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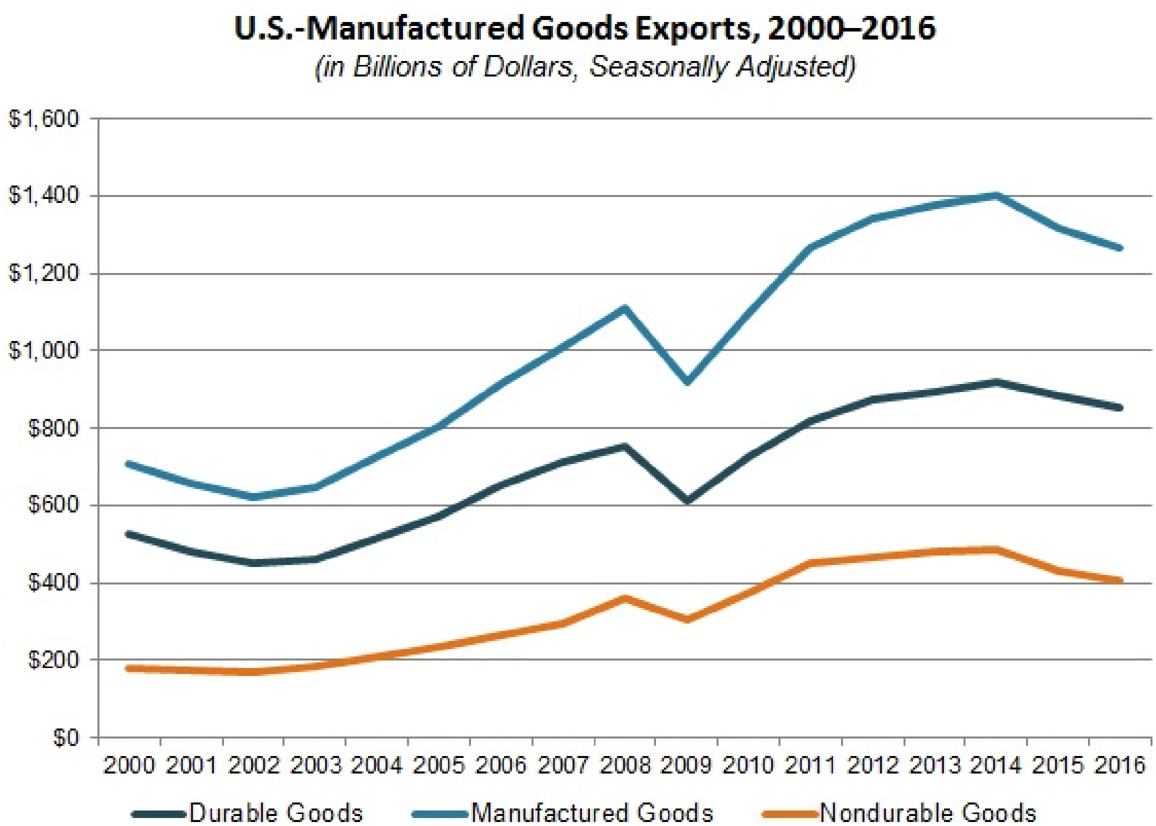
Monday Economic Report

February 13, 2017



While we have seen improved sentiment lately, it is clear that manufacturers struggled mightily over the past two years to increase international demand, particularly with a strong U.S. dollar and lingering economic challenges to key markets. The U.S. trade deficit, which was $44.3 billion in December, totaled $502.3 billion in 2016 as a whole. That was the highest annual trade deficit since 2012, and it edged slightly higher from the $500.4 billion deficit in 2015. Specific to the sector, U.S.-manufactured goods exports fell 3.87 percent in 2016, down from $1.32 trillion in 2015 to $1.27 trillion in 2016, using seasonally adjusted data from TradeStats Express. This extended the 6.19 percent decline in 2015. Moreover, exports were lower in nine of the top 10 markets for U.S.-manufactured goods in 2016, with a small gain in exports to Japan. Nonetheless, the December trade data seem to indicate a pickup in trade volumes, both for goods exports and goods imports, and we hope that bodes well for improvements in exports in 2017.

In other news about the sector, manufacturing job openings ticked higher, up from 314,000 in November to 325,000 in December, a three-month high. Postings in the sector have trended lower since achieving an all-time high of 397,000 in April. On the positive side, job openings remain quite elevated overall, especially relative to net hiring. As such, we would expect employment growth to accelerate with a turnaround in demand and production. For now, however, job growth has continued to be weak. Net hiring (or hiring minus separations) in the manufacturing sector rose from a decrease of 3,000 workers in November to a gain of 9,000 employees in December. In the larger economy, nonfarm job openings changed little, down from 5,505,000 in November to 5,501,000 in December.

Meanwhile, consumer confidence pulled back in February from January's levels, which had represented the survey's best reading in 13 years. The Index of Consumer Sentiment declined from 98.5 in January to 95.7 in February, according to preliminary figures. Richard Curtin, the Survey of Consumers chief economist, noted that confidence has been sharply divided along partisan lines since the election. With that said, Americans are more confident today than just a few months ago, which is encouraging. The stronger perceptions about the economic outlook have helped to fuel more spending, with Americans more willing to make purchases, including with credit cards. Indeed, U.S. consumer credit outstanding rose 4.5 percent at the annual rate in December, with year-over-year growth of 6.4 percent.

We will be looking for signs of improved manufacturing activity this week with the release of January's industrial production data. Manufacturing production rebounded somewhat in December, but over the past 12 months, output was up a rather stagnant 0.2 percent. Sentiment surveys have reflected increased optimism of late, and we will get another look at such assessments with new surveys from the New York and Philadelphia Federal Reserve Banks. Other highlights this week include new releases for consumer and producer prices, housing starts and permits, leading indicators and small business confidence.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, February 6
None

Tuesday, February 7
Consumer Credit
International Trade
Job Openings and Labor Turnover Survey

Wednesday, February 8
None

Thursday, February 9
None

Friday,February 10
University of Michigan Consumer Sentiment

This Week's Indicators:

Monday, February 13
None

Tuesday, February 14
NFIB Small Business Survey
Producer Price Index

Wednesday, February 15
Consumer Price Index
Industrial Production
NAHB Housing Market Index
New York Fed Manufacturing Survey
Retail Sales

Thursday, February 16
Housing Starts and Permits
Philadelphia Fed Manufacturing Survey

Friday, February 17
Conference Board Leading Indicators

Summaries for Last Week`s Economic Indicators

Consumer Credit

The Federal Reserve Board reported that U.S. consumer credit outstanding rose 4.5 percent at the annual rate in December, slowing from the 8.1 percent gain in November. Total consumer credit was $3.763 trillion, with $995.5 billion in revolving credit and $2.767.4 trillion in nonrevolving credit. Across the past 12 months, consumer credit has increased 6.4 percent, with revolving and nonrevolving credit lines up 6.1 percent and 6.5 percent year-over-year, respectively.

Nonrevolving credit, which includes auto and student loans, rose 5.1 percent in December, easing somewhat from the 5.9 percent increase in November. Growth in revolving credit, which includes credit cards and other credit lines, was quite volatile in the fourth quarter, up 2.9 percent, 14.4 percent and 2.9 percent in October, November and December, respectively. Despite the month-to-month shifts, the data have been largely positive over the longer term. The pace of growth for revolving credit has accelerated over the past 12 months, up from 5.2 percent in December 2015.

That mirrors stronger consumer spending data of late. As such, Americans are more willing to use their credit cards when making purchases, moving on from some of the caution earlier in 2016.

International Trade

The Bureau of Economic Analysis and the Census Bureau reported that the U.S. trade deficit edged down somewhat, from $45.73 billion in November to $44.26 billion in December. For the year as a whole, the monthly data in 2016 were quite volatile, ranging from $36.52 billion in September to November's high for the year. In 2016, the trade deficit averaged $41.85 billion, which was not far from the $41.70 billion average in 2015. The trade deficit was lower in December because the increase in goods exports (up from $122.14 billion to $126.93 billion) was enough to offset the gain in goods imports (up from $189.06 billion to $192.64 billion). The jump in both figures was important, suggesting that global trade is picking up; indeed, goods exports and imports were at their highest levels since July and March 2015, respectively. In addition, the service-sector surplus inched up from $21.19 billion to $21.44 billion.

Looking more closely at the underlying data, goods exports were mostly higher. The largest increases were in capital goods (up $3.33 billion) and industrial supplies and materials (up $731 million), with the capital goods category boosted by a $1.01 billion gain in civilian aircraft exports. At the same time, goods imports were also up across-the-board. This included strong increases for automotive vehicles and parts (up $1.62 billion), industrial supplies and materials (up $1.09 billion) and capital goods (up $982 million).

Despite some improvements in December, the bottom line is that manufacturers struggled mightily over the past two years to increase international demand, particularly with a strong U.S. dollar and lingering economic challenges to key markets. Using seasonally adjusted data from TradeStats Express, U.S.-manufactured goods exports fell 3.87 percent in 2016, down from $1.32 trillion in 2015 to $1.27 trillion in 2016. This extended the 6.19 percent decline in 2015.

Moreover, exports were lower in nine of the top 10 markets for U.S.-manufactured goods in 2016. Looking just at the top six, the decline included Canada (down 4.75 percent), Mexico (down 2.06 percent), China (down 2.68 percent), the United Kingdom (down 1.48 percent) and Germany (down 0.23 percent). The lone exception was Japan (up 0.48 percent), which eked out a small gain for the year.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics reported that manufacturing job openings ticked higher, up from 314,000 in November to 325,000 in December, a three-month high. Postings in the sector have trended lower since achieving an all-time high of 397,000 in April. On the positive side, we hope this report will begin a movement in the right direction, and more importantly, job openings remain quite elevated overall, especially relative to net hiring. In 2016, job openings averaged 341,000 per month, up from 311,000 in 2015. In the December data, both durable (up from 181,000 to 183,000) and nondurable (up from 133,000 to 141,000) goods firms had more openings.

Meanwhile, net hiring returned to positive territory in December after declining in November. Total hiring was unchanged at 283,000 in December, with nondurable goods hiring up from 117,000 to 119,000 but with durable goods activity down from 166,000 to 163,000. At the same time, total separations, which include quits, layoffs and retirements, eased from 286,000 to 274,000 for the month, led by a decrease in separations in the durable goods sector, down from 165,000 to 153,000. Overall, net hiring (or hiring minus separations) rose from a decrease of 3,000 workers in November to a gain of 9,000 employees in December.

In the larger economy, nonfarm job openings changed little, down from 5,505,000 in November to 5,501,000 in December. There were more openings in the latest release for education and health services; financial activities; information; mining and logging; manufacturing; retail trade; and transportation, warehousing and utilities. In addition, net hiring in the overall economy accelerated, up from 194,000 in November to 284,000 in December.

University of Michigan Consumer Sentiment

The University of Michigan and Thomson Reuters reported that consumer confidence pulled back in February from January's levels, which had represented the survey's best reading in 13 years. The Index of Consumer Sentiment declined from 98.5 in January to 95.7 in February, according to preliminary figures. Richard Curtin, the Survey of Consumers chief economist, noted that confidence has been sharply divided along partisan lines since the election. To illustrate this point, the survey found wide variances between those viewing government policies favorably versus unfavorably, with "the Democrat's Expectations Index [close] to its historic low (indicating recession) and the Republican's Expectations Index [near] its historic high (indicating expansion)."

Looking specifically at the February data, the drop in the headline number stemmed largely from a weakened perception about future economic conditions (down from 90.3 to 85.7), even as the longer-term trend remained positive. At the same time, their views of the current environment (down from 111.3 to 111.2) changed little for the month, remaining highly elevated overall.

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Questions or comments?

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Center for Manufacturing Research