5) were also expected to strengthen considerably moving into 2018. The prices paid index rose to its highest level since January.

NFIB Small Business Survey

The National Federation of Independent Business (NFIB) said that the Small Business Optimism Index bounced back from 103.0 in September, its lowest level since the election, to 103.8 in October. Overall, small business owners remain very upbeat in their outlook, with the headline index averaging 104.6 year-to-date. In comparison, it was 94.9 one year ago. In this release, the percentage of respondents suggesting that the next three months would be a "good time to expand" rose from 17 percent to 23 percent, and the net percentage feeling that sales would be higher over the next three months increased from 15 percent to 21 percent. Each of these figures were close to the year-to-date averages, with both up significantly from the rates seen last year.

The labor market also remains strong. The percent with positions that they are unable to fill right now ticked up from 30 percent in September to 35 percent in October. That matched the job openings rate seen in July, which was the best reading since November 2011. Meanwhile, the net percentage planning to add workers in the next three months edged down from 19 in September to 18 in October. The September pace matched the rate seen in July, which was the strongest reading since December 1999. As such, even with a slight easing in hiring expectations in this survey, hiring plans remain quite elevated. At the same time, capital expenditure plans were unchanged, with 27 percent of respondents planning to spend on capital in the next three to six months.

The top "single most important problem" was taxes (21 percent), highlighting the need for comprehensive business tax reform. The quality of labor (20 percent) and government regulations and red tape (14 percent) also topped the list.

Philadelphia Fed Manufacturing Survey

The Federal Reserve Bank of Philadelphia said that manufacturing activity continued to expand strongly in November, even with some easing in the latest survey. The composite index of general business activity decreased from 27.9 in October to 22.7 in November. Overall, manufacturers in the district are more upbeat this year than last, with the headline index averaging 27.4 year-to-date in 2017 versus 4.8 for 2016 as a whole. Similar to the New York Fed release described above, new orders (up from 19.6 to 21.4) accelerated in November, but other measures decelerated somewhat, while also remaining quite positive. This included some slowing for shipments (down from 24.4 to 21.7), employment (down from 30.6 to 22.6) and the average workweek (down from 19.4 to 13.7).

Meanwhile, manufacturers in the Philadelphia Fed region remained very optimistic about the next six months. The forward-looking composite index increased from 46.4 to 50.1, and more than 60 percent of respondents felt that new orders would rise in the coming months. Most of the key future-oriented indicators were higher in this survey, including new orders (up from 43.7 to 56.4), shipments (up from 45.3 to 47.8), employment (up from 41.1 to 45.0) and the average workweek (up from 38.7 to 41.2). The hiring measure for employment was the highest since March 1989. Capital expenditures (down from 37.7 to 36.7) and pricing pressures (down from 60.2 to 54.0) were also seen expanding robustly over the next six months despite slight pullbacks in those measures.

Producer Price Index

The Bureau of Labor Statistics said that producer prices for final demand goods and services rose by 0.4 percent in October for the second straight month. For manufacturers, producer prices for final demand goods were up by 0.2 percent for the third consecutive release. The gain in October stemmed largely from an acceleration in food prices, up 0.5 percent and its fastest monthly increase since June. On the other hand, energy costs were unchanged in October following robust hurricane-related gains in both August and September. On a year-over-year basis, final demand food and energy costs have risen 2.6 percent and 7.6 percent, respectively. Excluding food and energy, producer prices for final demand goods were up by 0.3 percent in October.

Overall, producer prices for final demand goods and services have increased 2.7 percent since October 2016, up from 2.5 percent year-over-year last month and a pace not seen since February 2012. Raw material costs have accelerated over the course of the past 12 months, as the year-over-year rate was 1.2 percent one year ago. Nonetheless, core producer prices-which exclude food, energy and trade services-continue to be modest at 2.2 percent, up from 2.1 percent in September. For comparison purposes, core producer prices were 1.6 percent year-over-year in October 2016.

Retail Sales

Retail spending edged higher in October, up 0.2 percent, building on September's strong 1.7 percent gain. Overall, these data show that consumers are accelerating their purchases after slowing down somewhat in the summer months. On a year-over-year basis, retail sales have risen 4.6 percent since October 2016, off just slightly from 4.8 percent in the previous report, which was a six-month high. There has been robust growth in motor vehicle and parts sales in the past two months, up 4.6 percent and 0.7 percent in September and October, respectively, with the segment benefiting from hurricane-related replacements. Excluding automobiles, retail sales were up 0.1 percent in October, with year-over-year growth of 4.3 percent.

Digging into the latest data, retail spending was higher in October at the following store segments: sporting goods and hobbies (up 1.5 percent), clothing and accessories (up 0.8 percent), food services and drinking places (up 0.8 percent), health and personal care (up 0.8 percent), electronics and appliances (up 0.7 percent), food and beverage (up 0.7 percent) and furniture and home furnishings (up

0.7 percent).

At the same time, sales were lower for building material and garden supply stores (down 1.2 percent), gasoline stations (down 1.2 percent) and non-store retailers (down 0.3 percent). The building material figure decline followed a 3.0 percent increase in September and likely stemmed from recent hurricanes; whereas, the reduction in gasoline station spending stemmed from lower petroleum prices. For instance, the average price of regular gasoline dropped from $2.679 per gallon on Sept. 4 to $2.488 on Oct. 30, according to the Energy Information Administration.

Over the past 12 months, the fastest growth in retail sales were in the following categories: building material and garden supply stores (up 8.8 percent), gasoline stations (up 7.5 percent), non-store retailers (up 6.8 percent), motor vehicles and parts dealers (up 5.6 percent) and furniture and home furnishings stores (up 4.4 percent).

State Employment Report

Florida created the most net new manufacturing jobs in October, according to the Bureau of Labor Statistics, adding 4,800 workers in the month. Ohio (up 4,200), Wisconsin (up 3,400), Missouri (up 2,400), Iowa (up 2,200) and Michigan (up 2,200) also topped the list of manufacturing employment gains in October. In addition, Texas saw the greatest job gains over the past 12 months, with manufacturing employment in the state up 35,800 since October 2016. Other states with the fastest manufacturing job growth year-over-year included Wisconsin (up 13,000), Florida (up 12,200), Indiana (up 8,500) and South Carolina (up 8,100).

The national unemployment rate fell to 4.1 percent in September, its lowest level since December 2000. Hawaii (2.2 percent) had the lowest unemployment rate in the country. Several states were not far behind, including North Dakota (2.5 percent), Colorado (2.7 percent), Nebraska (2.7 percent), New Hampshire (2.7 percent), Idaho (2.9 percent) and Vermont (2.9 percent). In contrast, Alaska (7.2 percent), the District of Columbia (6.6 percent) and New Mexico (6.1 percent) had the highest unemployment rates.

Connect with the Manufacturers

Questions or comments?

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