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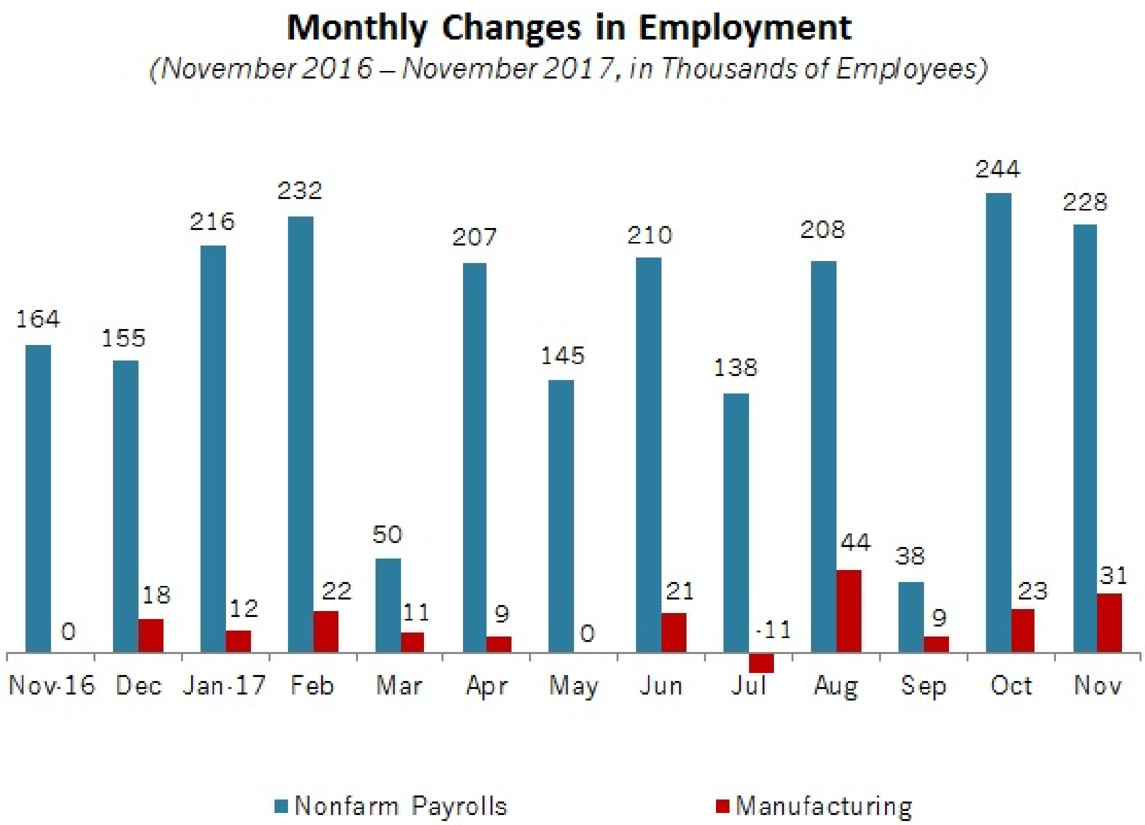

The Bureau of Labor Statistics reported that manufacturers added 31,000 workers in November, extending the gain of 23,000 in October. More importantly, the sector has added an average of 15,545 employees on net per month so far in 2017—quite a turnaround from the loss of 16,000 workers in 2016 as a whole. This is a sign that firms have stepped up their hiring as a result of a stronger economic outlook and increased demand and production activity. Indeed, since the end of the Great Recession, manufacturing employment has risen by 1,061,000 workers, with 12.51 million employees in the sector in this report.

Moreover, manufacturers continue to say that the inability to attract and retain a quality workforce is one of their top concerns, which is further proof that the labor market has tightened considerably. Along those lines, there has been some upward pressure on wages, even with a slight easing in the November figures. Average weekly earnings for manufacturing workers edged down from $1,094.08 in October to $1,092.44 in November. Nonetheless, average weekly earnings in the sector have risen 2.6 percent over the past 12 months, up from $1,064.53 in November 2016.

Meanwhile, nonfarm payrolls also grew stronger than expected, up 228,000 in November and better than the consensus estimate of around 195,000. Moreover, nonfarm payroll employment has averaged 174,182 per month year to date. That is a decent pace, even with some easing from the average rate of 186,667 each month for all of last year. The unemployment rate remained the same at 4.1 percent, continuing to be its lowest level since December 2000.

Turning to other economic indicators, new factory orders edged down 0.1 percent in October, but with the highly volatile transportation segment excluded, new orders for manufactured goods increased 0.8 percent for the month. Overall, new factory orders, which have struggled mightily over the past few years, have trended largely in the right direction more recently, up nearly 3.7 percent since October 2016, or 6.8 percent when excluding transportation equipment sales. In addition, economists often look at core capital goods—or nondefense capital goods excluding aircraft—as a proxy for capital spending in the economy, and that measure is very encouraging. Core capital goods demand increased 0.3 percent in October, with a robust gain of 9.3 percent over the past 12 months.

On the trade front, U.S.-manufactured goods exports totaled $906.96 billion year to date in October, up 3.79 percent from $873.81 billion one year ago. This reflects better year-to-date figures to the top-six markets for U.S.-manufactured goods, and in general, manufacturers in the United States have benefited from improvements in the global economy, lifting demand for sales abroad. With that said, the U.S. trade deficit rose from $44.89 billion in September to $48.73 billion in October, its highest level since January. The increase stemmed mostly from a jump in goods imports, but goods exports, which declined slightly in October, were not far from September's figure, which was its best reading since December 2014. Beyond goods, service-sector exports and imports both rose to new all-time highs.

For their part, Americans remain mostly upbeat in their outlook, even with some easing in preliminary results from the University of Michigan and Thomson Reuters survey in December. The Index of Consumer Sentiment has fallen from 100.7 in October—its highest point since January 2004—to 98.5 in November to 96.8 in December. Yet, the headline index averaged 96.9 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. Indeed, data on consumer borrowing supports this latter point, with Americans less cautious in their spending and more willing to use their credit cards for purchases than just a few months ago. The Federal Reserve Board reported that U.S. consumer credit outstanding increased 6.5 percent at the annual rate in October, with year-over-year growth of 5.4 percent. In addition, revolving credit, which includes credit cards and other credit lines, jumped 9.9 percent in October, accelerating strongly from 6.2 percent and 7.3 percent in August and September, respectively.

This week, the Federal Reserve will dominate economic headlines, with the Federal Open Market Committee widely expected to raise short-term interest rates for the third time in 2017. While interest rates will continue to be historically low, the Federal Reserve has expressed a desire to normalize rates and the size of its balance sheet, reflecting improvements in overall economic conditions. Moreover, it will be the second-to-last FOMC meeting chaired by Federal Reserve Chair Janet Yellen, with Jay Powell's nomination moving through the confirmation process steadily.

November industrial production data will be released on Friday. In October, manufacturing production expanded robustly, up 1.3 percent, rebounding from slowdowns related to recent hurricanes in the prior report. More importantly, output in the sector had risen 2.5 percent over the past 12 months, the best year-over-year rate since August 2014. It is hoped new data will show continued signs of strength for manufacturers, including in sentiment surveys from IHS Markit and the New York Federal Reserve Bank. Other reports out this week include updates on consumer and producer prices, job openings, retail sales and small business optimism.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, December 4
Factory Orders and Shipments

Tuesday, December 5
International Trade Report

Wednesday, December 6
ADP National Employment Report
Productivity and Costs (Revision)

Thursday, December 7
Consumer Credit

Friday, December 8
BLS National Employment Report
University of Michigan Consumer Sentiment

This Week's Indicators:

Monday, December 11
Job Openings and Labor Turnover Survey
NAM Manufacturers' Outlook Survey

Tuesday, December 12
NFIB Small Business Survey
Producer Price Index

Wednesday, December 13
Consumer Price Index
FOMC Monetary Policy Statement

Thursday, December 14
IHS Markit Flash Manufacturing PMIs for the United States and Eurozone
Retail Sales

Friday, December 15
Industrial Production
New York Fed Manufacturing Survey

Summaries for Last Week`s Economic Indicators

ADP National Employment Report

ADP reported that manufacturing employment remained a bright spot in November, with the sector adding 40,000 net new workers for the month. As such, manufacturers continue to hire at a rather robust rate as firms react to increased activity and an improved economic outlook. The sector has hired an average of 19,336 per month year to date—a significant turnaround from the more sluggish pace in 2016. Overall, there are signs the labor market for manufacturing firms has tightened considerably, with business leaders citing notable challenges in attracting talent. We expect continued strength in job growth moving forward.

Meanwhile, total nonfarm private employment increased by 190,000 in November. While that was lower than the gain of 235,000 in October, it continued to reflect overall strength in the labor market, rebounding from hurricane-related softness in the September data. Nonfarm private payrolls have increased 208,488 per month on average year to date, which was notably higher than the 179,327 workers added each month in the second half of 2016. In November, the largest employment growth included education and health services (up 54,000), professional and business services (up 47,000), trade, transportation and utilities (up 36,000) and leisure and hospitality (up 25,000). Small and medium-sized businesses (i.e., those with fewer than 500 employees) accounted for 78.4 percent of the net job growth in November.

BLS National Employment Report

The Bureau of Labor Statistics reported that manufacturers added 31,000 workers in November, extending the gain of 23,000 in October. More importantly, the sector has added an average of 15,545 employees on net per month so far in 2017—quite a turnaround from the loss of 16,000 workers in 2016 as a whole. This is a sign that firms have stepped up their hiring as a result of a stronger economic outlook and increased demand and production activity. Indeed, since the end of the Great Recession, manufacturing employment has risen by 1,061,000 workers, with 12.51 million employees in the sector in this report. Moreover, manufacturers continue to say that the inability to attract and retain a quality workforce is one of their top concerns, which is further proof that the labor market has tightened considerably.

Beyond job growth, there has been some upward pressure on wages, even with a slight easing in the November figures. Average weekly earnings for manufacturing workers edged down from $1,094.08 in

October to $1,092.44 in November. Nonetheless, average weekly earnings in the sector have risen 2.6 percent over the past 12 months, up from $1,064.53 in November 2016.

In November, durable and nondurable goods employment rose by 27,000 and 4,000 workers, respectively. The largest increases occurred in machinery (up 8,300), fabricated metal products (up 7,400), plastics and rubber products (up 3,900), computer and electronic products (up 3,800), transportation equipment (up 2,600), miscellaneous durable goods manufacturing (up 2,400), food manufacturing (up 1,800), paper and paper products (up 1,800) and nonmetallic mineral products (up 1,400). In contrast, employment declines in November included apparel (down 900), furniture and related products (down 900), chemicals (down 700), wood products (down 700) and printing and related support activities (down 600).

Consumer Credit

The Federal Reserve Board reported that U.S. consumer credit outstanding increased 6.5 percent at the annual rate in October, accelerating from the 6.1 percent gain in September. Total consumer credit was $3.802 trillion in October, with $1.012 trillion in revolving credit and $2.791 trillion in nonrevolving credit. Across the past 12 months, consumer credit has increased 5.4 percent.

Revolving credit, which includes credit cards and other credit lines, jumped 9.9 percent in October, accelerating strongly from 6.2 percent and 7.3 percent in August and September, respectively. This suggests Americans are less cautious in their spending and more willing to use their credit cards for their purchases than just a few months ago. Nonrevolving credit, which includes auto and student loans, eased a little in the latest figures, down from 5.7 percent growth in September to 5.3 percent in October. On a year-over-year basis, revolving and nonrevolving credit outstanding has risen 5.9 percent and 5.2 percent, respectively.

Factory Orders and Shipments

The Census Bureau reported that new factory orders edged down 0.1 percent in October, easing off ever so slightly after jumping 1.2 percent and 1.7 percent in both August and September, respectively. In October, nondurable goods orders increased 0.7 percent, with new sales for durable goods off 0.8 percent. The decline for durable goods in October stemmed largely from significant reductions in defense and nondefense aircraft and parts orders, which can often be highly volatile from month to month. (The November numbers should rebound strongly on healthy airplane demand at the Dubai Airshow.) Excluding transportation equipment, new orders increased 0.8 percent in October, rising for the fourth consecutive month.

Overall, new factory orders, which have struggled mightily over the past few years, have trended largely in the right direction more recently, up nearly 3.7 percent since October 2016, or 6.8 percent when excluding transportation equipment sales.

Looking specifically at durable goods activity in October, the data mostly grew. Demand rose for furniture and related products (up 1.9 percent), machinery (up 1.9 percent), primary metals (up 1.4 percent), motor vehicles and parts (up 1.3 percent), electrical equipment, appliances and components (up 0.8 percent) and computers and electronic products (up 0.7 percent), with softer sales for fabricated metal products (down 0.5 percent), among others. Core capital goods—or nondefense capital goods excluding aircraft—increased 0.3 percent in October, with a robust gain of 9.3 percent over the past 12 months.

Meanwhile, manufactured goods shipments increased 0.6 percent in October, rising for the sixth straight month. Durable and nondurable goods orders grew 0.4 percent and 0.7 percent, respectively. On a year-over-year basis, factory shipments have increased 5.8 percent since October 2016, or 6.5 percent when excluding transportation equipment.

International Trade Report

The Bureau of Economic Analysis and the Census Bureau reported that the U.S. trade deficit rose from $44.89 billion in September to $48.73 billion in October, its highest level since January. In the latest figures, the increase in the trade deficit stemmed mostly from a jump in goods imports (up from $195.88 billion to $199.40 billion), with goods exports off slightly (down from $130.64 billion to $130.32 billion). On the positive side, goods exports remain not far from September's figure, which was the best reading since December 2014. Beyond goods, service-sector exports (up from $65.29 billion to $65.59 billion) and imports (up from $44.93 billion to $45.24 billion) both rose to new all-time highs.

The underlying goods exports data were mixed but mostly lower. Exports increased for industrial supplies and materials (up $2.60 billion), but reductions in other categories offset that increase, including declining exports for foods, feeds and beverages (down $1.33 billion), nonautomotive capital goods (down $1.24 billion), automotive vehicles, parts and engines (down $276 million) and consumer goods (down $206 million). The foods, feeds and beverages and capital goods figures reflected volatility in soybeans and civilian aircraft orders from month to month. In contrast, the goods imports data mostly rose, led by sharp increases for industrial supplies and materials (up $1.76 billion) and consumer goods (up $799 million). Foods, feeds and beverages imports inched higher (up $6 million), but that was enough to reach a new all-time high at $11.78 billion.

For manufacturers, exports have trended in the right direction through the first 10 months of 2017—a welcome development after weaker data across the past two years. Using non-seasonally adjusted data, U.S.-manufactured goods exports totaled $906.96 billion year to date in October, up 3.79 percent from $873.81 billion one year ago.

This reflects better year-to-date figures to the top-six markets for U.S.-manufactured goods: Canada (up from $224.03 billion to $234.09 billion), Mexico (up from $191.14 billion to $201.60 billion), China (up from $91.85 billion to $103.98 billion), Japan (up from $52.15 billion to $55.49 billion), the United Kingdom (up from $46.68 billion to $46.71 billion) and Germany (up from $41.12 billion to $44.13 billion).

Productivity and Costs (Revision)

The Bureau of Labor Statistics reported that manufacturing labor productivity plummeted 4.4 percent at the annual rate in the third quarter, its first decrease in one year and the largest quarterly decline since the Great Recession. On the positive side, the Bureau of Labor Statistics originally estimated it to be a decline of 5.0 percent, with the latest revision lessening the decrease somewhat. Overall, however, the data continue to reflect the damage from recent hurricanes, with output in the manufacturing sector down 1.1 percent. At the same time, hours worked and unit labor costs in manufacturing rose 3.5 percent and 4.8 percent, respectively. The sectoral breakdowns showed similar findings, with labor productivity for durable and nondurable goods firms off 4.7 percent and 4.4 percent, respectively.

It is hard to paint the data in a positive light, except to say they are likely transitory, and a rebound in output and productivity in forthcoming data would be expected. With that said, manufacturing labor productivity increased just 0.4 percent from 2013 to 2016. Unfortunately, the current data continue that discouraging trend, up 0.3 percent year-over-year in this release. In comparison, the average growth rate for manufacturing labor productivity registered 3.9 percent in both the 1990–2000 and 2002–2008 time frames, or the two prior economic recoveries.

There was more encouraging news in the larger economy in the third quarter. Nonfarm labor productivity increased an annualized 3.0 percent in the third quarter, its fastest quarterly growth rate in three years and up from a 1.5 percent gain in the second quarter. Output and hours worked rose 4.1 percent and 1.1 percent, respectively, with unit labor costs off 0.2 percent. Similar to the manufacturing data described above, nonfarm labor productivity has slowed considerably since the Great Recession, averaging 0.6 percent per year from 2011 to 2016. With the latest increase, nonfarm labor productivity has risen 1.5 percent year-over-year, which improved from recent trends, even as it remains lower than the 2.7 percent annual growth rate average from 2000 to 2007.

University of Michigan Consumer Sentiment

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 96.8 in December in preliminary data. Even with the easing, Americans remain mostly upbeat in their outlook, with the headline index averaging 96.9 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 84.6), but perceptions about current conditions improved somewhat (up from 113.5 to 115.9).

Overall, the data are consistent with 2.7 percent growth at the annual rate for real consumer spending in 2018. Final data will be released on December 22.

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Questions or comments?

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