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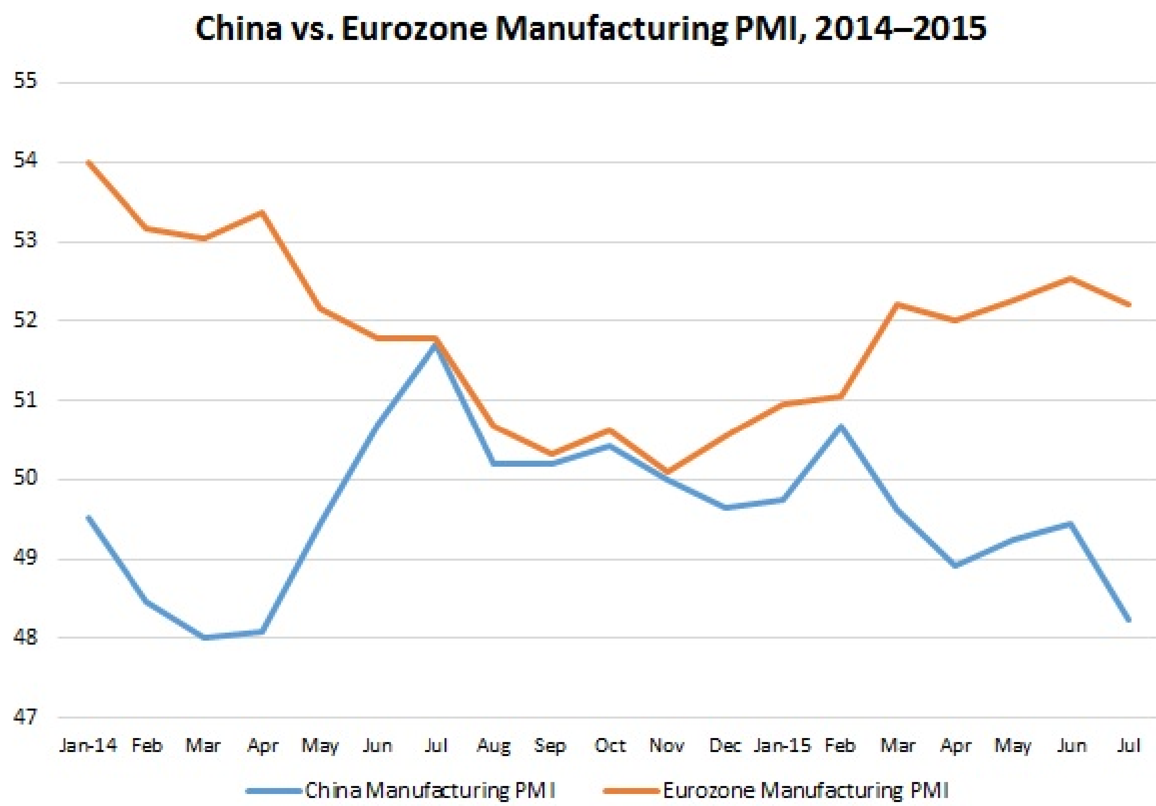

Source: Markit

Just two weeks ago, the Greek debt drama overshadowed the plunge in the Shanghai stock market, but with Greece receiving a bailout (and staying in the Eurozone, at least for now), more attention is being paid to China's decelerating growth. Those worries have become more evident with manufacturing activity in China dropping to its lowest level since April 2014. The Caixin Flash China General Manufacturing PMI has now contracted in seven of the past eight months, with new orders, output and exports each slipping further into negative territory in July. In contrast, Europe has fared pretty well, particularly given the uncertain environment regarding Greece over the past few weeks. The Markit Flash Eurozone Manufacturing PMI fell slightly in July but remained just shy of June's reading, which had been the highest since April 2014. Notice the coincidence between China and the Eurozone regarding April 2014, a sign that these two regions are moving in opposite directions right now.

Reports on U.S. manufacturing activity were mixed last week. On the positive side, the Markit Flash U.S. Manufacturing PMI rebounded ever so slightly in July from its slowest rate of growth since October 2013 the month before. Demand, production and hiring continue to expand modestly, even as each measure reflects some easing from the more robust paces in the second half of last year. Exports also grew for the first time since February, which was encouraging. Yet, the news from the Kansas City Federal Reserve Bank illustrates that many manufacturers continue to struggle with lower crude oil prices, the strong dollar and weakened sales abroad. Manufacturing activity in the Kansas City Federal Reserve district contracted for the fifth straight month, albeit with the rate of decline slowing a bit in July. Survey respondents were marginally positive on net about the next six months, including for exports.

Along those lines, the Conference Board's Leading Economic Index (LEI) increased for the fourth consecutive month. The index rose 2.1 percent in the first half of 2015, with relatively strong growth in the second quarter. This measure reflects a rebound in activity from softness earlier in the year and predicts stronger growth over the coming months. It also mirrors a recovery in the Chicago Federal Reserve Bank's National Activity Index. Both of these measures follow better employment, housing and spending data.

Regarding residential construction, housing starts and permits soared to pre-recessionary highs in June, and existing home sales rose 3.2 percent in June, extending the 4.5 percent gain in May. In fact, existing home sales in June were the fastest pace since February 2007, which was an encouraging sign that the housing market has recovered from its lull earlier in the year. That is perhaps less true, however, for new home sales following the release of a discouraging report on Friday. New single-family home sales dropped 6.8 percent in June, declining for the second straight month, with sales lower in every region of the country except for the Northeast. Unlike for existing home sales, inventories of new homes jumped higher in June. There were 5.4 months of supply on the market, up from 4.7 months in April and 4.8 months in May.

This week, we will get our first glimpse of economic growth in the second quarter with the release of real GDP data on Thursday. After declining by 0.2 percent in the first quarter, the U.S. economy is expected to rebound with a 2.8 percent to 3.0 percent increase in the second quarter. In addition, we will learn about the regional economic performance in the Dallas and Richmond Federal Reserve Bank districts with the release of their latest manufacturing surveys on Monday and Tuesday, respectively. The Federal Open Market Committee will meet next week, with the release of its monetary policy statement on Wednesday; however, the Federal Reserve is not expected to start increasing short-term rates until at least September. Other highlights to look for next week include the most recent data on consumer confidence, durable goods orders and employment costs.

Chad Moutray
Chief Economist
National Association of Manufacturers

*P.S. — I am excited to announce that **Toyota Motor North America U.S. Economist Mary D'Ascoli** will prepare the Monday Economic Report for August 3. This will give us an opportunity to gain insights from a well-respected economist with on-the-ground expertise in the sector.*

Economic Indicators

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Summaries for Last Week`s Economic Indicators

Chicago Fed National Activity Index

The Chicago Federal Reserve Bank reported that the U.S. economy rebounded ever so slightly in June after slowing over the prior four months. The National Activity Index rose from -0.08 in May to 0.08 in June, its first positive reading since January. Numbers exceeding zero indicate a national economy that is expanding above its historical trend, with negative figures suggesting the opposite. In this case, the monthly improvement stemmed from better employment, housing and spending data. For instance, the unemployment rate fell to 5.3 percent with nonfarm payrolls exceeding 200,000 in 14 of the past 16 months. In addition, housing starts and permits soared to pre-recessionary highs in June, which was encouraging.

However, there are still a number of challenges in the domestic and global economy, with the manufacturing sector still struggling. Manufacturing production was unchanged in both May and June, with the year-over-year pace of growth decelerating from 4.5 percent in November to 1.8 percent in June. On a more positive note, total industrial production rebounded from two consecutive months of declines, up 0.3 percent in June on stronger growth in the mining and utilities sectors.

Conference Board Leading Indicators

The Conference Board reported that its Leading Economic Index increased for the fourth consecutive month, up 0.6 percent in June. The index rose 2.1 percent in the first half of 2015, with relatively strong growth in the second quarter. This would indicate two things. First, the U.S. economy has begun to show some signs of a rebound from a very soft first quarter, and second, the leading indicators would seem to indicate stronger growth over the coming months.

Specific to the June data, the higher index reading stemmed largely from favorable building permits, consumer confidence, credit conditions and the interest rate spread. The manufacturing sector, however, provided virtually no contribution—either positive or negative—to the index in June, with new orders and average workweek figures still soft. The only factor that was a slight drag for the month was the stock market, which subtracted 0.02 percentage points from the headline growth figure.

Meanwhile, the Coincident Economic Index (CEI) was also higher, up 0.2 percent in June and positive for the third straight month. All four components of this index boosted the CEI in June, including industrial production, manufacturing and trade sales, nonfarm payrolls and personal income. This measure of the current economy has increased more modestly in the first half of the year, up just 0.9 percent. This reflects weaker-than-desired growth, especially in the first quarter.

Existing Home Sales

The National Association of Realtors® reported that existing home sales rose 3.2 percent in June, extending the 4.5 percent gain in May. There were an annualized 5.49 million units sold in June, increasing from 4.82 million in January. June sales were the fastest monthly pace since February 2007, and this report suggests that existing home sales activity has continued to improve after a softer start earlier in the year.

Sales were higher in each region of the country, and inventories edged down on stronger growth over the past two months. There were 5.0 months of supply on the market in June, down from 5.2 months in April. The median sales price in June was $236,400, up 6.5 percent year-over-year.

Kansas City Fed Manufacturing Survey

The Kansas City Federal Reserve Bank reported that manufacturing activity declined for the fifth straight month in July, albeit at a slower pace than in May and June. The composite index of general business conditions increased from -13 in May to -9 in June to -7 in July. Overall, manufacturers continue to report contracting levels of activity, with reduced crude oil prices, the strong dollar and weaknesses abroad pressuring the sector's performance. Indeed, various measures of activity were negative across the board, even with some showing a slower rate of decline for the month. This included new orders (down from -3 to -6), production (up from -21 to -5), shipments (up from -15 to -2) and exports (down from -5 to -10). Exports have now declined for seven consecutive months.

The job market was also weaker, with the indices for employment (down from -9 to -19) and the average workweek (down from -13 to -18) both shifting further into negative territory. Slightly more than one-quarter of respondents cited declining employment levels in July, with just 11 percent noting increases.

However, Kansas City Federal Reserve Bank Vice President and Economist Chad Wilkerson noted that "firms expect a modest pickup in activity in the coming months." Along those lines, the index for expected new orders rose from 9 to 13, its highest level in three months. There are also slight gains anticipated over the next six months for production (down from 11 to 5), shipments (down from 10 to 6), employment (up from 0 to 3), capital expenditures (down from 13 to 1) and exports (up from 0 to 2).

As such, while growth in the sector is predicted to expand moving forward, that pace is seen as being far from robust, with some of those outlook measures easing for the month. Still, one could make the case that activity has stabilized for a few of these measures. For example, while two-thirds of those completing the survey predict no change in exports over the next six months, there is a small net positive expecting increases—a possibly encouraging development from just two months ago when those expectations were strongly negative.

Markit Flash PMIs for the United States, China, Japan and the Eurozone

The Caixin Flash China General Manufacturing PMI dropped from 49.4 in June to 48.2 in July, its lowest level since April 2014. Chinese manufacturing activity has now contracted in seven of the past eight months, continuing a deceleration trend in that nation's economy. Indeed, all of the PMI subcomponents were in negative territory in July, with most slipping further. This included new orders (down from 50.3 to 48.1), output (down from 49.7 to 47.3) and exports (down from 50.3 to 46.6), with domestic and foreign demand declining once again after stabilizing slightly in June. Employment (up from 46.6 to 47.4) fell at a slower pace for the month; yet, hiring has now decreased in 27 of the past 28 months. The data are consistent with recent economic indicators from China, which have reflected slower growth, particularly relative to the rates at the end of last year or earlier.

The Greek debt drama has been the other major headline in recent weeks. Uncertainties surrounding Greece were likely responsible for the slight dent in activity seen in July in Europe, with the Markit Flash Eurozone

Manufacturing PMI down from 52.5 to 52.2. The June reading had been the highest since April 2014—notice the coincidence between China and Europe here, a sign they are moving in opposite directions—and July's figure is not far from that high. Still, activity eased slightly for new orders (down from 52.7 to 52.0), output (down from 53.6 to 53.4) and exports (down from 52.7 to 51.8). Hiring ticked marginally higher (up from 51.7 to 51.8), expanding for the 11th consecutive month.

Meanwhile, the Markit Flash U.S. Manufacturing PMI increased from 53.6 to 53.8, rebounding ever so slightly from its slowest rate of growth since October 2013. There continued to be modest growth in new orders (up from 54.7 to 55.0) and output (up from 53.9 to 55.4), with decent hiring growth (down from 55.5 to 53.7) despite some easing for the month. The other development was the shift in export growth into positive territory (up from 49.7 to 51.3) for the first time since February. Ideally, the marginal progress in July is the beginning of a larger recovery in the sector, which has experienced less-than-desired growth in the first half of 2015.

In other news, Japan's economy has also been somewhat volatile so far this year, but manufacturing activity notched higher in July. The Nikkei Flash Japan Manufacturing PMI rose from 50.1 to 51.4, signifying slight gains in July after being essentially neutral in June. Most of the key data points increased for the month, including new orders (up from 49.6 to 51.3), output (up from 50.9 to 52.3) and employment (up from 50.6 to 51.1). Export growth (54.0 to 52.3) weakened a bit, but continued to reflect a modest pace. We will get further clues about Japanese manufacturing activity next week, with new industrial production figures being released on July 29.

Final data points from Markit for all of these PMI measures will come out on August 3.

NABE Business Conditions Survey

The National Association for Business Economics reported that activity slowed somewhat from earlier in the year, mirroring other indicators. In the latest Business Conditions Survey, respondents noted slightly weaker conditions than in prior reports, and yet, they also remained mostly upbeat about the second half of 2015. The net rising index for sales, for instance, has declined from 45 in July 2014 to 28 in this survey, with the percentage of respondents observing rising sales dropping from 57 percent one year ago to 49 percent in April to 46 percent in July. Despite the drop in demand growth, this release continues to show sales growth that is more favorable than not, with just 18 percent of respondents citing declining sales in July. Along those lines, 59 percent of industry economists anticipate sales increases over the next three months.

The labor picture remains slightly mixed. The net rising index for expected employment over the next three months edged marginally higher, up from 29 in April to 31 in July. In this latest survey, 41 percent of respondents foresee more hiring in the coming months, with 10 percent anticipating declines. Roughly half also expect increased wages. Yet, employment for manufacturers and other goods-producing sectors was softer than the headline figure. In fact, the net rising index for expected employment for goods producers was negative, with 26 percent seeing increased hiring and 30 percent forecasting employment declines over the next three months. We hope that job growth will improve upon this prediction, particularly if demand and production are higher.

Interestingly, even with weak employment expectations, business leaders continue to cite difficulties in attracting new talent. In this survey, 35 percent said their firm had reported shortages in finding skilled labor, up from 25 percent in April and 22 percent one year ago. For goods-producing firms, 52 percent noted challenges in filling open positions in the past three months.

In terms of forecasts, 64 percent of business economists think that real GDP will grow 2.1 percent to 3.0 percent over the next 12 months (from the second quarter of 2015 to the second quarter of 2016). This reflects some slippage from the past survey, where 59 percent had that outlook. Fewer felt that the economy would grow 3.1 percent to 4.0 percent, down from 29 percent to 16 percent, and there was a slight increase in those who believed economic growth would slow to 1.1 percent to 2.0 percent, up from 10 percent to 17 percent. The economic slowdown in China and the recent appreciation of the dollar were both cited as having negative effects on growth for more than two-thirds of goods-producing firms.

New Home Sales

The Census Bureau and the U.S. Department of Housing and Urban Development reported that new single-family home sales dropped 6.8 percent, down from an annualized 517,000 in May to 482,000 in June. It was the second consecutive monthly decline in the pace of sales, with activity down from its year-to-date peak of 545,000 in February. Sales were lower in each region of the country except for the Northeast. Overall, this report was discouraging, as analysts had predicted a rebound in June, which would have been more consistent with other housing data.

With the pace of sales slowing, inventories of new homes for sale jumped higher in June. There were 5.4 months of supply on the market, up from 4.7 months in April and 4.8 months in May. The median home price was $281,800 in June, up from $280,500 in May but down slightly from $287,000 from the year before.

State Employment Report

California had the largest monthly employment gains in the manufacturing sector in June, adding 3,100 workers on net for the month. The Bureau of Labor Statistics reported that Kentucky (up 2,800), Florida (up 2,700), New Jersey (up 1,600), Indiana (up 1,600), Tennessee (up 1,500) and Virginia (up 1,400) also led the list with the most manufacturing jobs created in June. At the same time, states with the greatest job growth year-to-date through the first six months of the year included Ohio (up 13,400), Michigan (up 11,800), California (up 6,700), Indiana (up 6,700) and New Jersey (up 5,400).

Meanwhile, Nebraska continued to have the lowest unemployment rate in the country, with 2.6 percent—well below the national average of 5.3 percent. Other states with low unemployment rates included North Dakota (3.1 percent), Utah (3.5 percent), Vermont (3.6 percent), Iowa (3.7 percent), New Hampshire (3.8 percent), South Dakota (3.8 percent), Minnesota (3.9 percent) and Montana (3.9 percent). At the other end of the spectrum, the highest unemployment rates in the nation were in West Virginia (7.4 percent), the District of Columbia (7.0 percent), Nevada (6.9 percent) and Alaska (6.8 percent).

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Questions or comments?

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