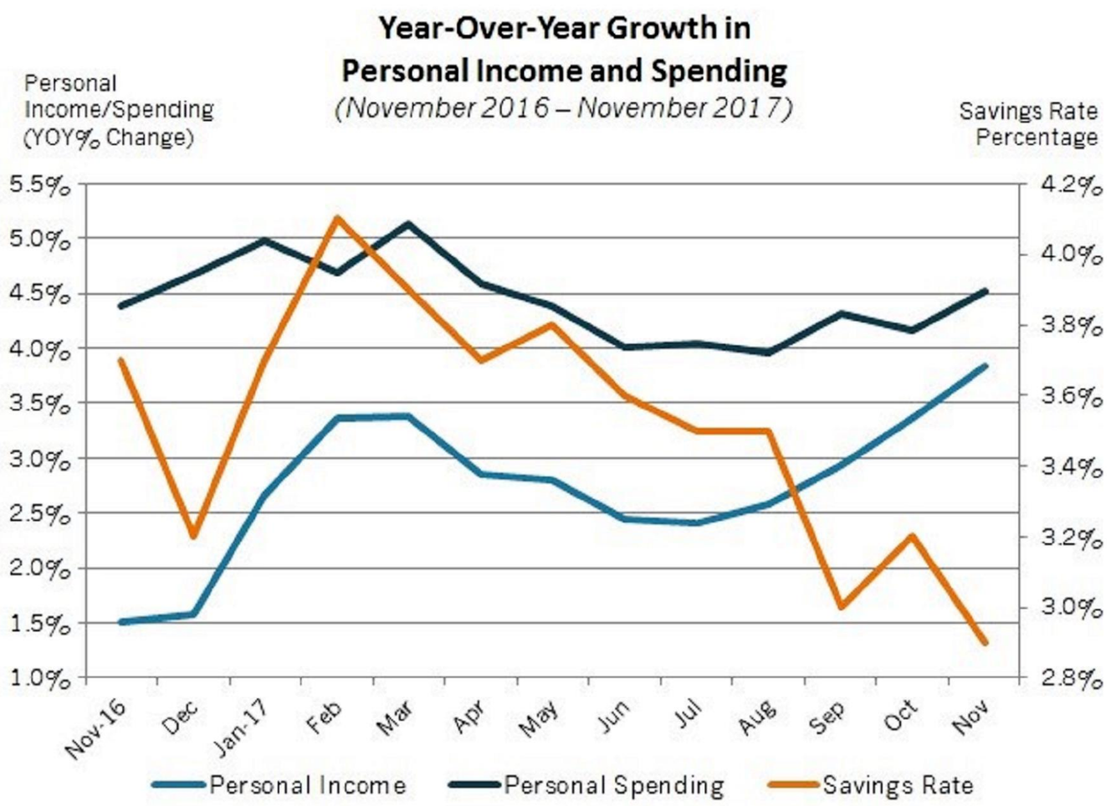

The Bureau of Economic Analysis said that the U.S. economy grew by an annualized 3.2 percent in the third quarter, down marginally from the previous estimate of 3.3 percent. Of course, the bottom line is that the U.S. economy has expanded for two straight quarters by at least 3 percent, and if the current forecast holds, that streak should extend to three consecutive quarters. My current forecast is for 3.5 percent real GDP growth in the fourth quarter, with 2.3 percent growth in the U.S. economy for 2017 as a whole. This is a slight improvement from the 2.1 percent average growth rate seen since the Great Recession, but I am also estimating 2.8 percent growth for 2018. With the passage of comprehensive tax reform and other pro-growth policies, I continue to believe that there is upward potential in that outlook for next year, especially as firms increase their investments.

Consumers continue to be one of the bright spots in the economy, and Americans have accelerated their purchasing of late, which is helping to boost overall holiday sales this year. Indeed, personal spending was up strongly in November, up 0.6 percent, with 4.5 percent growth over the past 12 months. In November, nondurable goods spending rebounded, up 1.2 percent, with durable goods purchases unchanged in the latest data. Goods spending for durable and nondurable goods were up 5.4 percent and 5.0 percent year-over-year, respectively. As a result of the latest uptick in spending, the savings rate has fallen to a 10-year low, down from 3.2 percent in October to 2.9 percent in November. Moreover, the University of Michigan and Thomson Reuters reported that consumer confidence pulled back for the second straight month. Yet, Americans remain mostly upbeat in their outlook overall, especially relative to their sentiment one year ago.

Meanwhile, the data on manufacturing activity remained encouraging. Personal incomes were up 0.3 percent in November, with 3.8 percent growth over the past 12 months. In addition, manufacturing wages and salaries have risen 4.3 percent year-over-year, totaling $841.1 billion in November. At the same time, new durable goods orders were up 1.3 percent in November. The increase in the latest data stemmed largely from strong transportation equipment sales, including healthy growth for motor vehicles and parts and defense and nondefense aircraft and parts. Excluding transportation equipment, new durable goods orders edged down by 0.1 percent in November, its first decline in five months. New durable goods orders have generally trended in the right direction over the course of the past 12 months. In fact, new durable goods orders have jumped 8.2 percent since November 2016.

Regionally, the Kansas City and Philadelphia Federal Reserve Banks highlighted strong growth in their respective districts in December. New orders, production and shipments remained healthy, with the labor market continuing to tighten. More importantly, manufacturers are very optimistic about activity over the next six months, even as they also see raw material costs accelerating.

Turning to the residential market, new housing starts jumped to a 13-month high in November. New residential construction rose 3.3 percent from 1,256,000 units at the annual rate in October to 1,297,000 in November, its fastest pace since October 2016. More importantly, the increase in the latest data came from a significant uptick in activity for single-family construction, up from 883,000 in October to 930,000 in November, its best reading since September 2007. Moreover, single-family starts have risen by 13.0 percent over the past 12 months. This is heartening news and a sign that the housing market has strengthened recently from the lull experienced over the summer months. With that in mind, it should not be a surprise that home builder optimism soared to an 18-year high in the latest survey, with a very healthy outlook for 2018.

Finally, existing and new home sales were also higher in November, up 5.6 percent and 17.5 percent, respectively. The current levels are the highest since before the Great Recession, with existing home sales at levels not seen since December 2006 and new home sales at their best rate since July 2007. With that in mind, the National Association of Realtors Chief Economist Lawrence Yun noted, "Faster economic growth in recent quarters, the booming stock market and continuous job gains are fueling substantial demand for buying a home as 2017 comes to an end." With strong sales growth, inventories of new homes for sale tightened considerably for the month. In November, the number of months of supply on the market fell from 5.4 to 4.6, the lowest rate since July 2016.

There will be only a handful of economic reports released this week: manufacturing surveys from the Dallas and Richmond Federal Reserve Banks, new data on consumer confidence and preliminary figures on the international trade in goods.

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

P.S.: Due to the holidays, the Monday Economic Report will not be published on January 1. The next issue will be released on **Monday, January 8.**

Share The Monday Economic Report with your social network:

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, December 18
NAHB Housing Market Index

Tuesday, December 19
Housing Starts and Permits

Wednesday, December 20
Existing Home Sales

Thursday, December 21
Chicago Fed National Activity Index
Conference Board Leading Indicators
Gross Domestic Product (Second Revision)
Philadelphia Fed Manufacturing Survey

Friday, December 22
Kansas City Fed Manufacturing Survey
New Home Sales
Personal Income and Spending
State Employment Report
University of Michigan Consumer Sentiment (Revision)

This Week's Indicators:

Monday, December 25
CHRISTMAS HOLIDAY

Tuesday, December 26
Dallas Fed Manufacturing Survey
Richmond Fed Manufacturing Survey

Wednesday, December 27
Conference Board Consumer Confidence

Thursday, December 28
International Trade in Goods (Preliminary)

Friday, December 29
None

Summaries for Last Week`s Economic Indicators

Chicago Fed National Activity Index

The Chicago Federal Reserve Bank reported that growth in the U.S. economy continued to expand modestly in November even as the pace of growth slowed from robust gains in both September and October. The National Activity Index (NAI) decreased from 0.76 in October, its highest level since December 2006, to 0.15 in November. More importantly, the headline index has been positive for three straight months, with numbers greater than zero consistent with economic growth that exceeds the historical average. Overall, the data have been highly volatile this year, with hurricane-related rebounds in activity accounting for a fair share of the expansions in September and October.

Slower growth in industrial production helped to decelerate the NAI in this report, even as the data continue to be encouraging. Manufacturing production slowed from 1.4 percent growth in October to a gain of 0.2 percent in November, with year-over-year growth of 2.4 percent. As a result, production-related indicators contributed 0.05 to the NAI in November, down from 0.66 in October. Employment and sales also contributed positively to the NAI, especially as the labor market has tightened significantly this year. Manufacturers added 31,000 workers in November, with the unemployment rate unchanged at 4.1 percent, continuing to be its lowest level since December 2000.

Conference Board Leading Indicators

The Conference Board's Leading Economic Index (LEI) increased 0.4 percent in November, extending the robust rebound of 1.2 percent seen in October. The previous figure mostly reflected a bounce back in activity from recent hurricanes, but in general, the data remain strong. Across the past six months, the LEI rose 3.0 percent, which bodes well for modest economic growth moving forward. New orders for manufactured goods once again contributed positively to the LEI; however, the average workweek for production workers slowed to just a neutral contribution in November. Other data were mixed but mostly positive. Consumer confidence, the interest rate spread, overall lending conditions and stock prices were all favorable indicators to the LEI in November, but average weekly unemployment claims and building permits were slight drags.

Meanwhile, the Coincident Economic Index (CEI), which assesses current conditions, increased 0.3 percent in November for the second straight month. Each of the components of the CEI-industrial production, nonfarm payrolls, personal income and manufacturing and trade sales-contributed positively to the index for the month. For its part, manufacturing production edged up by 0.2 percent in November, easing from a 1.4 percent gain in October.

Durable Goods Orders and Shipments

The Census Bureau said that new durable goods orders were up 1.3 percent in November, rebounding from a decline of 0.4 percent in October. The increase in the latest data stemmed largely from strong transportation equipment sales, including healthy growth for motor vehicles and parts (up 1.4 percent), defense aircraft and parts (up 11.9 percent) and nondefense aircraft and parts (up 14.5 percent). It is important to note that aircraft orders can be highly volatile from month to month, and the November data include robust demand from the Dubai Airshow. Excluding transportation equipment, new durable goods orders edged down by 0.1 percent in November, its first decline in five months.

New durable goods orders have generally trended in the right direction over the course of the past 12 months. In fact, new durable goods orders have jumped 8.2 percent since November 2016. With transportation equipment excluded, the year-over-year rate was 7.0 percent. One of the more important measures in this release is new orders for core capital goods (or nondefense capital goods excluding aircraft), which can often be seen as a proxy for capital spending in the U.S. economy. In November, new orders for core capital goods inched down 0.1 percent, but like the headline number above, the year-over-year pace was a very healthy 8.1 percent.

Looking more closely at the various durable goods sectors in November, the data were mixed. There were increased sales for primary metals (up 0.8 percent), electrical equipment and appliances (up 0.7 percent) and other durable goods (up 0.3 percent), but orders were lower for machinery (down 1.1 percent), computer and electronic products (down 0.3 percent) and fabricated metal products (down 0.3 percent).

Meanwhile, durable goods shipments increased 1.0 percent in November, but with transportation equipment excluded, shipments rose by 0.2 percent. Much like the new orders data described above, shipments have trended strongly higher over the past year. Since November 2016, durable goods shipments have risen at decent rates, up 6.7 percent, with year-over-year growth of 7.1 percent when transportation equipment shipments were excluded. In addition, shipments of core capital goods have also improved mightily over the past 12 months, up 9.3 percent year-over-year.

Existing Home Sales

The National Association of Realtors (NAR) reported that existing home sales rose 5.6 percent in November, extending the 2.4 percent gain in October and up for the third straight month. As such, the housing market appears to be bouncing back from slower activity over the summer months. In this release, sales of existing homes increased from 5.50 million units at the annual rate in October to 5.81 million in November, its best reading since December 2006. Moreover, the outlook looks strong for next year. NAR Chief Economist Lawrence Yun noted, "Faster economic growth in recent quarters, the booming stock market and continuous job gains are fueling substantial demand for buying a home as 2017 comes to an end."

In November, both single-family (up from 4.87 million to 5.09 million) and condominium and co-op (up from 630,000 to 720,000) were higher. On a year-over-year basis, existing home sales have risen 3.8 percent, up from 5.60 million units in November 2016, with single-family and condo/co-op sales up 3.2 percent and 7.5 percent over the past 12 months, respectively. The median sales price in August was $248,000, up 5.8 percent from one year ago.

Gross Domestic Product (Second Revision)

The Bureau of Economic Analysis said that the U.S. economy grew by an annualized 3.2 percent in the third quarter, down marginally from the previous estimate of 3.3 percent. The latest revision came from slower growth in service sector spending and net exports than previously thought which were enough to offset stronger figures for durable and nondurable goods spending and dollars expended at state and local governments.

Of course, the bottom line is that the U.S. economy has expanded for two straight quarters by at least 3 percent, and if the current forecast holds, that streak should extend to three consecutive quarters. My current forecast is for 3.5 percent real GDP growth in the fourth quarter, with 2.3 percent growth in the U.S. economy for 2017 as a whole. This is a slight improvement from the 2.1 percent average growth rate seen since the Great Recession, but I am also estimating 2.8 percent growth for 2018. With the passage of comprehensive tax reform and other pro-growth policies, I continue to believe that there is upward potential in that outlook for next year, especially as firms increase their investments.

Looking at the underlying data, personal consumption expenditures slowed a little from 3.3 percent annual growth in the second quarter to 2.2 percent in the third quarter. However, durable goods spending was a bright spot in each of the past two reports, up 7.6 percent and 8.6 percent in the second and third quarters, respectively. This included the best numbers for motor vehicles and parts in one year. Overall, personal spending contributed 1.49 percentage points to the top-line growth figure of 3.2 percent in the third quarter, including 0.97 percent from goods spending. That was off from a contribution of 2.24 percentage points in the second quarter, with a fair share of that easing coming from pullbacks related to recent hurricanes.

Weather was also likely a factor in decelerating nonresidential fixed investment spending, which softened from an annualized 6.7 percent growth rate in the second quarter to 4.7 percent in the third quarter. Spending on structures declined by 7.0 percent at the annual rate-the source of much of the easing in nonresidential investments for the quarter. In contrast, investments in equipment remained robust, up 10.8 percent, extending the 8.8 percent growth figure seen in the prior release.

One of the larger positives among business spending was inventories, with businesses spending to restock their shelves, contributing 0.79 percentage points to real GDP in the third quarter. That was the strongest contribution for inventory spending so far this year. Beyond those figures, residential investment continued to be weak (subtracting 0.18 percent from headline growth) due to challenges in the housing market. In total, gross private domestic investment-which includes residential and nonresidential investment and private inventory spending-added 1.19 percentage points to the top-line in the third quarter, improving from its 0.64 percent contribution in the second quarter.

Meanwhile, the international economy has also made notable progress year-to-date, with global trade making its best contribution to real GDP growth in one year. With that said, goods exports grew 1.8 percent in the third quarter, down from 2.2 percent in the second quarter. Goods imports, though, edged down by 0.2 percent in this release, the first decline since the first quarter of 2016. The export of services rose 2.5 percent in the latest data. Therefore, net exports added 0.36 percentage points to real GDP growth.

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 13-month high in November. New residential construction rose 3.3 percent from 1,256,000 units at the annual rate in October to 1,297,000 in November, its fastest pace since October 2016. More importantly, the increase in the latest data came from a significant uptick in activity for single-family construction, up from 883,000 in October to 930,000 in November, its best reading since September 2007. Moreover, single-family starts have risen by 13.0 percent over the past 12 months. This is encouraging news and a sign that the housing market has strengthened recently from the lull experienced over the summer months. With that in mind, it should not be a surprise that home builder optimism soared to an 18-year high in the latest survey, with a very healthy outlook for 2018 *(see below)*.

At the same time, multifamily housing starts inched down in the November release, off from 373,000 in October to 367,000 in November. Multifamily activity can be highly volatile from month to month, and yet, they have trended upward since August's reading of 301,000. On a year-over-year basis, multifamily starts have increased 12.6 percent from 326,000 units in November 2016.

Meanwhile, housing permits remained highly elevated despite some easing in the November report. Residential permits decreased from 1,316,000 units in October, its highest point since August 2007, to 1,298,000 in November. As such, permits, which are a proxy of future activity in the housing market, are hovering around 1.3 million units as we approach the end of 2017. That news should bode well for residential construction growth in 2018. Indeed, single-family permitting ticked up from 850,000 to 862,000 in the latest data, a level not seen since August 2007, with year-over-year growth of 9.7 percent. Despite that positive development, the multifamily segment eased from 466,000 to 436,000 in November, with a year-over-year decline of 7.0 percent.

Kansas City Fed Manufacturing Survey

The Kansas City Federal Reserve Bank said that manufacturing activity remained strong at year's end despite a pullback in sentiment in December. The composite index of general business conditions has declined from 23 in October, a level not seen since March 2011, to 16 in November to 14 in December. Even with some easing, manufacturers continue to report relatively strong expansions in activity overall, including accelerations in this report for production (up from 15 to 21), employment (up from 16 to 19), the average workweek (up from 7 to 10) and exports (up from 8 to 16). At the same time, there were modest gains for new orders (down from 22 to 7) and shipments (down from 20 to 8), even with some decelerations in those measures.

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 27 to 22. Still, at least half of the respondents expect new orders, production and shipments to increase in the coming months, with 49 percent and 45 percent predicting more hiring and capital spending, respectively. Those figures illustrate robust growth anticipated for 2018 in the economic outlook, something that is highlighted in the sample comments. On the downside, 62 percent of business leaders predict a pickup in raw material costs over the next six months, consistent with the acceleration in input prices seen in other measures.

NAHB Housing Market Index

The National Association of Home Builders (NAHB) and Wells Fargo reported that the Housing Market Index(HMI) increased from 69 in November to 74 in December, its best reading since July 1999. 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 16 straight months, averaging 67.1 over that time frame. NAHB Chief Economist Robert Dietz highlighted the healthy outlook for 2018, saying, "With low unemployment rates, favorable demographics and a tight supply of existing home inventory, we can expect continued upward movement of the single-family construction sector next year."

Along those lines, homebuilder optimism remained strong in the latest data. The index for current single-family sales jumped from 77 to 81, with sales expectations for activity over the next six months also highly elevated, up from 76 to 79. The largest gains in perceptions were in the West, with sentiment slipping somewhat in the Northeast. More importantly, HMI data exceeded 50 in all regions of the country, illustrating mostly positive news for the housing sector overall.

New Home Sales

The Census Bureau and the Department of Housing and Urban Development reported that new home salessoared in November. New single-family residential sales were up a whopping 17.5 percent from 624,000 units at the annual rate to 733,000 units, its fastest pace since July 2007. Sales of new single-family homes grew in every region of the country, with the largest gains in the South and West. With the steep increase in the past three months, new home sales have risen 26.6 percent since the 579,000 pace in November 2016.

With strong sales growth, inventories of new homes for sale tightened considerably for the month. In November, the number of months of supply on the market fell from 5.4 to 4.6, the lowest rate since July 2016. The median sales price was $318,700 in November, up 1.2 percent from $315,000 one year ago.

Personal Income and Spending

The Bureau of Economic Analysis said that personal spending was up strongly in November, up 0.6 percent. After increasing by just 0.2 percent in October, Americans accelerated their personal consumption expenditures in November, including a rebound in nondurable goods spending, up 1.2 percent. Durable goods spending was unchanged in the latest data. Overall, consumer spending has been one of the bright spots in the U.S. economy, with the public more willing to open their pocketbooks over the course of this year. Indeed, personal spending has increased 4.5 percent over the past 12 months, up from 4.2 percent in the previous release and the best year-over-year rate since April. In addition, goods spending for durable and nondurable goods were up 5.4 percent and 5.0 percent year-over-year, respectively.

Likewise, the savings rate has fallen to a 10-year low, down from 3.2 percent in October to 2.9 percent in November. This was a level not seen in the data since November 2007. It is yet another illustration that Americans have accelerated their purchasing-something that is likely to help boost overall holiday spending this year.

Meanwhile, personal incomes continued to rise modestly, up 0.3 percent in November but easing from a 0.4 percent gain in October. Over the past 12 months, personal incomes have risen 3.8 percent in November, up from 3.4 percent year-over-year in October. In addition, manufacturing wages and salaries edged higher for the month, up from $840.1 billion in October to $841.1 billion in November. That translated into a 4.3 percent increase in manufacturing wages and salaries over the past 12 months, up from $806.6 billion in November 2016.

In other news, the personal consumption expenditure (PCE) deflator increased by 0.2 percent in November. The increase stemmed in large part from an acceleration in energy costs, up 4.3 percent, which have been highly volatile in recent months, mostly from hurricane-related pullbacks in activity and supply issues. In contrast, food prices edged down 0.1 percent in November. Core inflation, which excludes food and energy, inched up by 0.1 percent in November.

Overall, pricing pressures have drifted slightly higher over the past couple months but remain quite modest and largely under control, at least for now. 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 November 2016, the PCE deflator has increased 1.8 percent, up from 1.6 percent in October. Core PCE inflation was up 1.5 percent year-over-year in November-well below the Fed's goal of 2 percent.

Philadelphia Fed Manufacturing Survey

The Federal Reserve Bank of Philadelphia said that manufacturing activity continued to expand strongly in December. The composite index of general business activity increased from 22.7 in November to 26.2 in December. Overall, manufacturers in the district are more upbeat this year than last, with the headline index averaging 27.3 in 2017 versus 4.8 for 2016. New orders (up from 21.4 to 29.8) and shipments (up from 21.7 to 23.4) both accelerated in the latest month, ending the year with a robust pace. Indeed, 41.5 percent of respondents said that new orders had risen in December, with just 11.7 percent citing declining sales. The labor market was also healthy. Employment (down from 22.6 to 18.1) and the average workweek (down from 13.7 to 10.6) remained at healthy rates of growth despite some easing in this report.

Meanwhile, manufacturers in the Philadelphia Fed region remained very optimistic about the next six months. The forward-looking composite index increased from 50.1 to 53.5, and two-thirds of those completing the survey felt that new orders would rise in the coming months. The current expectations headline number is not far from the three-year high recorded in September (55.2). Beyond sales, 62.0 percent of respondents anticipate increased shipments over the next six months, with more than 42 percent predicting more employment and capital expenditures. The expected employment measure pulled back from its highest reading since March 1989 (41.2) but remained robust. On the downside, pricing pressures (up from 54.0 to 58.1) were predicted to grow at an elevated pace, with raw material costs continuing to accelerate.

State Employment Report

South Carolina created the most net new manufacturing jobs in November, according to the Bureau of Labor Statistics, adding 3,800 workers in the month. Kentucky (up 3,300), Ohio (up 2,700), Texas (up 2,700), California (up 2,500), Illinois (up 2,200) and Wisconsin (up 2,000) 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 38,100 since November 2016. Other states with the fastest manufacturing job growth year-over-year included Wisconsin (up 16,900), Florida (up 14,100), South Carolina (up 11,000) and Iowa (up 9,200).

The national unemployment rate remained at 4.1 percent in November, its lowest level since December 2000. Hawaii (2.0 percent) had the lowest unemployment rate in the country. Several states were not far behind, including North Dakota (2.6 percent), Nebraska (2.7 percent), New Hampshire (2.7 percent), Colorado (2.9 percent), Idaho (2.9 percent), Iowa (2.9 percent) and Vermont (2.9 percent). In contrast, Alaska (7.2 percent), the District of Columbia (6.4 percent) and New Mexico (6.1 percent) had the highest unemployment rates.

University of Michigan Consumer Sentiment (Revision)

The University of Michigan and Thomson Reuters reported that consumer confidence pulled back for the second straight month from October's robust reading, which was the highest point since January 2004. The Index of Consumer Sentiment has fallen from 100.7 in October to 98.5 in November to 95.9 in December. This was even lower than the preliminary estimate of 96.8, suggesting some weakening in confidence over the past couple weeks. There remains a wide split in responses based on political affiliation, as we have seen all year. Yet, even with some easing recently, Americans remain mostly upbeat in their outlook, with the headline index averaging 96.8 in 2017, up from 91.8 in 2016. Surveys of Consumers Chief Economist Richard Curtin noted higher income expectations in the latest data, with buying plans also quite strong.

The decline in confidence in December came mostly from a weakening in expectations for the future (down from 88.9 to 84.3), but perceptions about current conditions improved slightly (up from 113.5 to 113.8). Overall, the data are consistent with 2.6 percent growth at the annual rate for real consumer spending in 2018.

Connect with the Manufacturers

Questions or comments?

Contact Chief Economist Chad Moutray at **cmoutray@nam.org**

Center for Manufacturing Research