Manufacturing production increased 0.2 percent in September, rising for the fourth straight month and five of the past six months. The sector continues to see strong growth, with manufacturing output up 3.5 percent over the past 12 months, the best year-over-year rate since April 2012. Similarly, manufacturing capacity utilization inched up from 75.8 percent in August to 75.9 percent in September, matching the rate in April, with both at utilization rates not seen since August 2015. In September, durable goods production rose 0.6 percent, but output among nondurable goods manufacturers edged down for the second consecutive month, off 0.1 percent for the month.

Similarly, total industrial production rose 0.3 percent in September, extending the 0.4 percent gain in August. In addition to increased manufacturing output, mining production grew 0.5 percent, with utilities output flat. Over the past 12 months, industrial production has risen a robust 5.1 percent, the fastest year-over-year pace since December 2010. Mining and utilities have grown 13.4 percent and 5.4 percent year-over-year, respectively. In addition, capacity utilization remained at 78.1 percent in September, just shy of the 78.2 percent reading in April, which was the best rate since February 2015.

On a regional level, there were continued solid readings for manufacturing activity in both the New York and Philadelphia Federal Reserve Bank districts in October. New orders, shipments and employment expanded strongly for the month, even with mixed results between the two surveys, and business leaders remained upbeat about growth over the next six months. Pricing pressures have lessened somewhat, but with raw materials costs still expected to increase decisively over the coming months. Strength in new orders for manufactured goods helped lift the Conference Board's Leading Economic Index 0.5 percent in September, continuing to make the sector one of the brighter spots in the economy. The data suggest modest growth in the U.S. economic outlook for the months ahead.

Robust economic growth has also tightened the labor market significantly, with the inability to find talent being the top challenge cited in the most recent NAM Manufacturers’ Outlook Survey. To further illustrate why that is such a significant problem, job openings for nonfarm payroll businesses soared to a new all-time high, up to 7,136,000 in August. There are more job openings in the U.S. economy than the number of people looking for work (6,234,000 in August and 5,964 in September), and total quits in the nonfarm sector were 3,577,000 in August, off just slightly from 3,608,000 in July, which was a record high. The August quits number was the second-highest level in the history of the JOLTS data. This suggests Americans are feeling more comfortable leaving their job, likely to pursue other opportunities.
Nonetheless, manufacturing job openings pulled back slightly from a 17-year high in July but remained highly elevated in August. Manufacturers posted 488,000 job openings in August, down from a revised 496,000 in July, which was the best reading since January 2001.

Meanwhile, there were also signs that the impacts of Hurricane Florence weakened economic activity somewhat in September. This was especially the case for housing starts, which declined 5.3 percent to 1,201,000 units at the annual rate in September. Single-family and multifamily construction activity both fell, and over the past 12 months, new housing starts have risen a modest 3.7 percent. Housing permits also declined, down to 1,241,000 units, a 16-month low. Aside from the weather, the lack of sufficient construction workers, higher costs and increased mortgage rates have been cited as concerns. Largely along the same lines, existing home sales fell for the sixth straight month, down 3.4 percent in September to the lowest level since November 2015. Even with those issues, homebuilders remain upbeat about sales over the next six months, and housing starts should hover closer to 1.3 million units by year’s end, according to the latest forecast.

Hurricane Florence also likely negatively impacted retail spending, which edged up 0.1 percent in September, well below the consensus estimate of 0.6 percent growth, and as such, it represents a bit of a disappointment. On the positive side, retail spending rose for the eighth straight month, and sales have increased 4.7 percent over the past 12 months. However, retail spending registered the slowest year-over-year pace since February, down from 6.5 percent year-over-year growth in August. Overall, however, retail sales should rebound over the coming months, especially over the holidays.

The highlight this week on the economic front will be Friday’s release of preliminary third quarter real GDP data. The U.S. economy grew an annualized 4.2 percent in the second quarter, the best reading since the third quarter of 2014 and up from 2.2 percent growth in the first quarter. The current estimate for third quarter growth is 3.5 percent at the annual rate, boosted by solid consumer and business spending. For the year, the economy remains on track for roughly 3 percent growth in 2018, which would be the strongest growth rate since 2005.

Aside from GDP, there will also be several readings on the manufacturing sector, including the latest figures for durable goods orders and shipments and new surveys from IHS Markit® and the Kansas City and Richmond Federal Reserve Banks. Other highlights include updates on consumer confidence, the international trade in goods and new home sales.

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bright spots in the latest data, adding roughly one-third of the contribution to the headline figure in September. Consumer confidence, the interest rate spread, overall lending conditions, the stock market and unemployment claims also made notable positive contributions to the LEI in the latest data. In contrast, building permits and the average employee workweek provided slight drags to the top line for the month.

Meanwhile, the Coincident Economic Index (CEI), which assesses current conditions, inched up 0.1 percent in September, slowing after a gain of 0.3 percent in August. With that said, each component of the CEI—industrial production, nonfarm payrolls, personal income and manufacturing and trade sales—contributed positively to the index for the month. As noted below, manufacturing production rose 0.2 percent in September, with 3.5 percent growth over the past 12 months. That was the highest year-over-year rate since April 2012.

**Existing Home Sales**
The National Association of Realtors® (NAR) reported that existing home sales fell for the sixth straight month, down 3.4 percent in September. Sales of existing homes decreased from 5.33 million units at the annual rate in August to 5.15 million units in September, down from 5.60 million units in March and off to the slowest pace since November 2015. Activity for the month declined in every region of the country except for the Midwest, which was unchanged. In addition, sales of single-family homes (down from 4.74 million units to 4.58 million units) and condominiums and co-ops (down from 590,000 units to 570,000 units) both decreased in September. NAR Chief Economist Lawrence Yun attributes much of the decline to affordability issues, especially the recent rise in mortgage rates.

Over the past 12 months, existing home sales fell 4.1 percent from 5.37 million units in September 2017, with single-family and condominium/co-op sales down 4.0 percent and 5.0 percent, respectively. Nonetheless, the median existing home price was $258,100, up 4.2 percent over the past 12 months. There were 4.4 months of supply on the market in September, up from 4.3 months of inventory in August.

**Housing Starts and Permits**
The Census Bureau and the Department of Housing and Urban Development reported that housing starts decreased 5.3 percent in September, continuing to be weaker than desired. New residential construction activity declined from an annualized 1,268,000 units in August to 1,201,000 units in September, with decreases in both the Midwest and South. As such, weather could have been a factor, including the impacts of Hurricane Florence. Starts for both single-family (down from 879,000 to 871,000) and multifamily (down from 369,000 to 330,000) units both fell, with the largest declines coming from the latter category, which can often be highly volatile from month to month. Over the past 12 months, new housing starts have risen a modest 3.7 percent, up from 1,158,000 units in September 2017. Single-family and multifamily starts rose 4.8 percent and 0.9 percent year-over-year, respectively.

Housing starts should hover closer to 1.3 million units by year’s end, continuing to bounce back from summer softness, according to the latest forecast. For their part, homebuilders remain very upbeat about sales over the next six months, even as higher costs and increased mortgage rates have eaten into affordability. Builders also struggle to find talent, much like manufacturers and trucking firms.

Despite the optimism for stronger data in the coming months, housing permits activity in September fell for the second straight month. Permits edged down 0.6 percent from 1,249,000 units at the annual rate in August to 1,241,000 units in September, a 16-month low. To the extent that permits are a proxy of future activity, this is potentially worrisome. Multifamily permitting declined from 422,000 to 390,000 for the month, but single-family permits rebounded in September, up from 827,000 to 851,000. Overall, single-family permitting has risen 2.4 percent over the past 12 months, but total housing permits have fallen 1.0 percent since September 2017, pulled lower by a 7.8 percent decrease for multifamily construction permitting.

**Industrial Production**
The Federal Reserve reported that manufacturing production increased 0.2 percent in September, rising for the fourth straight month and five of the past six months. The sector continues to see strong growth, with manufacturing output up 3.5 percent over the past 12 months, the best year-over-year rate since April 2012. Similarly, manufacturing capacity utilization inched up from 75.8 percent in August to 75.9 percent in September, matching the rate in April, with both at utilization rates not seen since August 2015.

In September, durable goods production rose 0.6 percent, but output among nondurable goods manufacturers edged down for the second consecutive month, off 0.1 percent for the month. Overall, the sector-by-sector breakdowns provided mixed results, with 11 increases, seven declines and one sector unchanged (plastics and rubber products). The largest production gains occurred in motor vehicles and parts (up 1.7 percent), wood products (up 1.7 percent), primary metals (up 1.1 percent), aerospace and other transportation equipment (up 1.0 percent), printing and support (up 1.0 percent), machinery (up 0.9 percent), petroleum and coal products (up 0.9 percent), furniture and related products (up 0.7 percent) and computer and electronic products (up 0.5 percent), among other sectors.

In contrast, output declined for textile and product mills (down 1.8 percent), apparel and leather (down 1.7 percent), nonmetallic mineral products (down 1.5 percent), chemicals (down 0.4 percent), electrical equipment, appliances and components (down 0.4 percent), miscellaneous durable goods (down 0.3 percent) and food, beverage and tobacco products (down 0.1 percent).

Meanwhile, total industrial production rose 0.3 percent in September, extending the 0.4 percent gain in August. In addition to increased manufacturing output, mining production grew 0.5 percent, with utilities output flat. Over the past 12 months, industrial production has risen a robust 5.1 percent, the fastest year-
over-year since December 2010. Mining and utilities have grown 13.4 percent and 5.4 percent year-over-year, respectively. In addition, capacity utilization remained at 78.1 percent in September, just shy of the 78.2 percent reading in April, which was the best rate since February 2015.

**Job Openings and Labor Turnover Survey**

The Bureau of Labor Statistics reported that manufacturing job openings pulled back slightly from a 17-year high in July but remained highly elevated in August. Manufacturers posted 488,000 job openings in August, down from a revised 496,000 in July, which was the best reading since January 2001. (It was reported originally to be 506,000 in July, which was a record high.) According to the Job Openings and Labor Turnover Survey (JOLTS), there were marginally fewer job postings for both durable (down from 289,000 to 286,000) and nondurable (down from 207,000 to 202,000) goods manufacturers. Even with some easing in August, the data reflect a tight labor market, with manufacturing business leaders citing the inability to attract and retain workers as their top challenge in the most recent NAM Manufacturers’ Outlook Survey.

Along those lines, net hiring has also been robust for manufacturers. There were 372,000 hires in the sector in August, down from 392,000 in July, which had been the strongest reading since February 2007. Hiring decelerated for durable goods firms (down from 231,000 to 207,000) but ticked up for nondurable goods businesses (up from 161,000 to 165,000). At the same time, total separations—including layoffs, quits and retirements—decreased from 358,000 to 352,000. As a result, net hiring (or hires minus separations) was 20,000 in August, off from 34,000 in July. Over the past 12 months, net hiring has averaged almost 20,000 per month—a solid rate of growth.

Meanwhile, job openings for nonfarm payroll businesses soared to a new all-time high, up from 7,077,000 in July to 7,136,000 in August. In addition, there are more job openings in the U.S. economy than the number of people looking for work (6,234,000 in August and 5,964 in September). In addition, total quits in the nonfarm sector were 3,577,000 in August, off just slightly from 3,608,000 in July, which was a record high. The August quits number was the second-highest level in the history of the JOLTS data. This suggests Americans are feeling more comfortable leaving their job, likely to pursue other opportunities.

More than anything, that reality helps to explain why workforce concerns are top-of-mind for so many manufacturers (and other industries) right now.

**NAHB Housing Market Index**

The National Association of Home Builders (NAHB) and Wells Fargo reported that the Housing Market Index (HMI) inched up from 67 in September to 68 in October. This continued to suggest solid growth, with builders responding to strength in the macroeconomy. At the same time, NAHB Chief Economist Robert Dietz said that "... housing affordability has become a challenge due to ongoing price and interest rate increases. Unless housing affordability stabilizes, the market risks losing additional momentum as we head into 2019.” Yet, the expectation is that single-family home sales should be robust in the months ahead.

Indeed, the index for expected single-family home sales rose from 74 in September to 75 in October, the best reading since June. More importantly, that figure would be consistent with robust demand moving forward. From a larger perspective, the HMI has now exceeded 50 in every month since July 2014 and has surpassed 60—which would signify very strong growth—for 26 consecutive months.

**New York Fed Manufacturing Survey**

Manufacturing activity continued to expand strongly in October in the New York Federal Reserve Bank’s district. In the latest Empire State Manufacturing Survey, the composite index of general business conditions rose from 19.0 in September to 21.1 in October. New orders (up from 16.5 to 22.5) and shipments (up from 14.3 to 26.3) both accelerated for the month, largely on fewer respondents saying that activity decreased for the month. With that said, the labor market variables eased somewhat in October, including slower growth for hiring (down from 13.3 to 9.0) and the average employee workweek (down from 11.5 to 0.2) with the latter pulling back to just barely above neutral. At the same time, pricing pressures remained highly elevated and a major concern for manufacturers despite some easing in the cost of raw materials (down from 46.3 to 42.0). Similarly, the expected prices paid index pulled back from a five-year high (down from 56.1 to 52.9) but also indicated very solid growth in anticipated input costs for the next six months.

Meanwhile, manufacturers in the New York Federal Reserve region remained upbeat about the coming months, albeit with some moderation in the latest survey. The forward-looking composite index decreased from 30.3 to 29.0, with eased—but still quite robust—expansions seen for shipments (down from 35.2 to 33.8), employment (down from 14.7 to 13.0), capital expenditures (down from 19.5 to 16.0) and technology spending (down from 10.6 to 9.2). Encouragingly, new orders accelerated a little faster in October (up from 33.3 to 35.1), with 49.8 percent of respondents saying sales rose for the month against 14.7 percent who cited declines. That should bode well for increased activity in the months ahead. Indeed, the expected average employee workweek rebounded in the latest data and was seen growing modestly moving forward (up from -1.8 to 2.5).

**Philadelphia Fed Manufacturing Survey**

The Federal Reserve Bank of Philadelphia reported that growth in manufacturing activity remained solid in October, even as it eased a little from September's reading. The composite index of general business activity edged down from 22.9 in September to 22.2 in October. In the latest survey, stronger expansions occurred for shipments (up from 19.6 to 24.5), employment (up from 17.6 to 19.5) and the average employee workweek (up from 14.6 to 20.8), but new orders slowed a bit (down from 21.4 to 19.3). All those measures indicated healthy growth in the sector in the Philadelphia Federal Reserve's district.
At the same time, while the prices paid for raw materials remained highly elevated, the growth in input costs decelerated once again (down from 39.6 to 38.2). With that said, manufacturers in the region expect raw material costs to continue to escalate robustly over the next six months (up from 49.8 to 54.1). Indeed, 57.7 percent of respondents predict increased input costs over the coming months, with just 3.7 percent anticipating declines.

Manufacturers in the Philadelphia Federal Reserve district remained very upbeat about future activity despite pulling back a little in September. The future-oriented composite index decreased from 36.3 in September to 33.8 in October. The underlying data provided mixed results. Those completing the survey anticipated notably stronger growth in new orders (up from 34.7 to 43.4), shipments (up from 35.5 to 36.9) and the average employee workweek (up from 10.8 to 17.6). In contrast, expected increases in employment (down from 31.7 to 30.2) and capital spending (down from 26.7 to 25.2) softened marginally, while remaining strong overall.

Retail Sales
Retail spending edged up 0.1 percent in September for the second consecutive month, well below the consensus estimate of 0.6 percent growth, and as such, it represents a bit of a disappointment. Yet, the softness might be attributable to Hurricane Florence and other weather challenges for the month. On the positive side, retail spending rose for the eighth straight month, and sales have increased 4.7 percent over the past 12 months. However, retail spending registered the slowest year-over-year pace since February, down from 6.5 percent year-over-year growth in August. Similar decelerations in the rates of growth occurred for retail sales excluding automobiles (down from 7.0 percent year-over-year in August to 5.7 percent in September) and excluding automobiles and gasoline (down from 5.7 percent year-over-year to 5.0 percent).

In September, retail sales rose for furniture and home furnishings (up 1.1 percent), nonstore retailers (up 1.1 percent), motor vehicles and parts (up 0.8 percent), sporting goods and hobbies (up 0.7 percent), clothing and accessories (up 0.5 percent), food and beverage stores (up 0.2 percent), building material and garden supplies (up 0.1 percent) and miscellaneous stores (up 0.1 percent). In contrast, spending decreased for food services and drinking places (down 1.8 percent), department stores (down 0.8 percent), gasoline stations (down 0.8 percent), health and personal care stores (down 0.3 percent) and grocery stores (down 0.1 percent).

Over the past 12 months, the fastest growth in retail included gasoline stations (up 11.4 percent), nonstore retailers (up 11.4 percent), food services and drinking places (up 7.1 percent), electronics and appliance stores (up 5.8 percent), clothing and accessories stores (up 4.6 percent) and furniture and home furnishings stores (up 4.3 percent). Higher prices boosted gasoline station spending, with the price of gasoline averaging $2.52 per gallon one year ago but $2.77 a gallon in September according to the Energy Information Administration.

State Employment Report
Ohio created the most net new manufacturing jobs in September, according to the Bureau of Labor Statistics, adding 3,400 workers. Texas (up 2,800), Illinois (up 2,300), Tennessee (up 2,300) and Missouri (up 2,200) also topped the list of manufacturing employment gains in September. Meanwhile, Texas saw the greatest job gains in the sector over the past 12 months, with manufacturing employment in the state up 27,500 since September 2017. Other states with the fastest manufacturing job growth year-over-year included Wisconsin (up 22,800), Florida (up 19,500), Ohio (up 16,100), Illinois (up 14,600) and Michigan (up 11,000).

The national unemployment rate dropped to 3.7 percent in September, the lowest level since December 1969. At the state level, Hawaii had the lowest unemployment rate in the country (2.2 percent), followed by Iowa (2.5 percent), Idaho (2.7 percent), New Hampshire (2.7 percent), North Dakota (2.7 percent), Minnesota (2.8 percent), Nebraska (2.8 percent), Vermont (2.9 percent), Virginia (2.9 percent), South Dakota (3.0 percent) and Wisconsin (3.0 percent). In contrast, Alaska (6.5 percent), the District of Columbia (5.7 percent), West Virginia (5.2 percent) and Louisiana (5.0 percent) had the highest unemployment rates.

Questions or comments?

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