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Monday Economic Report

March 13, 2017

The U.S. labor market continues to strengthen. Nonfarm payrolls rose by 235,000 employees in February, with manufacturers adding 28,000 workers. It was the third straight monthly gain for the sector, and over the past three months, manufacturing employment has increased by 57,000. These numbers are consistent with increased demand, production and sentiment in the past few months in the sector. Indeed, manufacturers are more optimistic in their economic outlook and significantly less cautious about hiring than this time last year. This view is further supported by a belief that the new administration will help to usher in pro-growth policies that will accelerate activity in the U.S. economy and help to improve overall global competitiveness.

A strong jobs report will also all but guarantee that the Federal Reserve will raise short-term interest rates at this week's meeting—something that it has already implied. When the Federal Open Market Committee (FOMC) meets March 14–15, it will discuss accelerating growth in the U.S. economy, including a pickup in pricing pressures. Along those lines, average weekly earnings for manufacturing workers have risen 3.1 percent over the past 12 months. In addition, the unemployment rate continues to approach "full" employment, edging down once again to 4.7 percent. The so-called "real" unemployment rate, which includes those marginally attached to the workforce and those who are working part time for economic reasons, fell from 9.4 percent to 9.2 percent. That matched the level in December, which had been the lowest since April 2008.

Meanwhile, new factory orders increased for the second straight month in January, up 1.2 percent. This was the highest level of new orders since July 2015. A large percentage of that gain stemmed from sizable growth in defense and nondefense aircraft sales, as noted in the earlier release of preliminary durable goods figures. More importantly, new factory orders, which have struggled mightily over the past few years, have begun to move in the right direction, up 3.8 percent since January 2016. Excluding transportation, the gains were even larger, up 6.0 percent year-over-year. Similar data were seen for manufactured goods shipments, even though growth in the January data slowed from the prior month.

In addition, we learned that manufacturing labor productivity rose faster than originally estimated in the fourth quarter. Output per worker in the sector increased 2.0 percent in the fourth quarter, which was better than the 0.7 percent preliminary figure. It was the highest growth rate since the third quarter of 2015. Despite the better numbers in the fourth quarter, manufacturing productivity rose just 0.3 percent in 2016, continuing a trend of soft growth since the Great Recession. For instance, manufacturing output per worker increased a paltry 0.2 percent from 2013 to 2016, well below the 5.2 percent pace from 2002 to 2008. Over the longer term, manufacturers have benefited from being leaner, but the recent sluggishness in productivity and output growth has meant that unit labor costs have risen 11.2 percent since the end of 2011.

Beyond those measures, there were also reminders that progress can be slow at times. Along those lines, the U.S. trade deficit rose to its highest level since March 2012, increasing from $44.26 billion in December to $48.49 billion in January. The higher figure stemmed largely from a jump in goods imports, which rose to levels not seen since March 2015. Still, one could also put a positive spin on these figures, as both goods exports and imports rose in the latest data. This might suggest a pickup in total trade, which has lagged in the past few years. Moreover, U.S.-manufactured goods exports also improved, with January exports up 4.9 percent from January 2016 levels.

The consumer credit figures also provided a mixed message. U.S. consumer credit outstanding increased 2.8 percent in January, slowing from 4.7 percent growth in December. The slower growth rate in January stemmed largely from a pullback in revolving credit, down 4.6 percent for the month. It was the first decline in 11 months for revolving credit, which includes credit cards and other credit lines. As such, Americans appear to have taken a pause after the holidays in their willingness to use credit cards to make purchases. The longer-term trend, however, continues to support the view that the public has been more willing to use credit cards, especially relative to the more cautious approach to spending this time last year. On a year-over-year basis, revolving credit has risen by a relatively healthy 6.0 percent.

This week, the FOMC meeting will dominate economic headlines, as noted earlier, with a likely 25-basis-point rate hike in the federal funds rate. There were also be a number of key indicators to watch, including industrial production on Friday. We will be looking for manufacturing production to increase for the sixth consecutive month, further illustrating the improving economic environment for the sector. This should also be supported by expansions in activity in the New York and Philadelphia Federal Reserve Bank surveys and by stronger housing starts and retail sales numbers. Other highlights this week include new data on consumer confidence, consumer and producer prices, job openings, leading indicators, small business sentiment and state employment.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, March 6
Factory Orders and Shipments

Tuesday, March 7
Consumer Credit
International Trade Report

Wednesday, March 8
ADP National Employment Report
Productivity and Costs (Revision)

Thursday, March 9
None

Friday, March 10
BLS National Employment Report

This Week's Indicators:

Monday, March 13
State Employment Report

Tuesday, March 14
NFIB Small Business Survey
Producer Price Index

Wednesday, March 15
Consumer Price Index
FOMC Monetary Policy Statement
NAHB Housing Market Index
New York Fed Manufacturing Survey
Retail Sales

Thursday, March 16
Housing Starts and Permits
Job Openings and Labor Turnover Survey
Philadelphia Fed Manufacturing Survey

Friday, March 17
Conference Board Leading Indicators
Industrial Production
University of Michigan Consumer Sentiment

Summaries for Last Week`s Economic Indicators

ADP National Employment Report
ADP reported that manufacturing employment grew strongly in February, with the sector hiring 32,000 workers for the month on net. It was the third straight monthly gain in manufacturing employment and the fastest monthly pace since March 2012. This was yet another sign that we have turned a corner in the labor market, with employers accelerating their hiring in light of stronger activity and sentiment. In contrast, firms were more cautious in 2016, with 39,000 fewer workers on net last year. We are hopeful the trend of stronger job growth is one that continues in the coming months.

Meanwhile, the healthy job gains were not limited to manufacturing. Nonfarm payroll employment rose by 298,000 in February, its strongest monthly reading since April 2014 and well above the consensus estimate of around 190,000. Beyond manufacturing, the largest employment growth in February included construction (up 66,000), professional and business services (up 66,000), education and health services (up 40,000), leisure and hospitality (up 40,000) and information (up 25,000). Small and medium-sized businesses (i.e., those with fewer than 500 employees) accounted for just more than three-quarters of all net new workers in the month.

BLS National Employment Report

The Bureau of Labor Statistics reported that manufacturing employment rose for the third straight month, up by a healthy 28,000 in February. That was the strongest monthly growth in employment in 13 months and a definite sign of improvement given the cautious approach to hiring during much of last year. Manufacturers have added 57,000 workers in the past three months, with upward revisions totaling 13,000 for December and January. These numbers are consistent with increased demand, production and sentiment in the past few months in the sector. Indeed, manufacturers are more optimistic in their economic outlook and significantly less cautious about hiring than this time last year. This view is further supported by a belief that the new administration will help to usher in pro-growth policies that will accelerate activity in the U.S. economy and help to improve overall global competitiveness.

A strengthening labor market will also all but guarantee that the Federal Reserve will raise short-term interest rates at this week's meetingâ€"something that it has already implied. Along those lines, nonfarm payrolls increased by 235,000 in February, which was better than the consensus estimate of around 200,000, and the unemployment rate edged lower, down from 4.8 percent to 4.7 percent. In addition, the participation rate ticked up from 62.9 percent to 63.0 percent, its highest level since March 2016 and definite progress from 62.6 percent just four months ago. The so-called "real" unemployment rate, which includes those marginally attached to the workforce and those who are working part time for economic reasons, fell from 9.4 percent to 9.2 percent. That matched the level in December, which had been the lowest since April 2008.

Looking specifically at manufacturing, durable and nondurable goods employment both increased, up by 10,000 and 18,000 workers, respectively. The strongest growth included food manufacturing (up 8,800), machinery (up 6,800), miscellaneous nondurable goods (up 3,100), plastics and rubber products (up 2,500), nonmetallic mineral products (up 2,400), miscellaneous durable goods (up 1,800), primary metals (up 1,600), paper and paper products (up 1,500) and wood products (up 1,500). At the same time, jobs declined in the following: transportation equipment (down 6,000, including a decrease of 3,500 for motor vehicles and parts), computer and electronic products (down 800) and apparel (down 400), among others.

Average weekly earnings in manufacturing inched slightly higher for the month, up from $1,075.08 in January to $1,075.49 in February. On a year-over-year basis, average weekly earnings have increased from $1,042.73 in February 2016, up 3.1 percent for the 12-month period. Average weekly hours were unchanged at 40.8, with average overtime hours also flat at 3.3.

Consumer Credit

The Federal Reserve Board reported that U.S. consumer credit outstanding increased 2.8 percent in January, slowing from 4.7 percent growth in December. Total consumer credit was $3.774 trillion, with $995.1 billion in revolving credit and $2.778 trillion in nonrevolving credit. Across the past 12 months, consumer credit has increased 6.3 percent.

Yet, the slower growth rate in January stemmed largely from a pullback in revolving credit, down 4.6 percent for the month. It was the first decline in 11 months for revolving credit, which includes credit cards and other credit lines. As such, Americans appear to have taken a pause after the holidays in their willingness to use credit cards to make purchases. The longer-term trend, however, continues to support the view that the public has been more willing to use credit cards, especially relative to the more cautious approach to spending this time last year. On a year-over-year basis, revolving credit has risen by a relatively healthy 6.0 percent.

Meanwhile, nonrevolving credit, which includes auto and student loans, rose 5.5 percent in January, up from 4.9 percent in December. Since January 2016, nonrevolving credit has increased 6.4 percent.

Factory Orders and Shipments

The Census Bureau reported that new factory orders increased for the second straight month in January, up 1.2 percent. This was the highest level of new orders since July 2015. A large percentage of that gain stemmed from sizable growth in defense and nondefense aircraft sales, as noted in the earlier release of preliminary durable goods figures. In addition, manufactured goods orders increased 0.4 percent when excluding transportation equipment. More importantly, new factory orders, which have struggled mightily over the past few years, have begun to move in the right direction, up 3.8 percent since January 2016. Excluding transportation, the gains were even larger, up 6.0 percent year-over-year.

In this release, durable and nondurable goods orders increased 2.0 percent and 0.4 percent, respectively. New orders for durable goods excluding transportation remained essentially unchanged for the month, but up 2.5 percent year-over-year. Looking specifically at durable goods activity in January, the data were mixed. Demand was stronger for the month for fabricated metal products (up 2.3 percent), furniture and related products (up 2.3 percent), machinery (up 0.9 percent) and motor vehicles and parts (up 0.8 percent). In contrast, orders fell for electrical equipment and appliances (down 2.6 percent), computers and electronic products (down 1.9 percent) and primary metals (down 1.5 percent).

Meanwhile, manufactured goods shipments edged up 0.2 percent in January, slowing from the 2.5 percent gain in December. Nondurable goods shipments increased 0.4 percent in this release, but shipments of durable goods were flat. Much like the new orders data discussed above, growth in the value of manufactured goods shipments has stabilized from weaknesses earlier last year and trended higher. On a year-over-year basis, factory shipments have risen 4.9 percent, or 6.2 percent excluding transportation.

International Trade Report

The Bureau of Economic Analysis and the Census Bureau reported that the U.S. trade deficit rose to its highest level since March 2012, increasing from $44.26 billion in December to $48.49 billion in January. The higher figure stemmed largely from a jump in goods imports, up from $192.56 billion to $197.64 billion, which was the most since March 2015. That was more than enough to offset the increase in goods exports, up from $126.85 billion to $127.95 billion, a level not seen since April 2015. At least some of that gain could be explained by higher petroleum imports, up from $14.26 billion to $16.87 billion, the highest level in two years. Meanwhile, the service-sector surplus slipped slightly lower, down from $21.44 billion to $21.19 billion.

Looking more closely at the underlying data, goods exports were mostly higher. The largest increases included industrial supplies and materials (up $2.08 billion), automotive vehicles and parts (up $1.33 billion) and foods, feeds and beverages (up $594 million). In contrast, capital goods (down $1.89 billion) fell sharply in January, somewhat counteracting the other gains. At the same time, goods imports grew strongly, including healthy gains for consumer goods (up $2.41 billion), industrial supplies and materials (up $1.00 billion), automotive vehicles and parts (up $899 million) and capital goods (up $668 million).

It is still early into 2017, but the manufactured goods exports picture is already better this year than the past two years. Using non-seasonally adjusted data, U.S.-manufactured goods exports totaled $83.09 billion in January, up 4.87 percent from $79.23 billion in January 2016.

Productivity and Costs (Revision)

The Bureau of Labor Statistics reported that manufacturing labor productivity rose faster than originally estimated in the fourth quarter. Output per worker in the sector increased 2.0 percent in the fourth quarter, which was better than the 0.7 percent preliminary figure. It was the highest growth rate since the third quarter of 2015. Despite the better numbers in the fourth quarter, manufacturing productivity rose just 0.3 percent in 2016, continuing a trend of soft growth since the Great Recession. For instance, manufacturing output per worker increased a paltry 0.2 percent from 2013 to 2016, well below the 5.2 percent pace from 2002 to 2008. Over the longer term, manufacturers have benefited from being leaner, but the recent sluggishness in productivity and output growth has meant that unit labor costs have risen 11.2 percent since the end of 2011.

Looking specifically at the fourth quarter data, manufacturing output rose 1.6 percent, with durable and nondurable goods activity up 1.4 percent and 1.7 percent, respectively. Yet, nondurable goods manufacturers fared better in terms of labor productivity growth than their durable goods counterparts, with output per worker up 2.7 percent and 1.5 percent, respectively. Nondurable goods firms worked 1.0 percent less hours in the fourth quarter, with durable goods firms experiencing 0.1 percent fewer hours. Unit labor costs jumped 2.4 percent in the fourth quarter, or 2.6 percent and 2.0 percent for durable and nondurable goods businesses, respectively.

In the larger economy, nonfarm labor productivity rose 1.3 percent in the fourth quarter, decelerating from the 3.5 percent figure in the third quarter. Nonfarm output increased 2.4 percent, with unit labor costs up 1.7 percent. Similar to the manufacturing data described above, nonfarm labor productivity has slowed considerably since the Great Recession, averaging 0.5 percent per year from 2011 to 2016. It was up by only 0.2 percent in 2016. This compares to 2.7 percent growth from 2000 to 2007.

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Questions or comments?

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