

The Virginia Tech – U.S. Forest Service

November 2019

Housing Commentary: Section II



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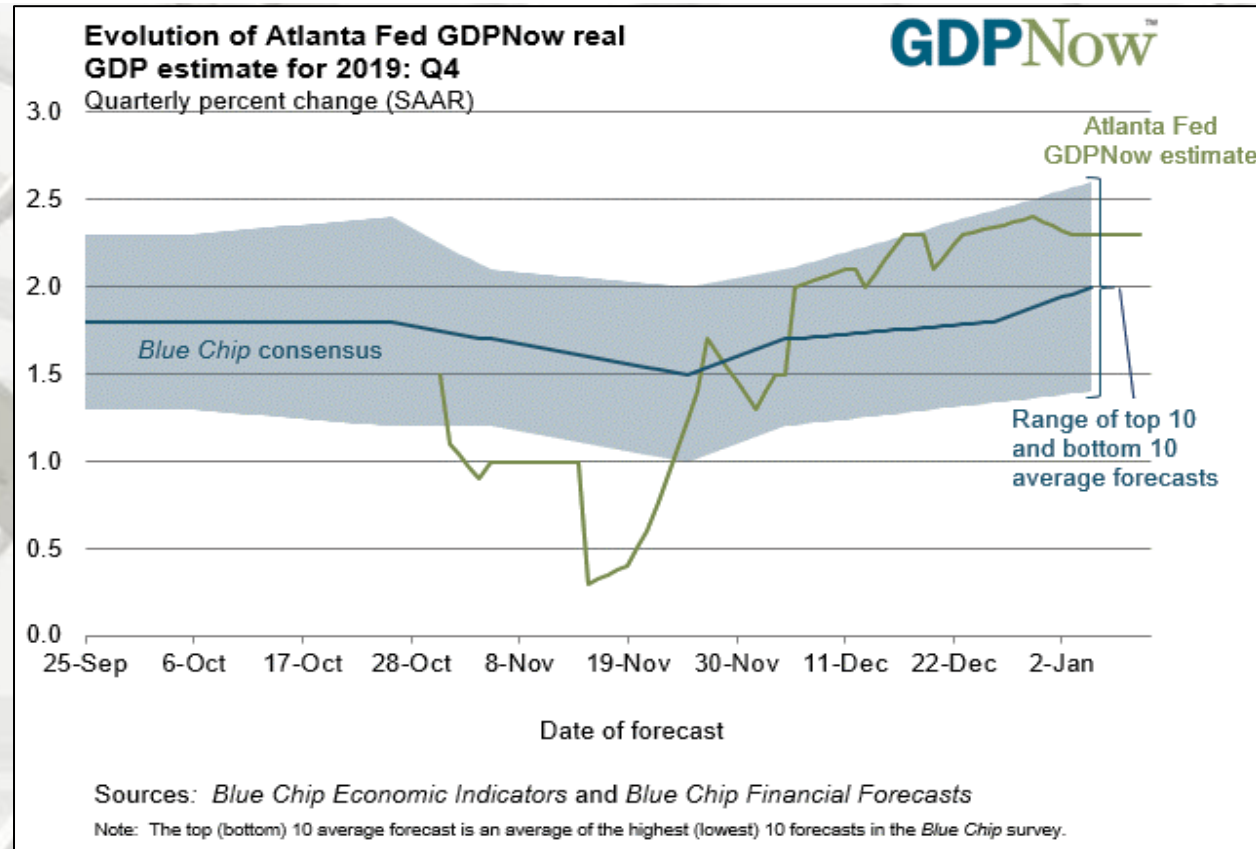
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U.S. Economic Indicators



Atlanta Fed GDPNow™

Latest forecast: 2.3 percent — January 10, 2020

“The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the fourth quarter of 2019 is **2.3 percent** on January 10, unchanged from January 7 after rounding. After this morning's release of the employment report by the U.S. Bureau of Labor Statistics and the wholesale trade report from the U.S. Census Bureau, the nowcasts of fourth-quarter real personal consumption expenditures growth and fourth-quarter real gross private domestic investment growth decreased from 2.4 percent and -2.5 percent, respectively, to 2.3 percent and -2.7 percent, respectively.” – Pat Higgins, Economist, Federal Reserve Bank of Atlanta

The Federal Reserve Bank of Boston: 2019 New England Economic Indicators

Q4 2019: Snapshot of the New England Economy through December 23, 2019

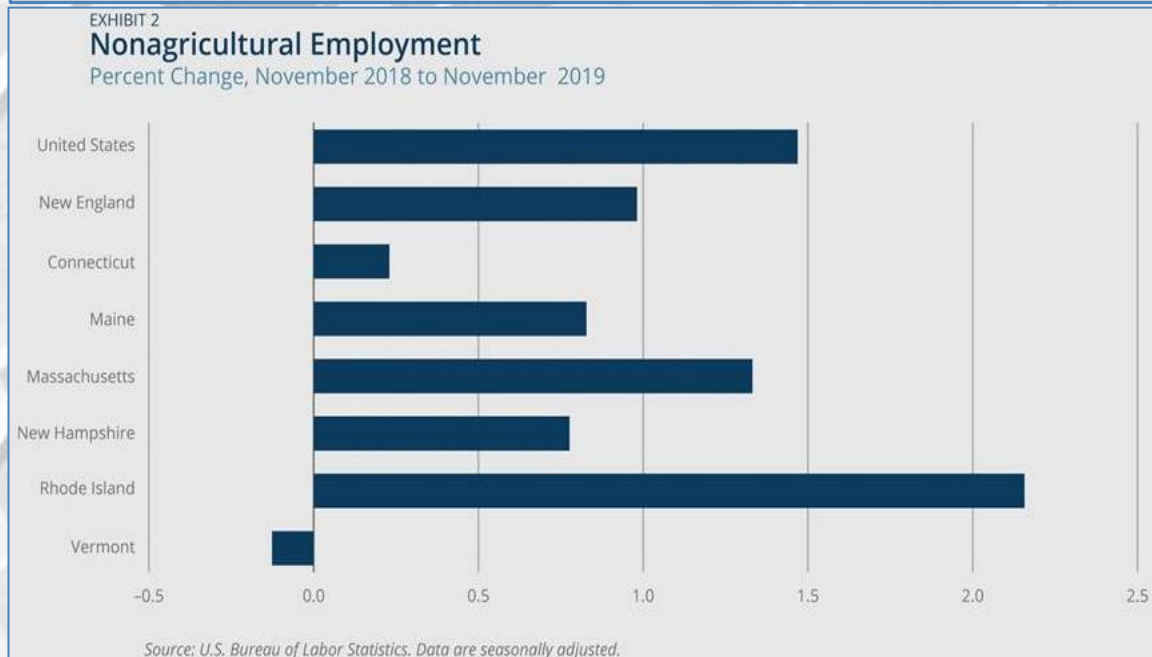
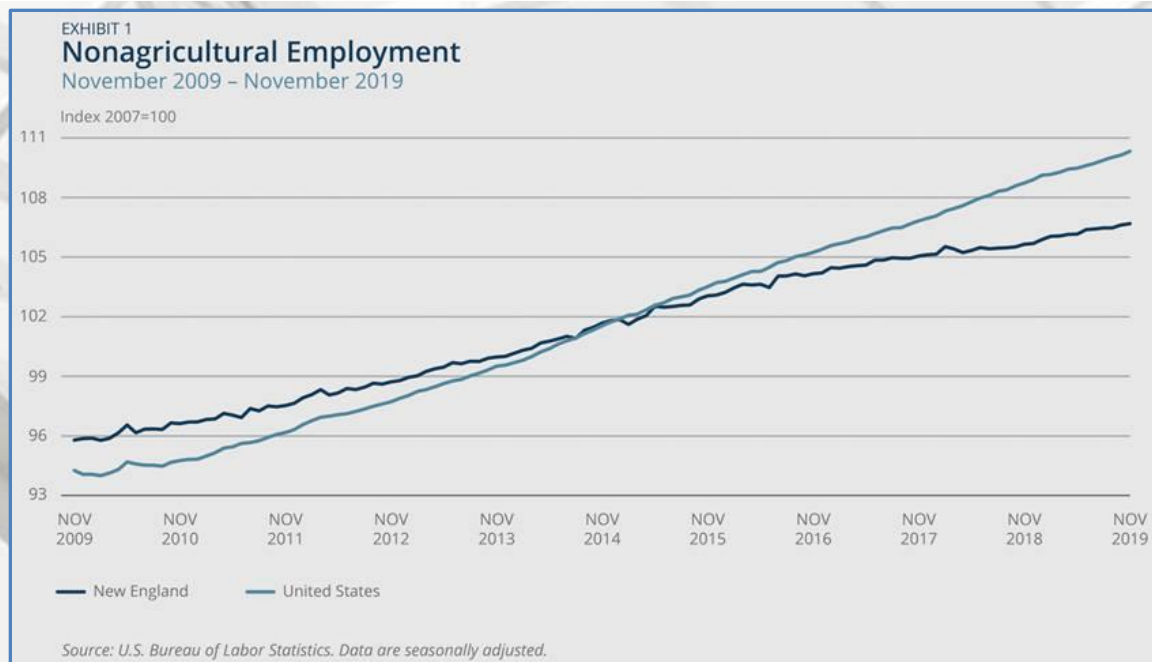
Economic activity continued to improve through November 2019

“Both the New England region and the United States as a whole experienced further improvements in economic conditions. Through November 2019, payroll employment increased and unemployment rates fell relative to one year prior. The pace of wage and salary growth accelerated through the third quarter of 2019 compared with growth rates observed in late 2018. Home prices in the region and nation appreciated compared to the same period considered in 2018, albeit at a more moderate pace than was recorded one year prior.

Employment grew in New England at a slower pace than across the nation

The United States and New England experienced ongoing increases in payroll employment through November 2019. Payrolls increased 1.5 percent nationally and 1.0 percent regionally between November 2018 and November 2019 (Exhibit 1). Within New England, Rhode Island (2.2 percent) posted the strongest year-over-year job gains through November 2019, surpassing the national rate (Exhibit 2). Connecticut (0.4 percent), Maine (1.1 percent), Massachusetts (1.2 percent), and New Hampshire (0.8 percent) each saw gains in payroll employment, but experienced smaller gains than the national average. Vermont registered a modest decline in payroll employment of 0.1 percent year-over-year. ... ” — Riley Sullivan, Senior Policy Analyst, The Federal Reserve Bank of Boston

The Federal Reserve Bank of Boston



The Federal Reserve Bank of Boston: 2019 New England Economic Indicators

Q4 2019: Snapshot of the New England Economy through December 23, 2019

Wage and salary growth accelerates in the region and nation

“Incomes from wages and salaries in New England and the United States notched impressive gains into the third quarter of 2019. Wage and salary disbursements, the largest component of income, were up year-over-year by 4.6 percent nationally and 4.5 percent regionally in Q3 2019. These growth rates, respectively, were significantly higher than those observed in Q3 2018. All six New England states experienced year-over-year gains in wages and salaries, although the rates varied considerably, from 2.5 percent in Connecticut to 6.1 percent in Rhode Island. ...

Home Prices: Maine recorded the fastest house price growth in the region

Home prices continued to rise in the nation and region, with the national growth rate still exceeding the regional rate, but by the smallest margin in recent years. Between the third quarter of 2018 and the third quarter of 2019, home prices increased 4.6 percent nationally and 4.2 percent regionally. All six New England states reported year-over-year appreciation in house prices, but in all cases the average pace of gains eased from previous quarters. House price growth in Connecticut (2.9 percent) was the lowest in the region over the period considered. Maine (5.9 percent) and New Hampshire (5.2 percent) were the only New England states to outpace the national average house price growth rate (4.6 percent).” – Riley Sullivan, Senior Policy Analyst, The Federal Reserve Bank of Boston

The Federal Reserve Bank of Chicago: Midwest Economy Index

Index Points to Slower Midwest Economic Growth in November

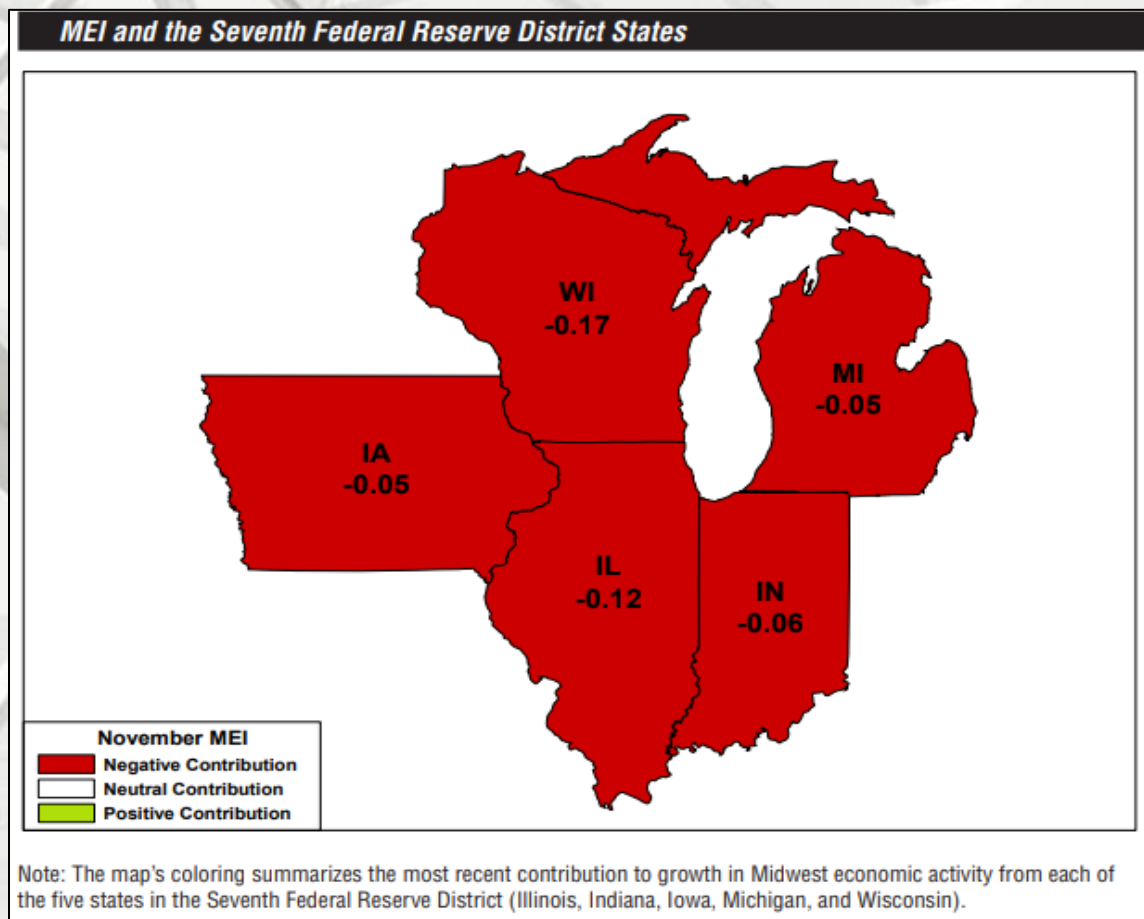
“The Midwest Economy Index (MEI) moved down to -0.48 in November from -0.41 in October. Contributions to the November MEI from two of the four broad sectors of nonfarm business activity and four of the five Seventh Federal Reserve District states decreased from October. The relative MEI moved up to -0.09 in November from -0.23 in October. Contributions to the November relative MEI from all four sectors and four of the five states increased from October.

The manufacturing sector’s contribution to the MEI moved down to -0.39 in November from -0.31 in October. The pace of manufacturing activity decreased in Illinois, Michigan, and Wisconsin, but was unchanged in Indiana and Iowa. Manufacturing’s contribution to the relative MEI edged up to -0.14 in November from -0.17 in October.

The construction and mining sector made a neutral contribution to the MEI in November, up from -0.02 in October. The pace of construction and mining activity was faster in Illinois, Indiana, Michigan, and Wisconsin, but slower in Iowa. Construction and mining’s contribution to the relative MEI increased to $+0.11$ in November from $+0.07$ in October.

The service sector’s contribution to the MEI was unchanged at -0.08 in November. The pace of service sector activity was unchanged in all five Seventh District states. The service sector’s contribution to the relative MEI increased to -0.11 in November from -0.15 in October.” – Michael Adleman, Media Relations, The Federal Reserve Bank of Chicago

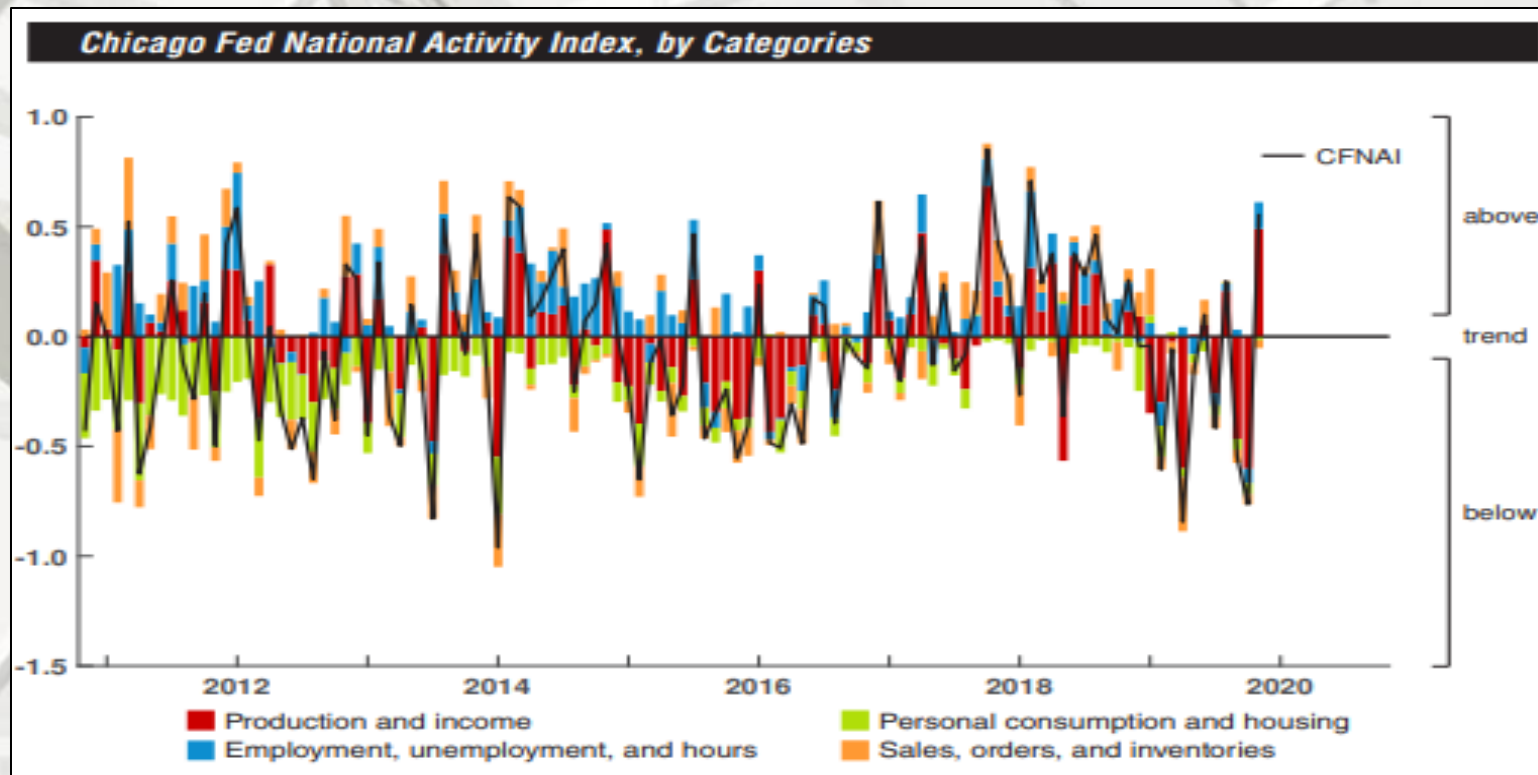
The Federal Reserve Bank of Chicago: Midwest Economy Index



Index Points to Slower Midwest Economic Growth in November

“Consumer spending indicators contributed -0.01 to the MEI in November, down slightly from a neutral contribution in October. Consumer spending indicators were, on balance, down in Illinois and Indiana, but up in Iowa and Wisconsin and steady in Michigan. Consumer spending’s contribution to the relative MEI edged up to $+0.04$ in November from $+0.02$ in October.” – Michael Adleman, Media Relations, Federal Reserve Bank of Chicago

The Federal Reserve Bank of Chicago: National Activity Index



Index points to a rebound in economic growth in November

“Led by improvements in production-related indicators, the Chicago Fed National Activity Index (CFNAI) rose to +0.56 in November from -0.76 in October. All four broad categories of indicators that make up the index increased from October, and two of the four categories made positive contributions to the index in November. The index’s three-month moving average, CFNAI-MA3, moved up to -0.25 in November from -0.35 in October.

The CFNAI Diffusion Index, which is also a three-month moving average, ticked up to -0.23 in November from -0.24 in October. Fifty of the 85 individual indicators made positive contributions to the CFNAI in November, while 35 made negative contributions. Sixty-four indicators improved from October to November, while 21 indicators deteriorated. Of the indicators that improved, 19 made negative contributions.” – Michael Adleman, Media Relations, The Federal Reserve Bank of Chicago

The Federal Reserve Bank of Chicago: National Activity Index

Index points to a rebound in economic growth in November

“Production-related indicators contributed +0.49 to the CFNAI in November, up from –0.60 in October. Industrial production rose 1.1 percent in November after decreasing 0.9 percent in October. The contribution of the sales, orders, and inventories category to the CFNAI ticked up to –0.04 in November from –0.05 in October.

Employment-related indicators contributed +0.12 to the CFNAI in November, up from –0.07 in October. Nonfarm payrolls rose by 266,000 in November after increasing by 156,000 in October, and the unemployment rate ticked down to 3.5 percent in November from 3.6 percent in the previous month. The contribution of the personal consumption and housing category to the CFNAI edged up to –0.02 in November from –0.05 in October. Housing starts increased to 1,365,000 annualized units in November from 1,323,000 in October.

The CFNAI was constructed using data available as of December 19, 2019. At that time, November data for 51 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index. The October monthly index value was revised to –0.76 from an initial estimate of –0.71, and the September monthly index value was revised to –0.54 from last month’s estimate of –0.45. Revisions to the monthly index can be attributed to two main factors: revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data. The revision to the October monthly index value was due to both factors almost equally. The revision to the September monthly index value was primarily due to revisions in previously published data.” – Michael Adleman, Media Relations, The Federal Reserve Bank of Chicago

The Federal Reserve Bank of Dallas

Texas Manufacturing Activity Expands Modestly

“Growth in Texas factory activity resumed in December, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rebounded to 3.6 after dipping into negative territory last month.

Most other measures of manufacturing activity also rebounded in December. The new orders index rose from -3.0 to 1.6. The growth rate of orders index moved up but remained in negative territory for a third consecutive month, coming in at -5.0. The capacity utilization index shot up 13 points to 7.8, and the shipments index rose from -4.5 to 3.0.

Perceptions of broader business conditions were mixed in December. The general business activity index remained slightly negative at -3.2, while the company outlook index inched up three points to 1.3. Both indexes have oscillated between positive (expansionary) and negative (contractionary) territory this year. The index measuring uncertainty regarding companies’ outlooks receded 12 points to 5.6, its lowest reading since March.

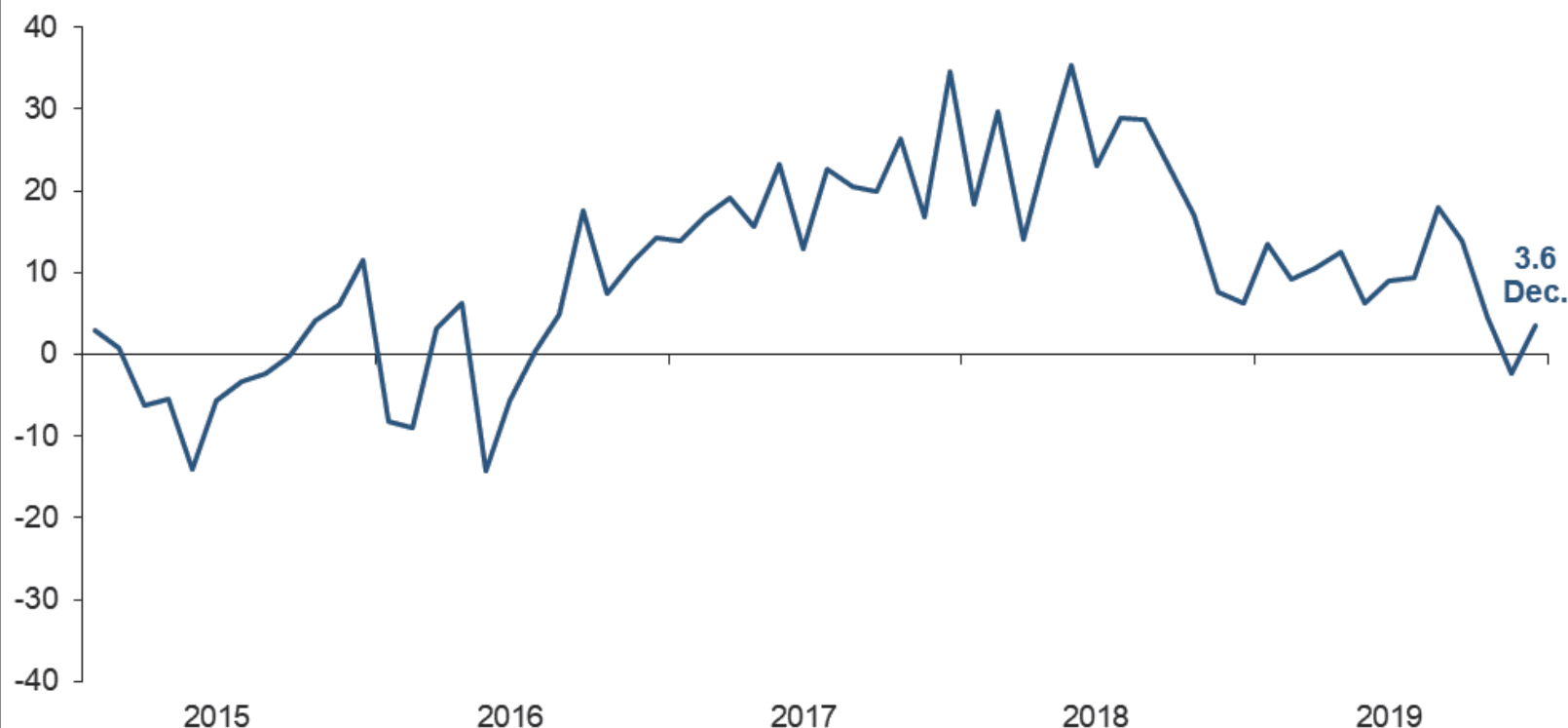
Labor market measures suggested rising employment levels and slightly longer workweeks this month. The employment index rose from 0.9 to 6.2, indicative of a pickup in hiring. Eighteen percent of firms noted net hiring, while 12 percent noted net layoffs. The hours worked index rebounded to 2.6 after dipping into negative territory last month.

Input prices and wages rose in December, though upward pressure continued to ease, and selling prices were largely unchanged. The raw materials index declined three points to 14.5, while the wages and benefits index fell seven points to 14.6. The finished goods prices index edged down to 0.7.” – Emily Kerr, Business Economist, The Federal Reserve Bank of Dallas

The Federal Reserve Bank of Dallas

Texas Manufacturing Outlook Survey Production Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

Texas Manufacturing Activity Expands Modestly

“Expectations regarding future business conditions remained optimistic in December. The index of future general business activity was largely unchanged at 6.4, while the index of future company outlook edged down to 13.9. Most other indexes for future manufacturing pushed further into positive territory.” – Emily Kerr, Business Economist, The Federal Reserve Bank of Dallas

The Federal Reserve Bank of Dallas

Growth in the Texas Service Sector Accelerates

“The Texas service sector grew at a faster pace in December, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, increased from 12.2 in November to 17.9 in December.

Labor market indicators reflected slightly slower employment growth and slightly longer workweeks this month. The employment index edged down from 7.0 to 5.5, suggesting a slight deceleration in hiring. The part-time employment index rebounded to 2.3 after dipping into negative territory last month. The hours worked index ticked up to 4.1.

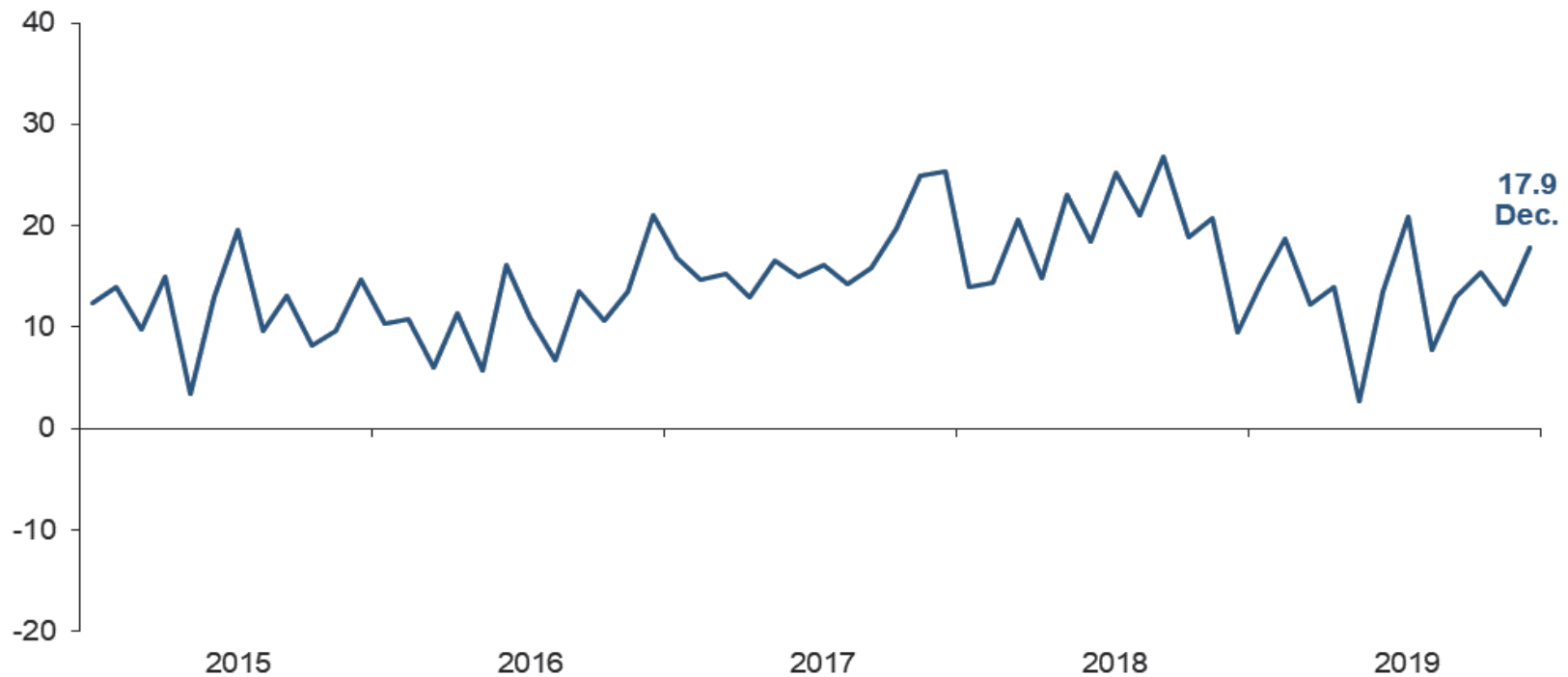
Perceptions of broader business conditions continued to improve. The general business activity index increased nine points to 13.5, its highest reading in more than a year. The company outlook index was largely unchanged at 11.3. The outlook uncertainty index receded to 1.4, its lowest reading in nearly two years.

Price and wage pressures increased in December. The wages and benefits index moved up from 16.2 to 19.2, while the input prices index held steady at 25.7. The selling prices index rose to 6.9, a six-month high.” – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

The Federal Reserve Bank of Dallas

Texas Service Sector Outlook Survey Revenue Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

Growth in the Texas Service Sector Accelerates

“Respondents’ expectations regarding future business conditions improved in December. The future company outlook index remained positive but edged down to 15.6, while the future general business activity index shot up nine points to 17.6. Other indexes of future service sector activity, such as revenue and employment, remained in solidly positive territory, suggesting expectations of continued growth over the next six months.” – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

The Federal Reserve Bank of Dallas

Retail Sales Growth Picks Up

“Growth in retail sales accelerated markedly in December, according to business executives responding to the Texas Retail Outlook Survey. The sales index rose seven points to 13.5, its highest level in more than a year. Inventories increased, with the index rising to 13.6 after a near-zero reading in November.

Retail labor market indicators suggested slower employment growth and longer workweeks in December. The employment index remained positive but slipped five points to 2.5, while the part-time employment index shot up 16 points, rebounding from -6.2 to 9.6. The hours worked index also rebounded from negative territory, rising from -0.9 to 10.7.

Retailers’ perceptions of broader business conditions continued to reflect optimism in December, and uncertainty decreased. The general business activity index was largely unchanged at 8.3. The company outlook index surged 10 points to 15.0, its highest reading in more than a year. The outlook uncertainty index plunged from 14.3 to -9.5, hitting its lowest level since we added the question in January 2018. The negative December reading indicates that a larger share of businesses said uncertainty regarding their outlook decreased than said it increased.

Retail price pressures remained steady while wages pressures picked up in December. The input prices and selling prices indexes held steady at 20.7 and 18.4, respectively. The wages and benefits index climbed 11 points to 25.1, its highest reading since August 2018.” – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

U.S. Economic Indicators

The Federal Reserve Bank of Kansas City

Tenth District Manufacturing Continued to Decline Modestly in November

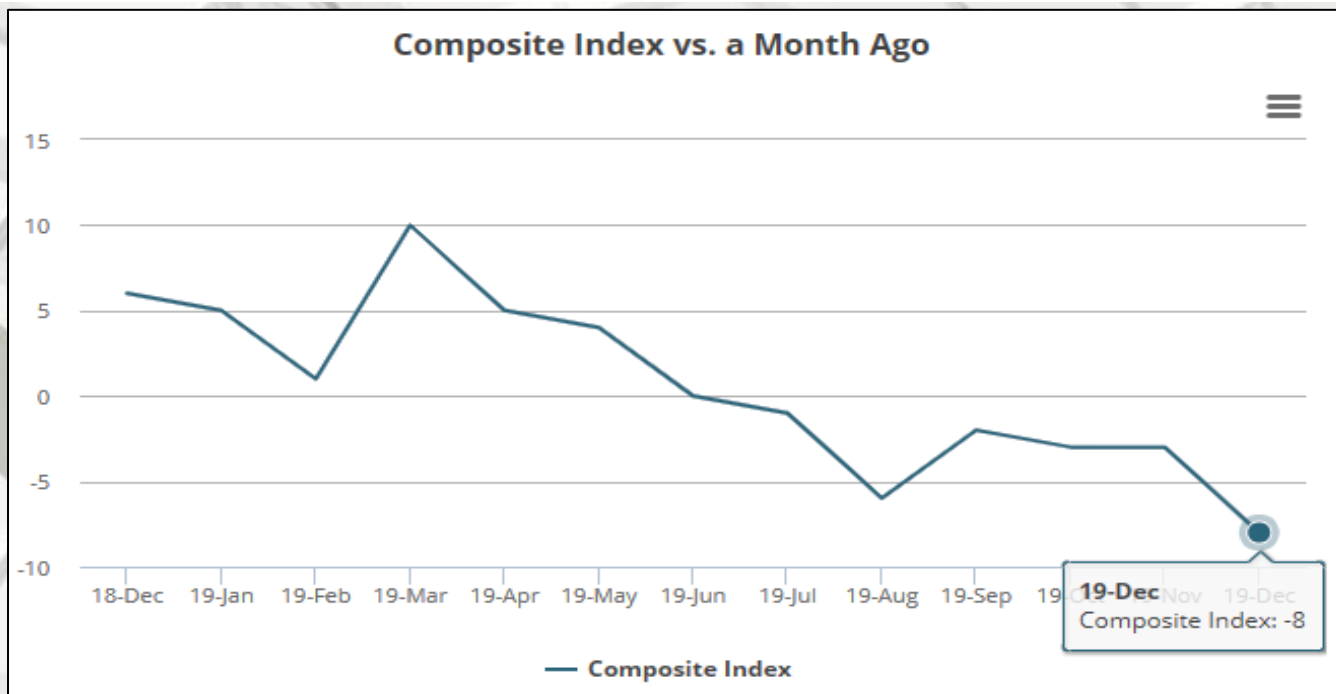
Tenth District manufacturing activity decreased further in December while expectations for future activity remained positive.

Factory activity decreased further in December

“Tenth District manufacturing activity decreased further in December while expectations for future activity remained positive (Chart 1). The month-over-month prices for raw materials increased, while prices for finished products eased slightly from a month ago. District firms expected higher prices in the next 6 months.

The month-over-month composite index was -8 in December, down from -3 in both November and October. The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The decrease in district manufacturing activity continued to be driven by weak activity at durable goods plants, especially from declines in: wood products, nonmetallic mineral products, primary metal, fabricated metal products, machinery, and computer and electronic products manufacturing. Most month-over-month indexes fell in December. The shipments index turned negative and the production, new orders, order backlog, and employment indexes declined further. Aside from the index for raw materials prices, only the supplier delivery time index remained slightly positive. Year-over-year factory indexes also dipped in December, and the composite slowed from 6 to -4. The future composite index moderated from 15 to 10 in December, but remained positive.” – Chad Wilkerson, Vice President and Oklahoma City Branch Executive, Federal Reserve Bank of Kansas City

The Federal Reserve Bank of Kansas City



The Federal Reserve Bank of Kansas City Special questions

“This month contacts were asked special questions about net profits and the impacts of conditions in other industries on their business activity. Nearly 44 percent of District manufacturing contacts reported higher net profits over the past year, but a similar share reported lower net profits. Over 56 percent of firms expect net profits to increase at some level over the next year. Just over 50 percent of contacts indicated that weakening in other goods-producing sectors (such as agriculture and energy) was leading to weaker conditions for business activity in their area. Another 24 percent of firms reported strengthening in other goods-producing sectors was leading to stronger conditions, while 26 percent of firms reported no connection between other goods-producing sectors and business activity.” –Chad Wilkerson, Vice President & Oklahoma City Branch Executive, Federal Reserve Bank of Kansas City

U.S. Economic Indicators

The Federal Reserve Bank of Kansas City Tenth District Services Activity Rose in December

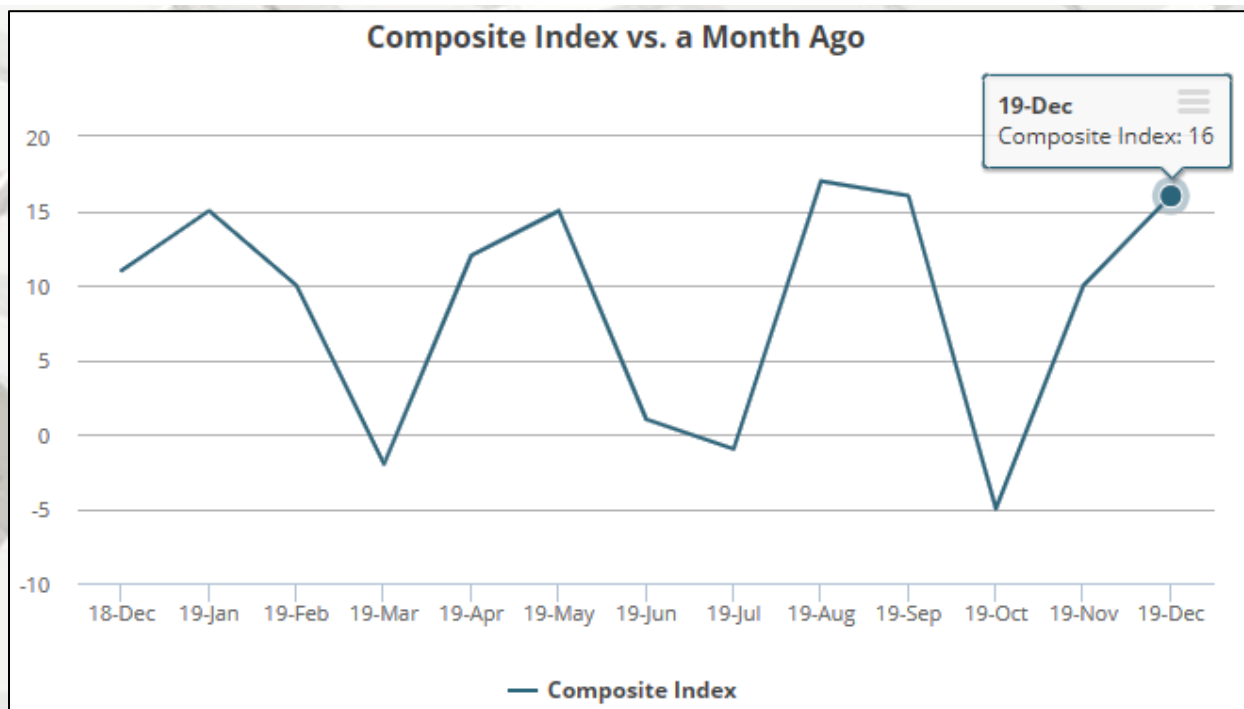
*Tenth District services activity rose further in December
and expectations for future growth remained positive.*

Business activity rose in December

“Tenth District services activity rose further in December and expectations for future growth remained positive (Chart 1). Input and selling price indexes continued to expand, but at a slightly slower rate compared with a month ago and a year ago. Expectations for future input prices also increased.

The month-over-month services composite index was 16 in December, up from 10 in November and -5 in October. The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Most month-over-month indexes increased in December. The indexes for employment, employee hours, part-time employment, and wages and benefits all expanded. The general revenue/sales index also grew, driven by higher retail, wholesale, auto, and health services, and professional and business services activity. Year-over-year services indexes were mostly positive, but lower than last month, and the year-over-year composite index moderated slightly from 31 to 25. Expectations for future services activity also remained positive but the composite index eased somewhat from 29 to 16.” – Chad Wilkerson, Vice President and Oklahoma City Branch Executive, The Federal Reserve Bank of Kansas City

U.S. Economic Indicators



The Federal Reserve Bank of Kansas City Special questions

“This month contacts were asked special questions about net profits and the impacts of conditions in other industries on their business activity. A higher share of District services contacts reported higher net profits over the past year than reported lower profits, and nearly 57 percent expect net profits to increase over the next year. Almost 30 percent of contacts reported that weakening in other goods-producing sectors (such as agriculture and energy) was leading to weaker conditions for business activity in their area. Another 15 percent of firms indicated strengthening in other goods-producing sectors was leading to stronger conditions for business activity, while over half of firms surveyed said there was no connection between other goods-producing sectors and the strength of business activity.” – Chad Wilkerson, Vice President and Oklahoma City Branch Executive, The Federal Reserve Bank of Kansas City

The Federal Reserve Bank of New York

Empire State Manufacturing Survey

Growth Remains Sluggish

“Business activity was little changed in New York State, according to firms responding to the December 2019 *Empire State Manufacturing Survey*. The headline general business conditions index held steady at 3.5. New orders were also little changed, while shipments grew modestly. Delivery times were somewhat shorter, and inventories held steady. Employment continued to expand, though the average workweek was unchanged. Input price increases continued to slow, and selling prices increased slightly. Optimism about the six-month outlook picked up, and capital spending plans were notably stronger.

As has been the case for the past several months, manufacturing firms in New York State reported that business activity was little changed over the month. The general business conditions index remained subdued for the seventh consecutive month, coming in at 3.5 in December. Twenty-eight percent of respondents reported that conditions had improved over the month, while 25 percent reported that conditions had worsened. The new orders index edged down three points to 2.6, indicating little change in orders. The shipments index edged up three points to 11.9, indicating that shipments increased modestly. The unfilled orders index fell six points to -13.8, indicating that unfilled orders continued to decline. Delivery times shortened, and inventories held steady.” – Richard Deitz and Jason Bram, The Federal Reserve Bank of New York

The Federal Reserve Bank of New York

Empire State Manufacturing Survey

Input Price Increases Continue To Slow

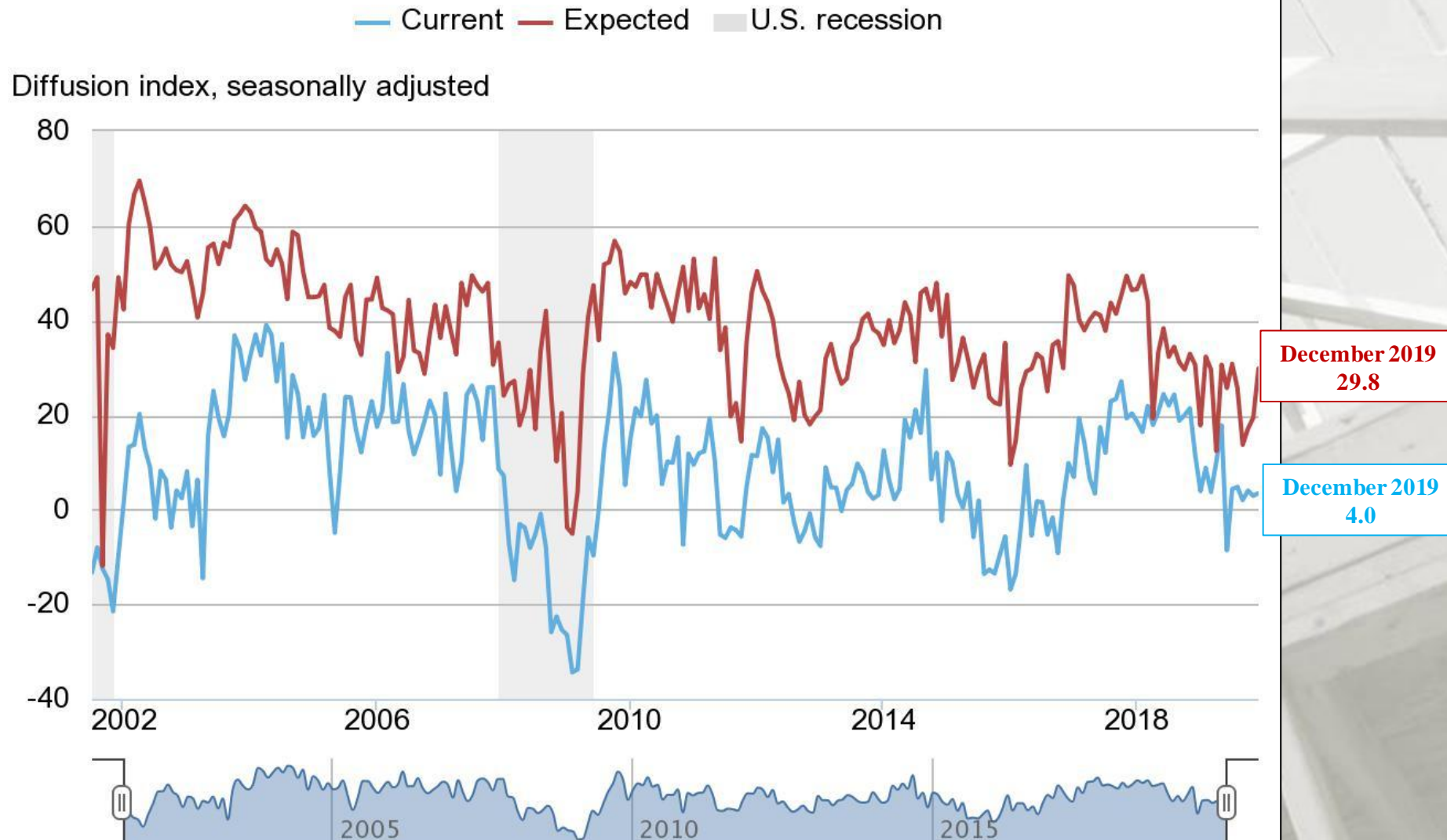
“The index for number of employees was unchanged at 10.4, indicating that employment expanded for the fourth consecutive month. The average workweek index was 0.8, a sign that the average workweek was unchanged. Input price increases continued to decelerate, with the prices paid index moving down five points to 15.2, a multi-year low. The prices received index was little changed at 4.3.

Optimism Improves

Indexes assessing the six-month outlook suggested that optimism about future conditions improved for a second consecutive month. The index for future business conditions climbed ten points to 29.8. Unfilled orders are expected to increase in the months ahead, and delivery times are expected to lengthen. The capital expenditures index climbed seven points to 26.1, and the technology spending index rose twelve points to 27.5.” – Richard Deitz and Jason Bram, The Federal Reserve Bank of New York

The Federal Reserve Bank of New York

General Business Conditions



The Federal Reserve Bank of New York

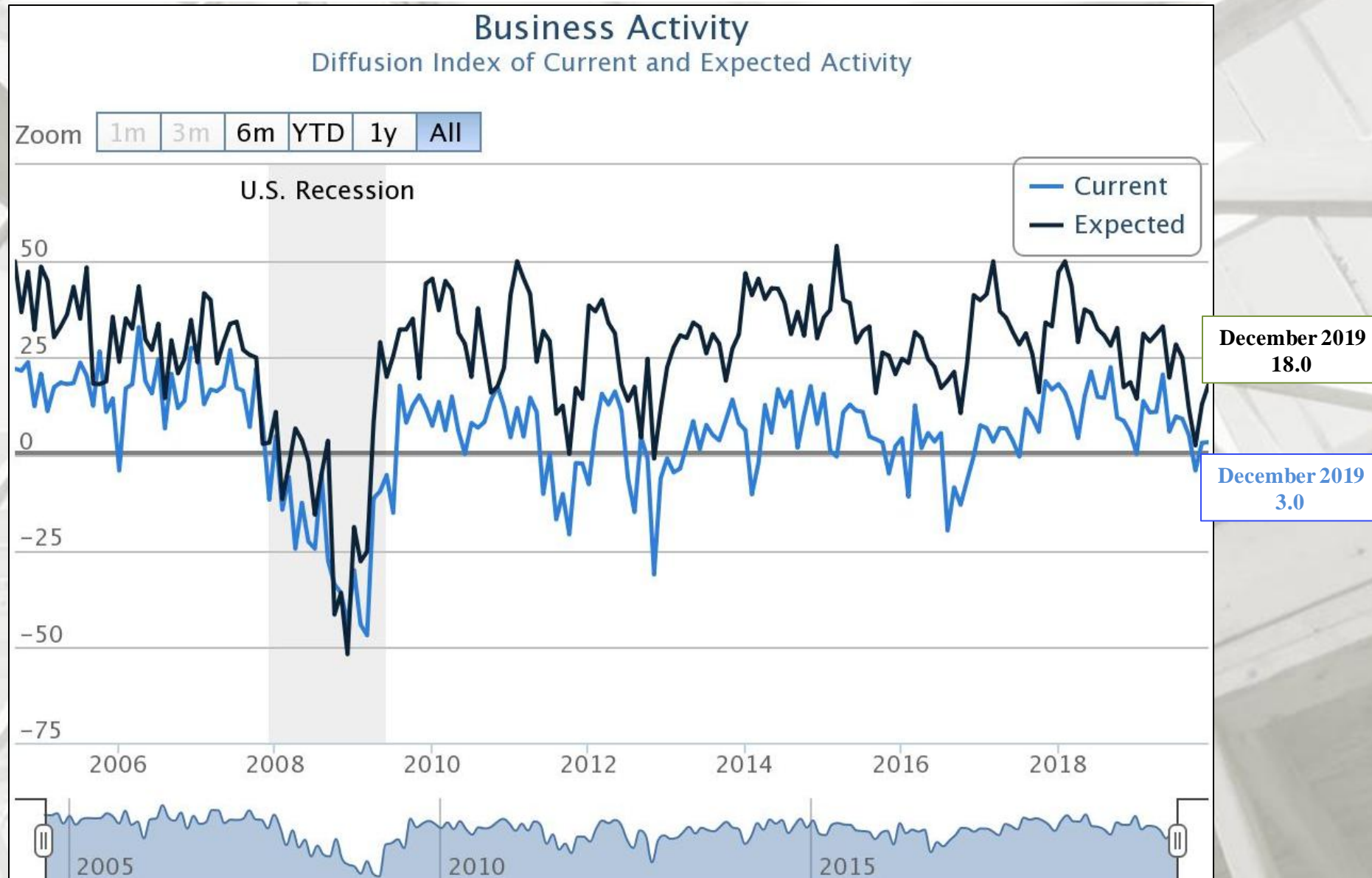
Business Leaders Survey (Services)

Conditions Remain Sluggish

“Activity in the region’s service sector grew only slightly, according to firms responding to the Federal Reserve Bank of New York’s December 2019 *Business Leaders Survey*. The survey’s headline business activity index held steady at 3.0. Though it increased six points, the business climate index remained negative for a fourth consecutive month, indicating that, on balance, firms regarded the business climate as worse than normal. Employment levels increased modestly, and wage increases picked up slightly. Input prices increased at a significantly faster pace than last month, while selling price increases were little changed. Optimism about future conditions improved from November, though firms continued to express pessimism about the future business climate.

Growth in business activity in the region’s service sector remained sluggish in December. The headline business activity index held steady at 3.0. Thirty-two percent of respondents reported that conditions improved over the month, and 29 percent said that conditions worsened. The business climate index remained negative, though it increased six points to -4.5, indicating that, on balance, firms still viewed the business climate as worse than normal.” – Jason Bram and Richard Deitz, The Federal Reserve Bank of New York

The Federal Reserve Bank of New York



The Federal Reserve Bank of New York

Business Leaders Survey (Services)

Employment Expands

“The employment index climbed six points to 6.8, suggesting that employment grew modestly. The wages index edged up three points to 35.1, pointing to a slight pickup in wage growth. After dropping to its lowest level in more than three years last month, the prices paid index increased fourteen points to 47.1, signaling a strong pickup in input price increases. The prices received index was little changed at 15.2. The capital spending index rose ten points to 21.8, indicating that spending increased significantly.

Optimism Picks Up Slightly, But Remains Subdued

While firms were generally more optimistic about the six-month outlook than last month, optimism remained subdued. The index for future business activity rose five points, but remained at a relatively low level of 18.0. The index for future business climate held below zero, indicating that firms continued to expect the business climate to worsen in the months ahead. The indexes for future wages and prices increased.” – Jason Bram and Richard Deitz, The Federal Reserve Bank of New York

U.S. Economic Indicators

The Federal Reserve Bank of New York Nowcast

2020:Q1 | 2019:Q4 | 2019:Q3 | 2019:Q2

Last Release 11:15am EST Jan 10, 2020



January 10, 2020: Highlights

- “The New York Fed Staff Nowcast stands at 1.1% for 2019:Q4 and 1.2% for 2020:Q1.
- News from this week's data releases decreased the nowcast for 2019:Q4 by 0.1 percentage point and left the nowcast for 2020:Q1 broadly unchanged.
- Negative news from international trade data accounted for most of the decrease.” – The Federal Reserve Bank of New York

U.S. Economic Indicators

The Federal Reserve Bank of Philadelphia

December 2019 Manufacturing Business Outlook Survey

“Manufacturing activity in the region was flat this month, according to results from the December *Manufacturing Business Outlook Survey*. The survey's broad indicator for current activity dropped to a reading near zero this month, although indicators for new orders, shipments, and employment remained at higher positive readings. The survey's future activity indexes remained positive, suggesting continued optimism about growth for the next six months.

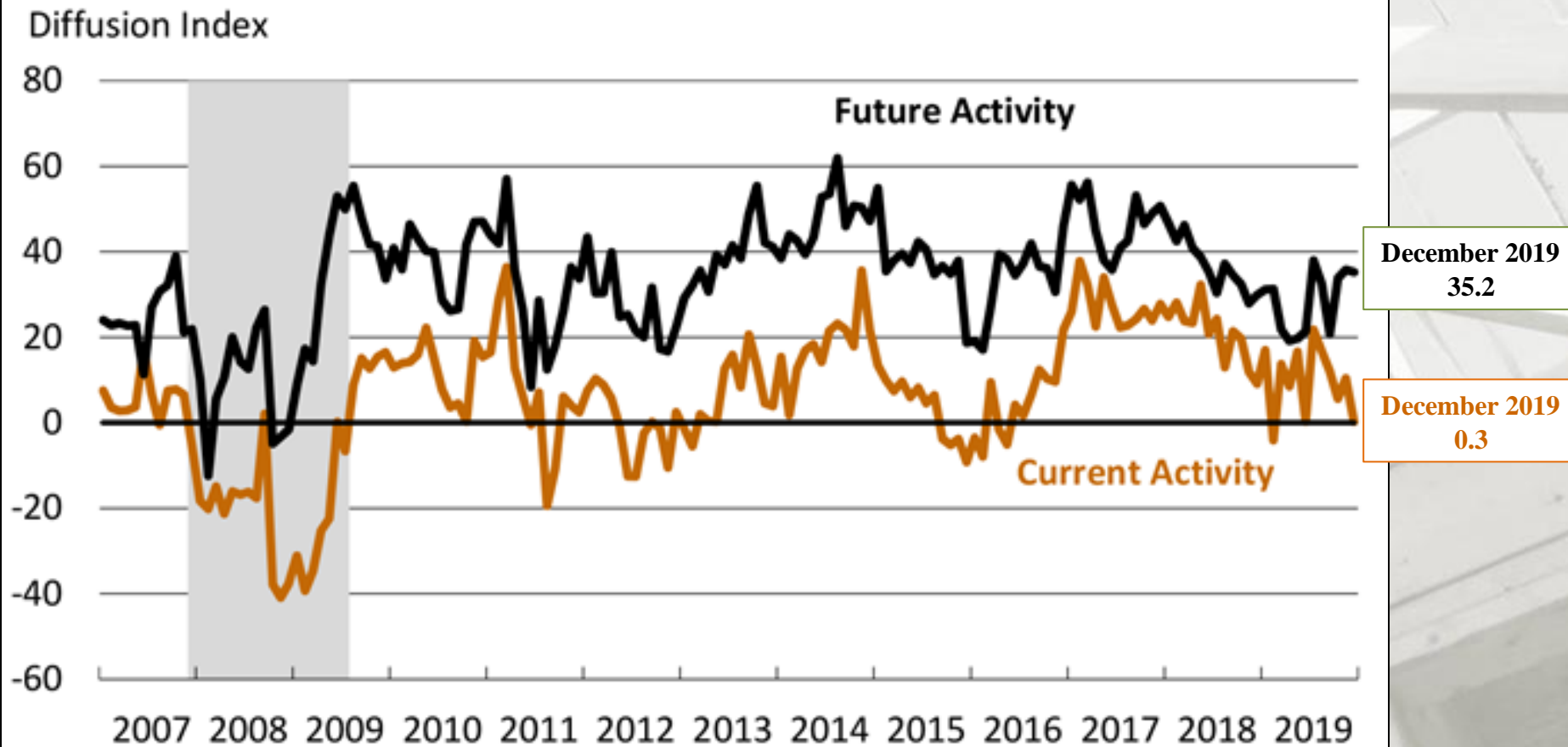
Changes in Current Indicators Were Mixed This Month

The diffusion index for current general activity fell 10 points this month to 0.3, its lowest reading in six months (see Chart 1). The percentage of firms reporting increases was equal to the percentage reporting decreases (29 percent). The indexes for current shipments and new orders moved higher: The current new orders index increased 1 point, while the shipments index increased 6 points. Both the unfilled orders and delivery times indexes remained positive this month, suggesting higher unfilled orders and slower delivery times.

Manufacturers continued to report expanding employment this month, although the current employment index decreased 4 points to 17.8. Nearly 19 percent of the firms reported higher employment, while only 1 percent reported lower employment. The average workweek index remained positive and edged up 2 points.” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia

Chart 1. Current and Future General Activity Indexes
January 2007 to December 2019



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

The Federal Reserve Bank of Philadelphia

More Firms Reported Input Price Increases This Month

“The firms continued to report overall increases in the prices paid for inputs, with the index rising 11 points to 19.0... . Over 25 percent of the respondents reported higher input prices, up from 17 percent in November. The current prices received index, reflecting the manufacturers’ own prices, ticked down to a reading of 11.9. Over 80 percent of the firms reported no change in their own product prices this month.

Firms Expect Highest Cost Increases for Health Benefits

In this month’s [special questions](#), the firms were asked about their expectations for changes in various input and labor costs for the coming year. The median expected increase for wages was 2.5 percent, for health benefits costs was 4.5 percent, and for non-health benefits costs was 2.5 percent. Median growth in total wage compensation costs (wages plus benefits) was forecast to be 3.5 percent. The costs of raw materials and intermediate goods are expected to increase 1.5 percent, and energy costs were forecast to be unchanged. The firms were also asked how the expected cost increases for 2020 will compare with this year’s cost changes. For all categories of expenses, the firms forecast, on balance, increases greater than in 2019.” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia

Firms Remain Generally Optimistic

“The diffusion index for future general activity edged down 1 point to 35.2 (see Chart 1). Nearly 43 percent of the firms expect increases in activity over the next six months, while 8 percent expect declines. The future new orders index decreased 5 points, and the future shipments index decreased 2 points. The future employment index increased 5 points this month, and the firms remain optimistic about future hiring overall: Nearly 41 percent of the firms expect higher employment over the next six months. The firms were more optimistic about future capital spending this month: The future capital spending index increased 8 points.

Summary

The December *Manufacturing Business Outlook Survey* indicated essentially flat growth in the region’s manufacturing sector this month. Although they all remained positive, the indicators for general activity and employment declined, while the indicators for new orders and shipments edged higher. The survey’s future indexes indicate that respondents continue to expect growth over the next six months.”— Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia

December 2019 Nonmanufacturing Business Outlook Survey Current Indicators Soften

“Responses to the December *Nonmanufacturing Business Outlook Survey* suggest a moderation of nonmanufacturing activity in the region. The indexes for general activity at the firm level, new orders, and sales/revenues all fell but remained positive. The index for full-time employment remained stable. The firms continued to report overall increases in the prices of both their own goods and their inputs, and both price indexes rose. The respondents continued to anticipate growth over the next six months, as both future activity indexes strengthened.

The diffusion index for current general activity at the firm level fell 26 points to 5.8 in December, its lowest reading since January (see Chart 1). More than 37 percent of the firms reported increases in activity (down from 41 percent last month), and 32 percent reported decreases (up from 10 percent last month). The new orders index decreased 10 points to 15.7 in December. The share of firms reporting increases in new orders (32 percent) was higher than the share reporting decreases (16 percent). The sales/revenues index fell 23 points to 10.2 in December, its lowest reading since January. Over 41 percent of the responding firms reported increases in sales/revenues, while 31 percent reported decreases. The regional activity index dropped 7 points to 13.4.

Full-Time Employment Indicators Remain Positive

The firms continued to report overall increases in full-time and part-time employment. The full-time employment index held mostly steady at 21.7. Over 63 percent of the firms reported steady full-time employment levels, while the share of firms reporting increases (28 percent) was higher than the share reporting decreases (7 percent). The part-time employment index edged down 3 points to 7.3, and the wages and benefits indicator rose 9 points to 45.3. The average workweek index increased 4 points to 16.7.” – Elif Sen, Research Department, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia

December 2019 Nonmanufacturing Business Outlook Survey Price Indicators Strengthen

“Price indicator readings suggest overall increases in prices for inputs and for the firms’ own goods and services, with both indicators rising. The prices paid index rose 8 points to 36.6. Forty-one percent of the respondents reported stable input prices, while 43 percent of the respondents reported increases and only 6 percent reported decreases. Regarding prices for firms’ own goods and services, the prices received index rose 6 points from November to 16.9 in December. Twenty-three percent of the firms reported increases in prices received, and only 6 percent reported decreases. More than 61 percent of the firms reported no change in prices for their own goods and services.

Firms’ Optimism for Future Growth Improves

Both future activity indexes suggest that firms anticipate continued growth over the next six months. The diffusion index for future activity at the firm level moved up from a reading of 47.2 in November to 58.0 this month (see Chart 1). Nearly 66 percent of the firms expect an increase in activity at their firms over the next six months (up from 57 percent last month), compared with 8 percent that expect decreases and 24 percent that expect no change over the next six months. The future regional activity index increased 12 points to 32.7.

Summary

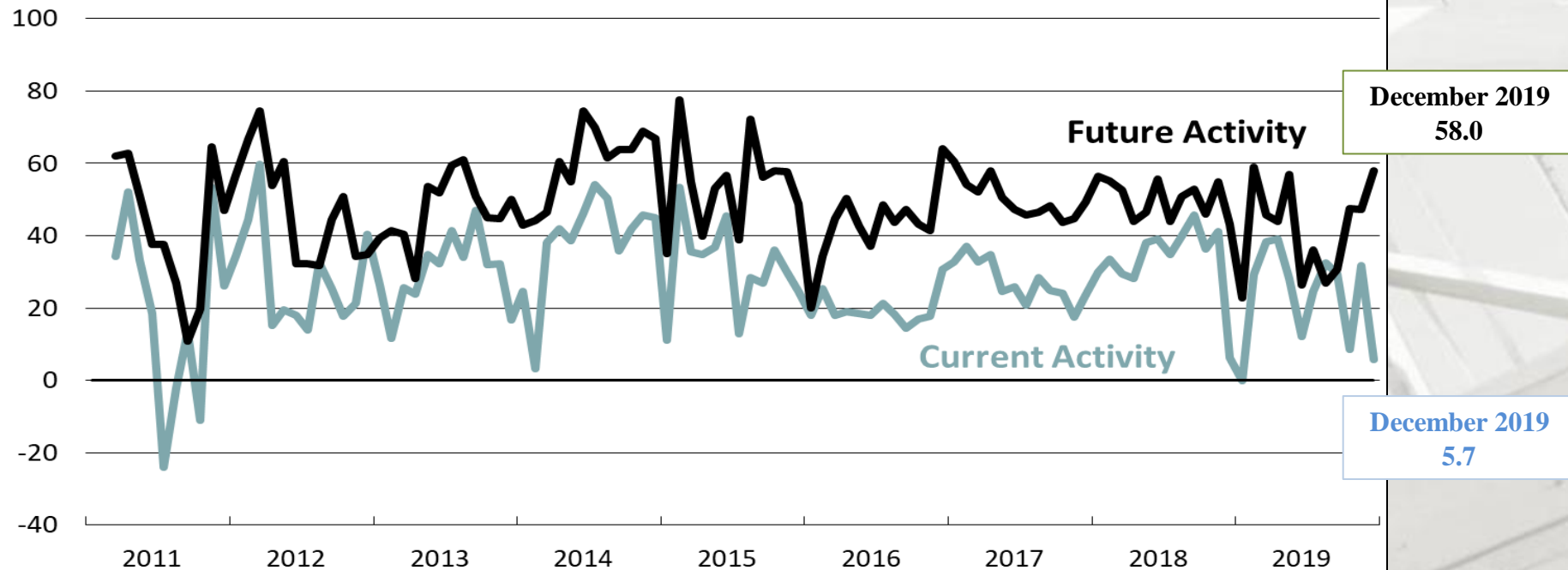
Responses to this month’s *Nonmanufacturing Business Outlook Survey* suggest that nonmanufacturing activity moderated in the region. The indicators for firm-level general activity, sales/revenues, and new orders all fell, while the full-time employment index held steady. Overall, the respondents continue to expect growth over the next six months in their own firms and in the region.” – Elif Sen, Research Department, The Federal Reserve Bank of Philadelphia” – Elif Sen, Research Department, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia

Chart 1. Current and Future General Activity Indexes for Firms

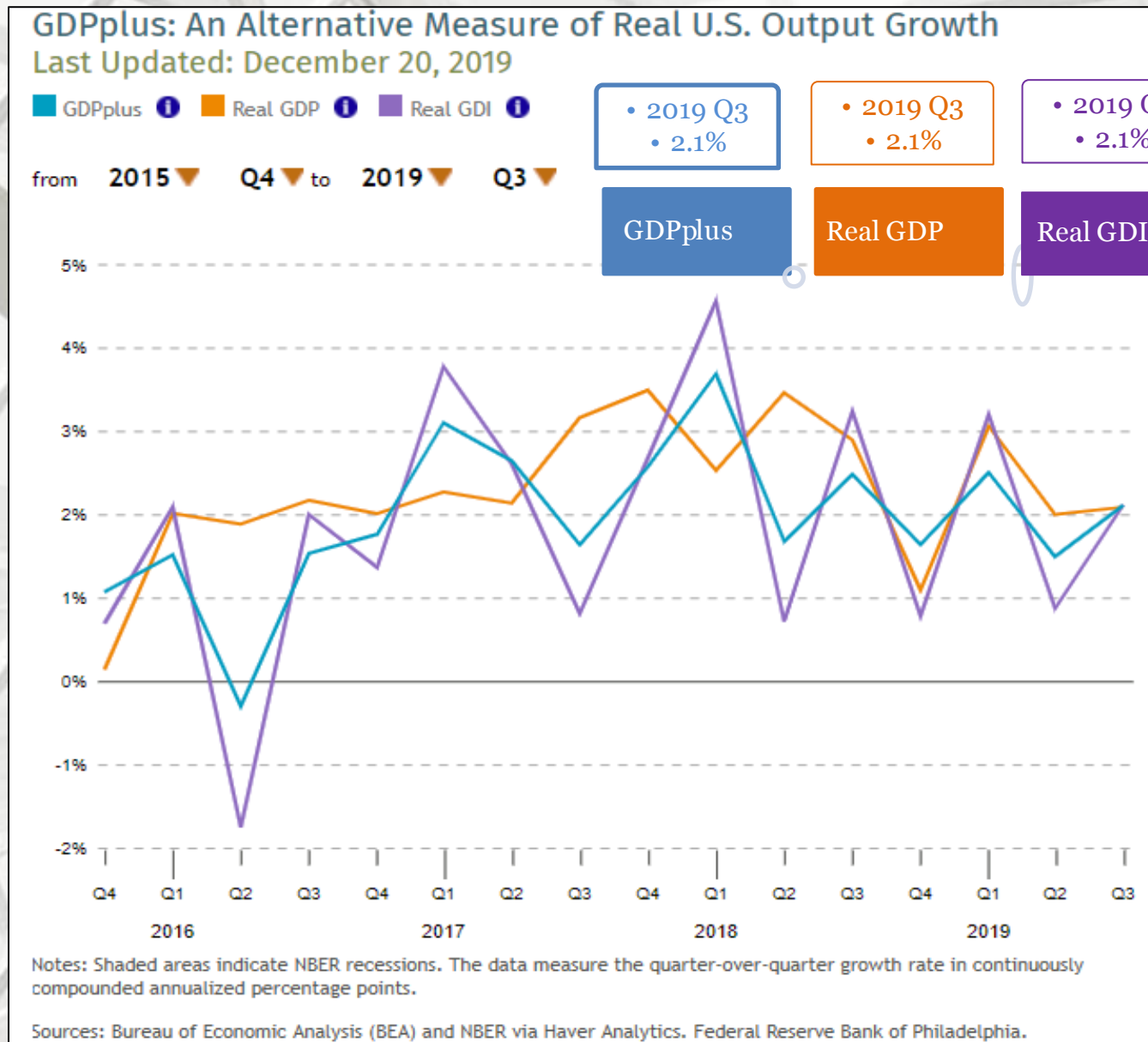
March 2011 to December 2019

Diffusion Index

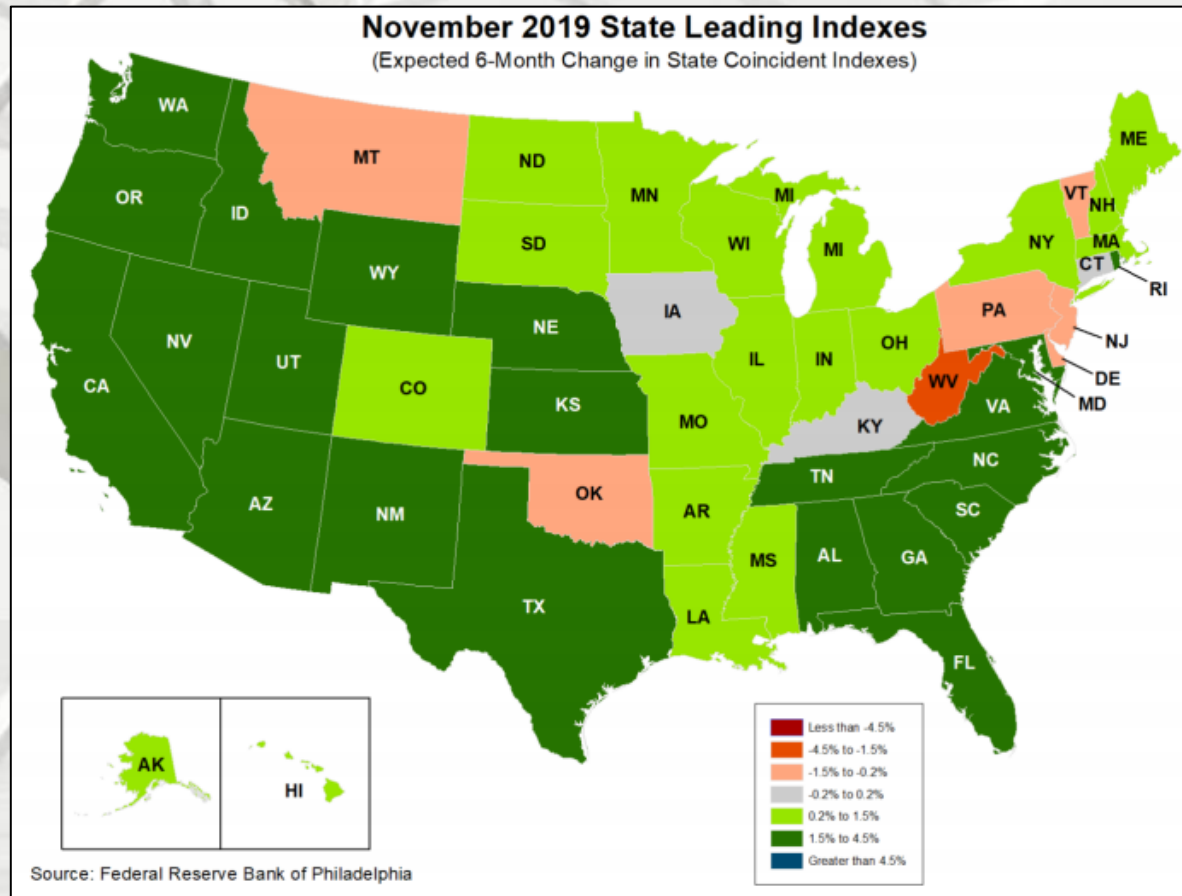


Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

The Federal Reserve Bank of Philadelphia: GDPplus



The Federal Reserve Bank of Philadelphia



“The Federal Reserve Bank of Philadelphia has released the leading indexes for the 50 states for November 2019. The indexes are a six-month forecast of the state coincident indexes (also released by the Bank). Forty-one state coincident indexes are projected to grow over the next six months, and nine are expected to decrease. For comparison purposes, the Philadelphia Fed has also developed a similar leading index for its U.S. coincident index, which is projected to grow 1.4 percent over the next six months.” – Daniel Mazone, Research Department, The Federal Reserve Bank of Philadelphia

U.S. Economic Indicators

The Federal Reserve Bank of Richmond

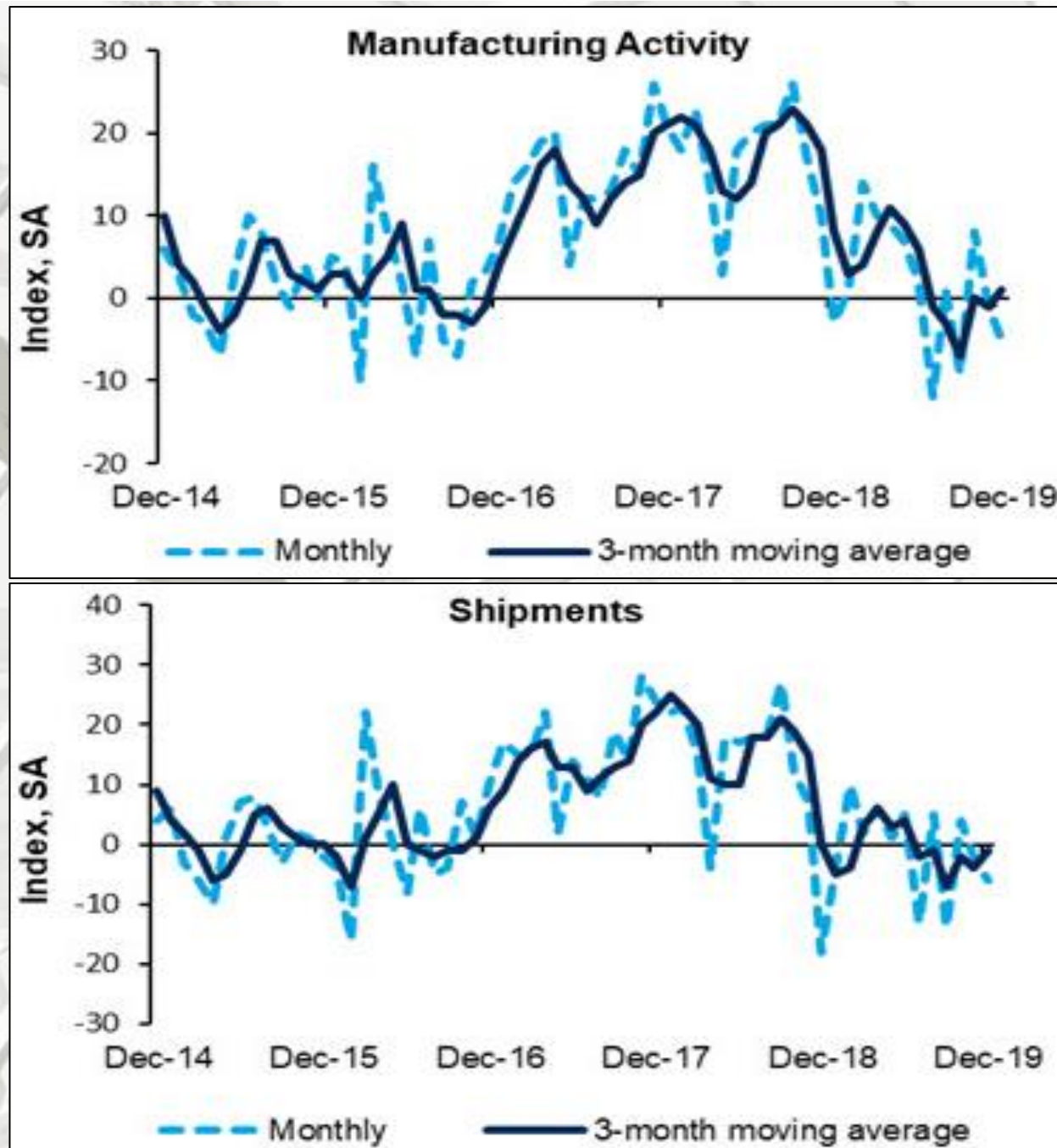
Manufacturing Activity Slowed in December

“Fifth District manufacturing activity slowed in December, according to the most recent survey from the Federal Reserve Bank of Richmond. The composite index fell from -1 in November to -5 in December, weighed down by decreases in the already negative indexes for shipments and new orders, while the third component — employment — increased slightly. Manufacturers also reported weakness in local business conditions and capacity utilization, but they were optimistic that conditions would improve in the coming months.

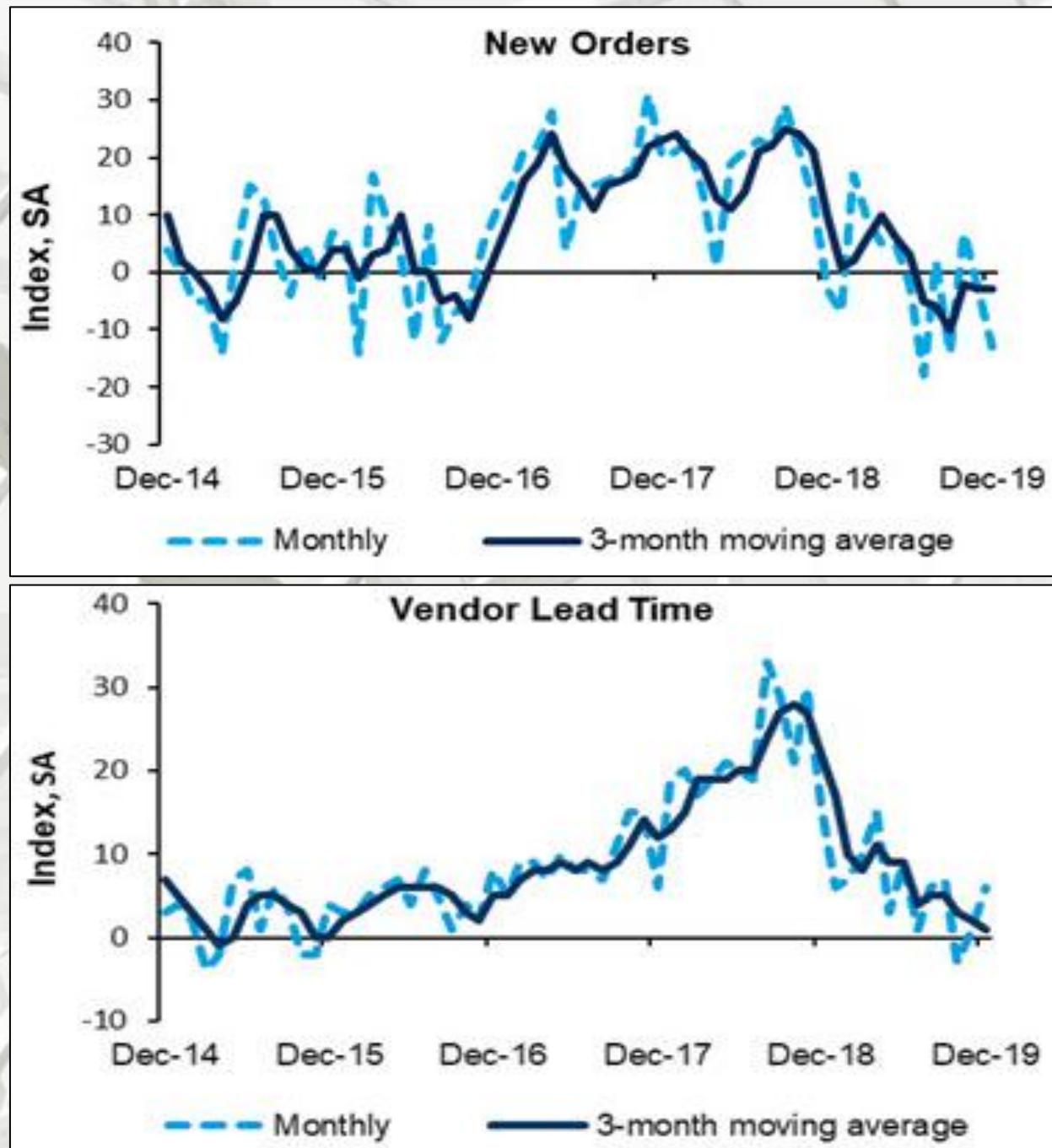
Many firms saw growth in employment and wages in December. However, respondents reported declines in the average workweek, as this index decreased to -15 , its lowest reading since April 2009. Manufacturers continued to report difficulty finding workers with the necessary skills and expected that struggle to continue in the next six months.

The growth rate of prices paid by manufacturing firms rose in December, while that of prices received fell. Respondents expected growth of both prices paid and prices received to slow in the near future.” – Jeannette Plamp, Economic Analyst, The Federal Reserve Bank of Richmond

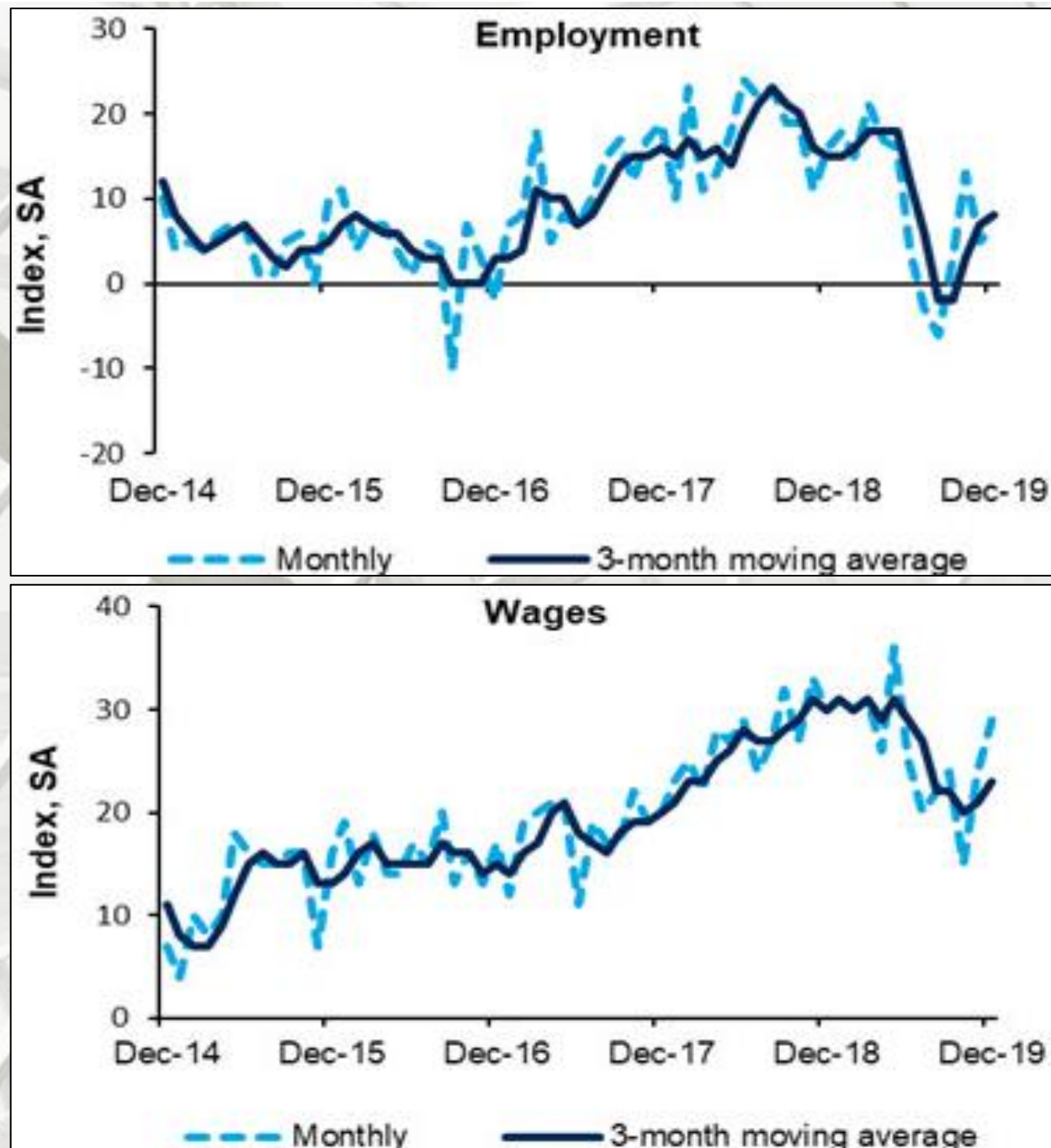
U.S. Economic Indicators



U.S. Economic Indicators



U.S. Economic Indicators



U.S. Economic Indicators

The Federal Reserve Bank of San Francisco

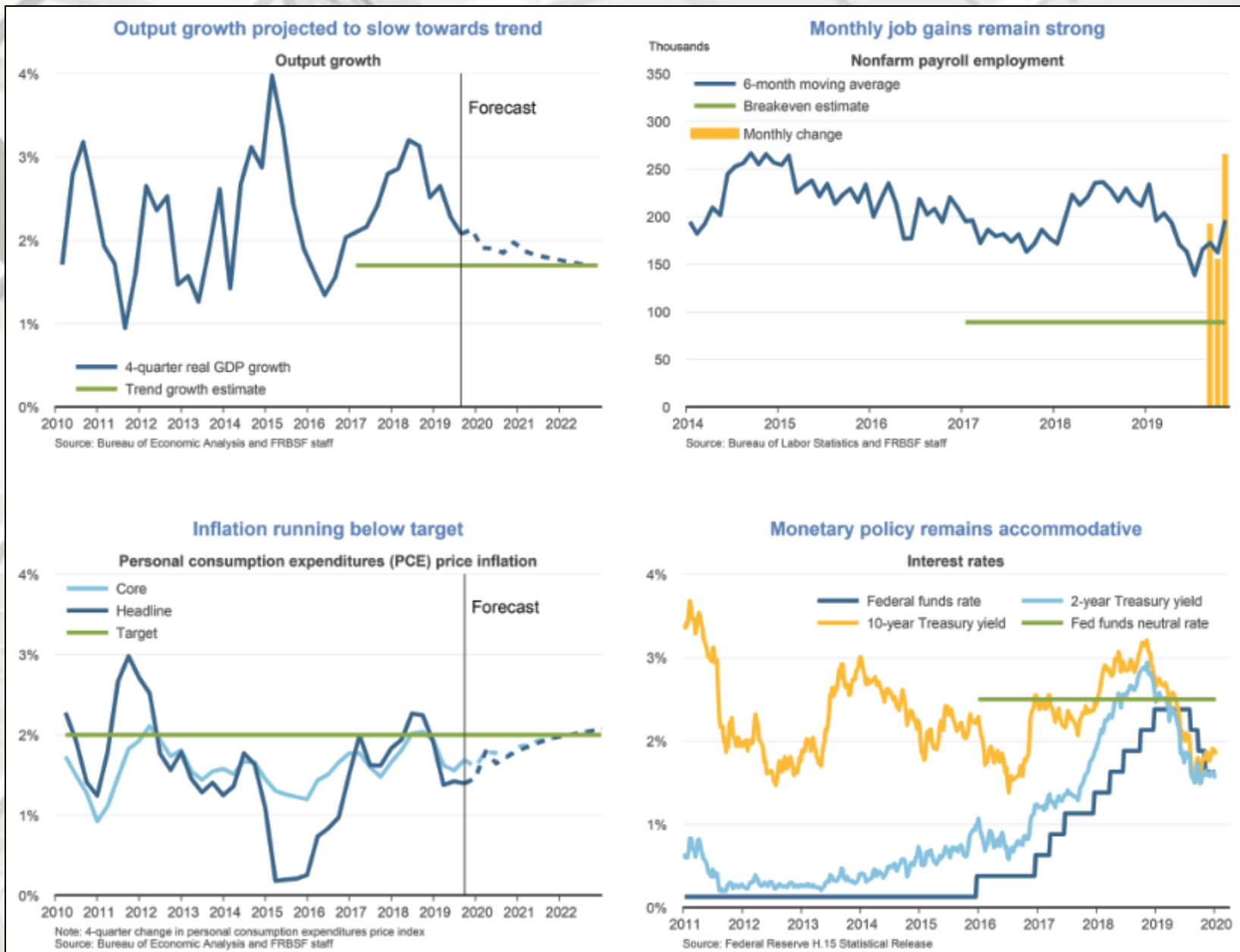
- “Real GDP grew 2.1% at an annual rate in the third quarter of 2019, unrevised from the prior estimate of the Bureau of Economic Analysis. For 2019 as a whole, we expect growth of 2.3%, somewhat above our estimate of the economy’s long-run sustainable growth rate of slightly below 2%. Given the waning effects of federal fiscal policy, we project that growth will slow towards trend by 2022.
- The Bureau of Labor Statistics reported that payroll employment increased by 266,000 jobs in November. Data for the previous two months were revised upward, resulting in an average monthly gain over the past three months of 205,000 jobs. The unemployment rate ticked down to 3.5% from 3.6% in October. We expect monthly job gains to gradually trend down towards the breakeven level needed to keep pace with the growth rate of the labor force, which we estimate at around 90,000 jobs per month.
- Inflation over the past year is running slightly below the Federal Open Market Committee’s (FOMC’s) 2% target. The overall personal consumption expenditures (PCE) price index rose 1.5% over the 12 months ending in November. Core inflation, which excludes volatile food and energy prices, rose 1.6%. With unemployment below the natural rate and real GDP growth above its long-run sustainable pace, we expect some upward pressure on inflation over the medium term, causing the inflation rate to reach target by 2022.
- Following the conclusion of its latest meeting on December 11, 2019, the FOMC announced its decision to maintain the target range for the federal funds rate at 1½ to 1¾%. The Committee noted that while labor market conditions and household spending remain strong, business fixed investment and exports are weak.” – Kevin Lansing, Research Advisor, The Federal Reserve Bank of San Francisco

U.S. Economic Indicators

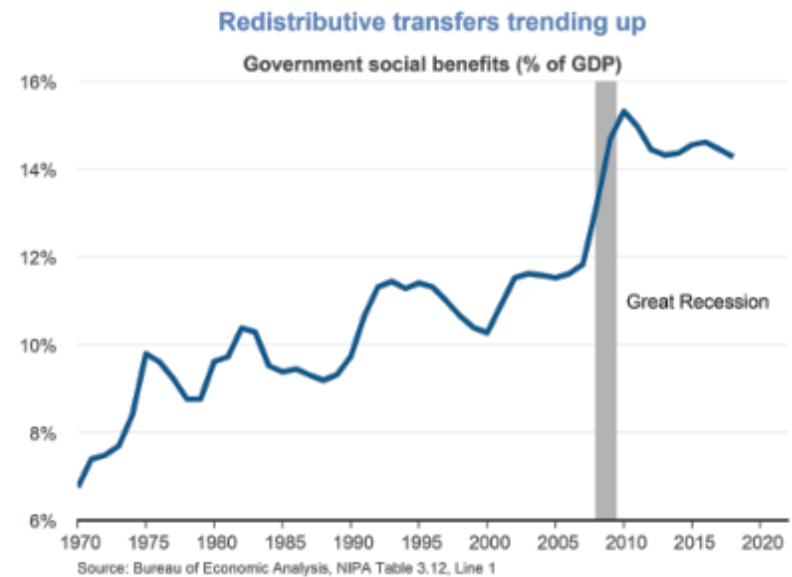
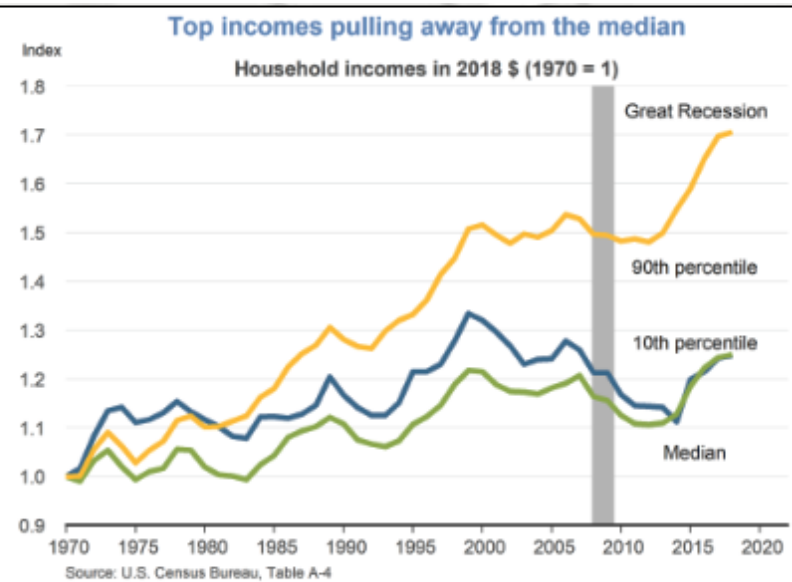
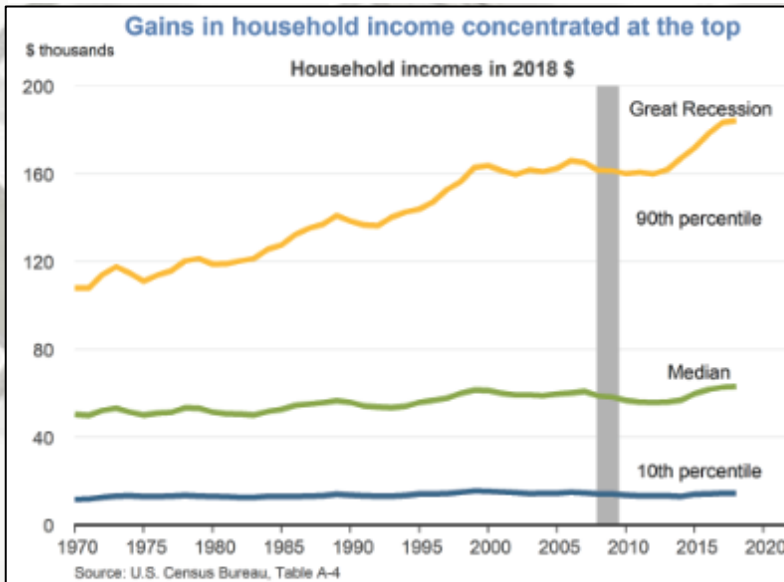
The Federal Reserve Bank of San Francisco

- “The current level of the federal funds rate remains accommodative as it stands about 1 percentage point below our estimate of the “neutral” federal funds rate. Long-term Treasury yields are only slightly above short-term yields suggesting that bond market investors do not expect to see a substantial increase in short-term interest rates over the relevant forecast horizon.
- Income inequality in the U.S. economy has increased markedly over the past 50 years, particularly in the decade since the end of the Great Recession. At the end of 2018, the median (50th percentile) pretax and pretransfer household income stood at \$63,179. By comparison, the 90th percentile household income was \$184,292, and the 10th percentile household income was \$14,629. The 90th percentile income level is now well above its pre-recession level in 2007, whereas the median and 10th percentile income levels are little changed from their 2007 levels. This pattern shows that the income gains from the economic recovery have not been evenly distributed, thus presenting a challenge to the goal of shared prosperity.
- From 1970 to 2000, the average growth rate of corporate profits was not much different than the average growth rate of employee wages and salaries or the average growth rate of nominal GDP. However, since the year 2000, gains in corporate profits have far outpaced increases in wages and GDP. Given that the ownership of corporate stock is highly concentrated in the upper tiers of the U.S. income distribution, the disproportionate increase in corporate profits has served to exacerbate the trend of rising income inequality between the top 10% and the remaining 90% of households. ...” – Kevin Lansing, Research Advisor, The Federal Reserve Bank of San Francisco

U.S. Economic Indicators



U.S. Economic Indicators



U.S. Economic Indicators: Global

The Federal Reserve Bank of Dallas México's Third-Quarter Output Revised Down Output Growth Weak

“Preliminary revision to México’s third-quarter gross domestic product (GDP) growth suggested an increase of 0.1 percent annualized, down from the initial estimate of 0.4 percent. The consensus GDP growth forecast for 2019, compiled by Banco de México, was revised down to 0.0 percent in November from 0.3 percent in October. Growth for 2020 is forecast to be 1.1 percent.

Other data were mixed. Exports declined, employment growth weakened but remained positive, and industrial production and inflation were flat. The peso held steady against the dollar in November, and retail sales were up.

Méxican GDP barely expanded in the third quarter at an annualized 0.1 percent, following three quarters of negative growth (Chart 1). Output in goods-producing industries (manufacturing, construction, utilities and mining) fell 0.5 percent. Service-related activities (for example, wholesale and retail trade, transportation and business services) gained 0.3 percent. Agricultural output spiked 13.8 percent.

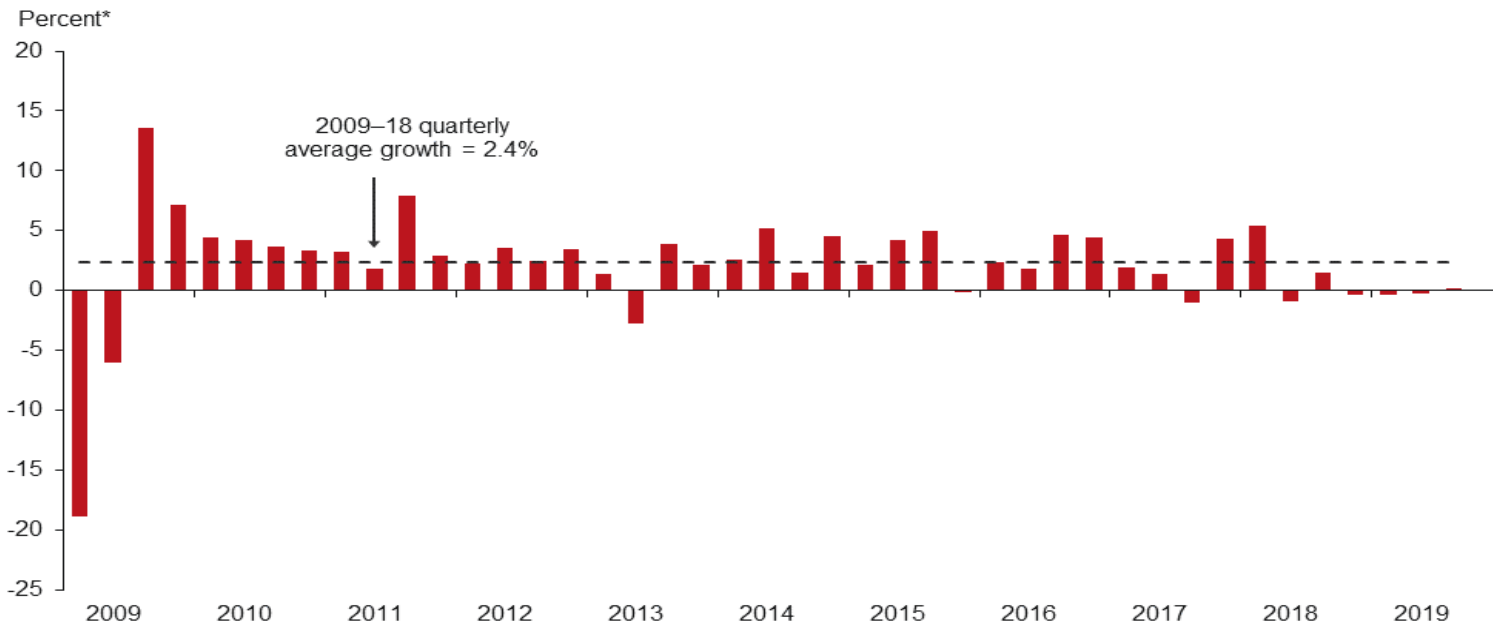
Total exports fell 0.1 percent in October after decreasing 5.6 percent in September. Manufacturing exports decreased 0.3 percent in October after falling 4.6 percent in September. Three-month moving averages have shown a steady decline in oil exports since May and flat-to-down activity in manufacturing and total exports (Chart 2). Consistent with the recent weakness, total exports were up only 1.3 percent through October compared with the same period in 2018, as manufacturing exports grew 2.6 percent but oil exports fell 17.6 percent. ...” – Jesus Cañas, Senior Business Economist and Chloe Smith, Research Assistant; The Federal Reserve Bank of Dallas

U.S. Economic Indicators: Global

The Federal Reserve Bank of Dallas

Chart 1

Gross Domestic Product Flat to Down Since Mid-2018



*Quarter/quarter, real pesos; seasonally adjusted, annualized rate.

NOTE: Data are through third quarter 2019.

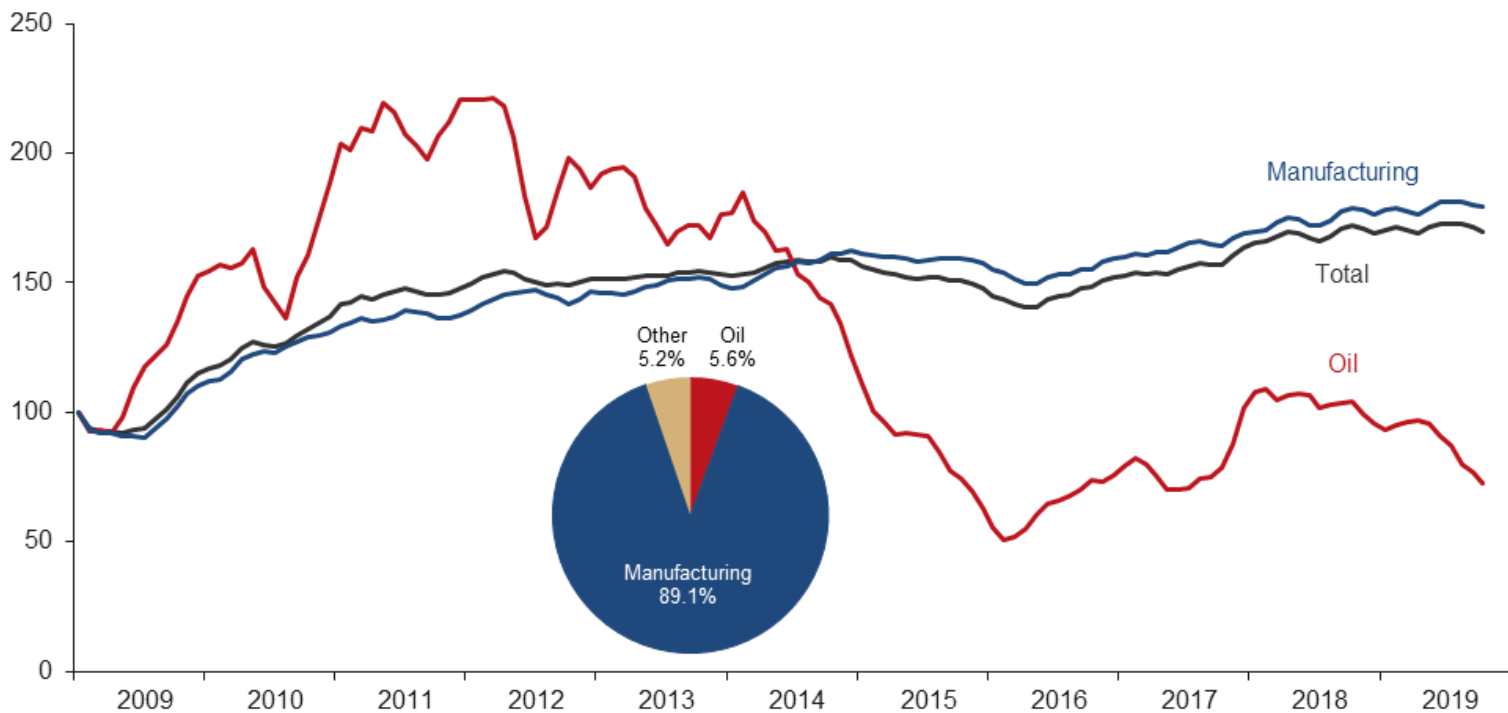
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

U.S. Economic Indicators: Global

The Federal Reserve Bank of Dallas

Chart 2
Exports Decline in October

Index, January 2009 = 100*

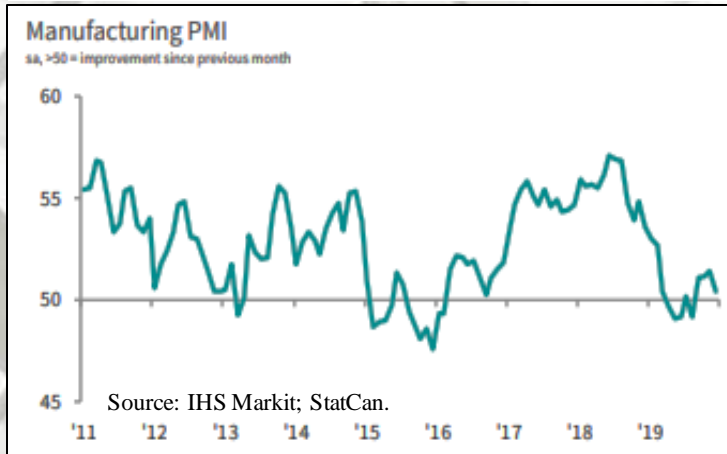


*Seasonally adjusted, three-month moving average; real dollars.

NOTE: All data are through October 2019. Pie chart reflects the share of total exports year to date in 2019.

SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Private Indicators: Global



Markit Canada Manufacturing PMI™

“At 50.4 in December, down from 51.4 in the previous month, the headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers’ Index® (PMI®) signalled the weakest overall manufacturing performance since August. The latest reading was only fractionally above the crucial 50.0 no-change mark.

Manufacturing PMI hits four-month low in December

December data revealed a setback for the recent recovery in manufacturing growth from the low point seen in the middle of 2019. This was highlighted by the near-stagnation of production volumes and a renewed downturn in order books during the latest survey period. Manufacturers also indicated more cautious staff hiring strategies and efforts to tighten inventory management, which partly reflected concerns about the near-term business outlook. The latest survey meanwhile signalled the lowest degree of confidence about year-ahead prospects for production growth since February 2016.

Sub-sector data indicated that robust growth in the consumer goods category offset a sustained downturn among investment goods producers. Meanwhile, the intermediate goods category continued to register a steady but relatively subdued growth trajectory. ...

December data revealed a disappointing end to 2019 for the Canadian manufacturing sector as the steady recovery in production volumes stalled, while new orders fell back into decline. Weakness in the investment goods category linked to softer capital spending at home and abroad remained a key factor behind the subdued manufacturing trend. Consumer goods producers once again fared better than elsewhere in the industrial sector, but even this outperforming area reported a growth slowdown at the end of 2019. It appears that manufacturers are braced for a lack of new work to replace completed projects in the New Year, with business optimism now at its lowest for almost four years and job creation moving closer to stagnation in the latest survey period.” – Tim Moore, Economics Associate Director, IHS Markit

Private Indicators: Global

Caixin China General Manufacturing PMI™

Operating conditions improve again in December

“The headline seasonally adjusted Purchasing Managers’ Index™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted 51.5 in December, down from 51.8 in November. The latest figure remained consistent with a modest improvement in the health of the sector, with conditions now strengthening in each of the past five months. That said, the latest PMI reading was the lowest seen since September.

The health of China’s manufacturing sector continued to improve in December, with firms registering a further strong rise in output. However, the rate of new order growth eased to a three-month low, and export sales rose only slightly. At the same time, confidence towards the 12-month business outlook remained relatively weak, and staffing numbers stagnated. Nonetheless, a further rise in new work prompted firms to expand their purchasing activity and inventories, which in turn placed further strain on supply chains. Operating expenses rose for the fourth month in a row, albeit marginally, which underpinned a renewed increase in selling prices.

Weighing on the headline index was a softer upturn in total new business at the end of the year. The rate of new order growth was modest, having eased to a three-month low. Panel members suggested that demand both at home and abroad had improved, though export work continued to rise only slightly overall. The sustained rise in new orders underpinned a further increase in production volumes during December. The rate of expansion remained strong overall, despite edging down for the second month in a row.

The Caixin China General Manufacturing PMI stood at 51.5 in December, down from 51.8 in the previous month, indicating a moderate expansion of the manufacturing sector.” – Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis, CEBM Group

Private Indicators: Global

Caixin China General Manufacturing PMI™

1. “Domestic demand expanded, but less quickly than in the previous two months. While the subindex for total new orders fell further in December from its high in October, the gauge for new export orders fell more slowly, suggesting growth in domestic demand is slowing more rapidly
2. Production expanded at a relatively quick clip, helping stabilize the labor market. The output subindex remained at a relatively high level, despite dipping slightly. The employment subindex fell marginally from the previous month, to the border between contraction and expansion
3. As production expanded at a relatively fast pace, input deliveries, order backlogs and inventories all saw positive changes. The subindex for suppliers’ delivery times rose to its highest point since April, despite remaining in contractionary territory. The measure for backlogs of work continued its fall from October’s recent high, but remained in expansionary territory. The subindex for inventories of purchased items rose further into positive territory, but the gauge for stocks of finished goods also rose and returned to expansionary territory.
4. Behind the good performance was an improvement in business confidence. The gauge for future output expectations rebounded, albeit remaining at a relatively low level in recent years.
5. Industrial product prices went up. Both the gauges for input costs and output prices rose slightly. Company profitability is likely to improve, as the gauge for output prices returned to expansionary territory.

China’s manufacturing economy continued to stabilize in December, although the expansion in demand was not as strong as the previous two months. Positive changes included improved business confidence, and strengthened willingness to increase production and inventories, which are beneficial to the job market. Subdued business confidence was a major factor behind the economic slowdown this year. As the phase one trade deal between China and the U.S. has sent out positive signals, there is room for a recovery in business confidence, which should be able to help stabilize the economy.” – Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis, CEBM Group

Private Indicators: Global



Private Indicators: Global

IHS Markit Eurozone Manufacturing PMI

Eurozone Manufacturing PMI, sa, 50 = no change



Markit Eurozone Manufacturing PMI®

“Having reached a three-month high in November, the IHS Markit Eurozone Manufacturing PMI® lost momentum in December. Posting 46.3, down from 46.9 but slightly better than the earlier flash reading of 45.9, the PMI remained below the crucial 50.0 no change mark for an eleventh successive month. Highlighting the continued underlying weakness in sector performance, the PMI averaged 46.4 in the final quarter, unchanged on the previous quarter’s near seven-year low.

Manufacturing downturn deepens during December

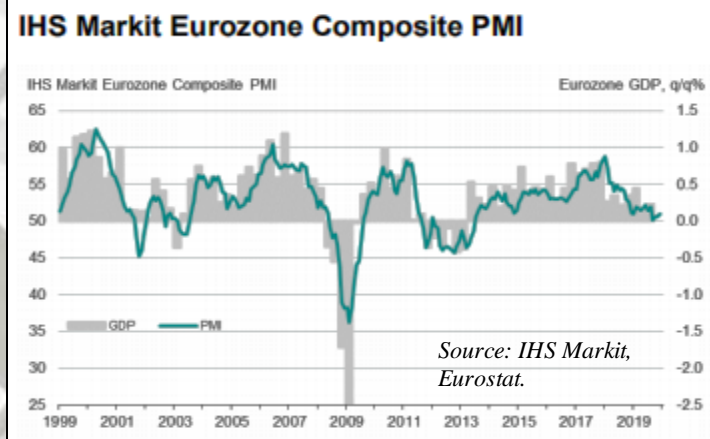
Market groups data indicated that manufacturing underperformance was centred on the intermediate and investment goods sectors, with the respective PMIs remaining well inside negative territory. Conversely, marginal growth was recorded in the consumer goods category for the first time since August.

There was a broad-based softening of PMI figures during December, with seven of the eight countries covered by the survey recording weaker PMI numbers compared to November (the exception being Austria, which registered an unmoved reading). ...

Eurozone manufacturers reported a dire end to 2019, with output falling at a rate not exceeded since 2012. The survey is indicative of production falling by 1.5% in the fourth quarter, acting as a severe drag on the wider economy. Although firms grew somewhat more optimistic about the year ahead, a return to growth remains a long way off given that new order inflows continued to fall at one of the fastest rates seen over the past seven years. Firms sought to reduce inventory levels and cut headcounts as a result, focusing on slashing capacity and lowering costs. Such cost cutting was again also evident in further steep falls in demand for machinery, equipment and production-line inputs.

Only households provided any source of improved demand in December, underscoring how the consumer sector has helped keep the economy out of recession in recent months. The ability of the wider economy to avoid sliding into a downturn in the face of such a steep manufacturing contraction remains a key challenge for the eurozone as we head into 2020.” – Chris Williamson, Chief Business Economist, Markit®

Private Indicators: Global



Markit Eurozone Composite PMI®

“The IHS Markit Eurozone PMI® Composite Output Index improved slightly during December, but still signalled weak economic growth. After accounting for seasonal factors, the index recorded 50.9, up from 50.6 in November and slightly better than the earlier flash reading. Despite the improvement to a four-month high the index nonetheless continued to post at a level amongst the lowest seen since the first half of 2013.

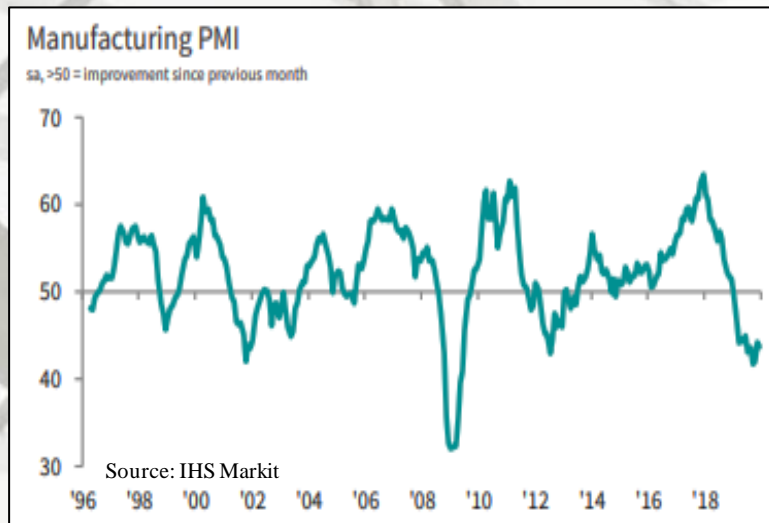
Eurozone economy remains close to stagnation at end of 2019

The divergence between the performances of the manufacturing and services economies remained noticeable in December. Overall growth remained centred on the service sector, with growth here reaching a four-month high. In contrast, manufacturing output declined at a rate not exceeded for nearly seven years. ...

Another month of subdued business activity in December rounded off the eurozone’s worst quarter since 2013. The PMI data suggest the euro area will struggle to have grown by more than 0.1 % in the closing three months of 2019. At face value, the weak performance is disappointing given additional stimulus from the ECB, with the drag from the ongoing plight of the manufacturing sector a major concern. However, policymakers will be encouraged by the resilient performance of the more domestically -focused service sector, where growth accelerated in December to its highest since August.

Business optimism about the year ahead has also improved to its best since last May, suggesting the mood among business has steadily improved in recent months. While the tide may be turning, downside risks to growth in the year ahead nevertheless remain notable. While US-China trade wars have eased, any escalation of trade tensions between the US and Europe will likely hit exports further. Brexit also remains a major uncertainty and is likely to continue to dampen growth in Europe. Nonetheless, in the absence of any major adverse developments we expect to see growth starting to improve as 2020 proceeds, with low inflation and easing financial conditions supporting consumer spending in particular.” – Chris Williamson, Chief Business Economist, Markit®

Private Indicators: Global



IHS Markit/BME Germany Manufacturing PMI®

“The headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases – registered 43.7 in December, down slightly from November's five-month high of 44.1. The latest reading was below the average since the current period of contraction began last January.

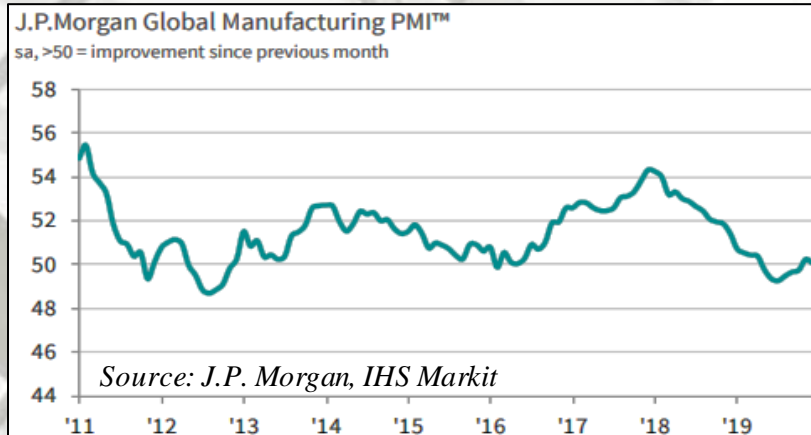
PMI shows weak end to 2019 for manufacturing, but brighter prospects for year ahead

Germany's manufacturing sector ended 2019 deep in contraction, recording further marked decreases in output and employment, latest PMI® data from IHS Markit and BME showed. De-stocking remained prevalent, while the slowdown in the sector continued to translate into lower prices. More positively, however, December's decrease in new orders was the slowest in the whole of 2019 and manufacturers' output expectations showed a further – albeit marginal – improvement.

The downturn persisted across all three main industrial groupings, with makers of investment goods noting the worst performance, followed by intermediate goods producers. The consumer goods category was alone in recording a slower rate of contraction. ...

Germany's manufacturing sector closed out 2019 with another weak performance and remains a thorn in the side of the economy. Falling goods production across the fourth quarter of the year bodes ill for final growth figures, while sustained cuts to workforce numbers at factories continue to pose a threat to Germany's so-far solid consumer spending. Importantly, however, the forward-looking survey measures for new orders and output expectations both give off more positive signals as we move into the new year. What's more, the US-China 'phase one' trade deal and a potentially clearer path to Brexit make for a more settled backdrop on the international stage.” – Phil Smith, Principal Economist, IHSMarkit®

Private Indicators: Global



J.P. Morgan Global Manufacturing PMI™

“The J.P. Morgan Global Manufacturing PMI – a composite index produced by J.P. Morgan and IHS Markit in association with ISM and IFPSM – fell to 50.1 in December, from 50.3 in November, to remain only marginally above the 50.0 waterline that separates expansion from contraction.

Global Manufacturing conditions remain weak at end of 2019

Global manufacturing remained lacklustre at the end of 2019. Growth of production and new orders were both marginal, as weak international trade flows stymied hopes of a stronger recovery from the mid-year downturn in the sector. Subdued business confidence led to cutbacks in staffing, purchasing and inventory holdings.

PMI readings signalled contractions in the intermediate and investment goods sectors, with rates of deterioration accelerating in both cases. This reflected ongoing downturns in output and new orders in these industries. The consumer goods category remained a pocket of growth in December, with its PMI staying close to November's seven-month high following further expansions in new work and production.

...

Business confidence rose to a seven-month high in December, but remained low by the historical standards of the survey. This led to ongoing caution among manufacturers, resulting in cutbacks to purchasing, inventory holdings and staffing levels. Employment fell for the seventh time in the past eight months. Job losses were seen in the euro area, South Korea, Brazil, Indonesia, the UK, Russia, Turkey, Mexico, Thailand, Poland, Malaysia, Australia and the Czech Republic. ...

The upward move in the global manufacturing PMI since July took a step back last month. In level terms, the December PMI still suggest a weak pace of growth in global output. The trend in new export orders will need to stage a revival if the upturn is to gather pace at the start of the new decade.” – Olya Borichevska, Global Economic Research, J.P. Morgan

Private Indicators: Global

J.P. Morgan Global Composite PMI™

“The J.P. Morgan Global Composite Output Index – which is produced by J.P. Morgan and HIS Markit in association with ISM and IFPSM – rose to an eight-month high of 51.7 in December, up from 51.4 in November. The headline index has posted above the neutral 50.0 mark that separates expansion from contraction in each of the past 87 months.

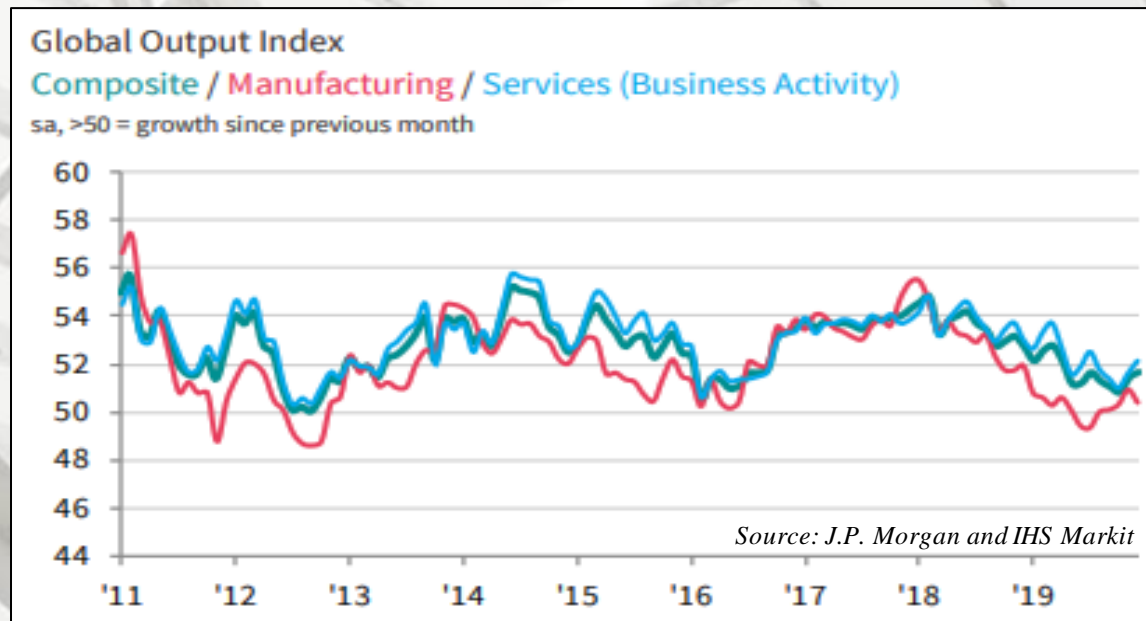
Global economic growth accelerates at end of 2019

The rate of global economic expansion accelerated for the second successive month in December, hitting its highest level since April 2019. The uptick was underpinned by stronger inflows of new work, rising employment and improved business optimism. International trade remained a drag on growth, however, as new export orders contracted for the thirteenth successive month.

Output growth was recorded in both the manufacturing and service sectors during December. The rate of expansion in manufacturing production eased, as downturns in the intermediate and investment goods sub-industries offset solid growth at consumer goods producers. Business activity at service providers rose at the fastest pace in five months, with expansions seen across the business, consumer and financial services industries. ...

The level of incoming new business rose at the fastest pace in five months in December. Manufacturing new orders rose only marginally, whereas growth at service providers accelerated to its best since July 2019. The trend in international trade flows remained weak, however, with new export orders contracting for the thirteenth consecutive month. Increased levels of economic activity and new orders led to improved trends in job creation and business sentiment. Employment rose for the second month in a row, as stronger growth in the service sector offset cuts at manufacturers. Staffing levels rose in the US, the euro area, China, the UK, India and Russia. No change was signalled in Brazil, while Australia saw job losses for the first time since July.” – Olya Borichevska, Global Economist, J.P. Morgan

Private Indicators: Global



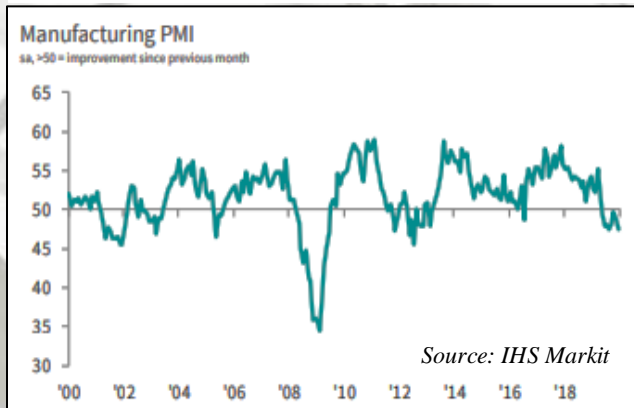
J.P. Morgan Global Composite PMI™

“Business confidence recovered to a six-month high in December. Optimism at manufacturers and service providers was the best for seven and five months respectively. Confidence also improved in five out of the six sub-industries monitored by the survey, with only financial services seeing sentiment dip. That said, the overall degree of optimism remained low by the historical standards of the survey.

December saw average input prices and output charges rise at faster rates. Cost inflation accelerated to a five-month high and selling prices rose at the steepest pace since June.

The December global all-industry PMI came in positively at the end of the year reinforcing a view that activity will improve in the coming quarters. The all-industry activity PMI increased for the second month to an eight-month high. Improving trends in new order inflows, employment and business sentiment also suggest that further headway should be made at the start of the new year. International trade remains the main drag on efforts to lift growth further, so any moves that reduce tensions and barriers on this front will be especially beneficial.” – Olya Borichevska, Global Economist, J.P. Morgan

Private Indicators: Global



IHS Markit/CIPS UK Manufacturing PMI®

“The headline seasonally adjusted IHS Markit/CIPS Purchasing Managers’ Index® (PMI®) fell to 47.5 in December, the second weakest level for almost seven-and-a-half years (the PMI stood at 47.4 in August 2019). The PMI has posted below the neutral mark of 50.0 in each of the past eight months. Data were collected between the 5-18 December.

UK manufacturing output contracts at fastest pace in almost seven-and-a-half years

The downturn in the UK manufacturing sector deepened at the end of 2019, as output contracted at the fastest pace since July 2012. Production fell in response to declining intakes of new work from both domestic and overseas clients, while efforts to reduce Brexit safety stocks also stymied output volumes. Manufacturing production decreased at the sharpest pace in almost seven-and-a-half years. Contractions were signalled in both the intermediate (fastest in five months) and investment goods sectors (quickest in 89 months), whereas a marginal expansion was signalled in the consumer goods category. ...

The UK manufacturing sector took a turn for the worse at the end of 2019. Output fell at the quickest pace in seven-and-a-half years as new order inflows decreased and Brexit safety stocks were reduced. With demand weak and confidence remaining subdued, input purchasing was pared back sharply and jobs cut for the ninth successive month.

The downturn is still being hardest felt at companies reliant on investment and business-to-business spending. The steepest reduction in output was at investment goods producers, as continued uncertainty meant new orders and new export business suffered the steepest contractions in over a decade. Intermediate goods producers also experienced marked drops in output and new work received. There was a pocket of growth, however, as consumer goods production edged higher. On this basis, it looks like UK manufacturing and the broader economy may both start the new decade as they began the last, too reliant on consumer spending and still waiting for a sustained improvement in investment levels.” – Rob Dobson, Director, IHS Markit

Private Indicators

Associated Builders and Contractors

ABC's Construction Backlog Indicator

Construction Backlog Flat in October

“Many would consider a flat reading on backlog as a nonevent, yet nothing could be further from the truth. The fact that backlog did not decline is significant given all the uncertainty facing various economic decision-makers in the context of a weakening global economy, political uncertainty emerging from Washington, ongoing trade disputes and increasingly volatile financial markets. Signs of weakness have been emerging in a variety of commercial construction categories. While there are likely many factors at play, one explanation may be that the Federal Reserve raised key short-term interest rates nine times between December 2015 and December 2018 in order to contain perceived inflationary pressures. That helped raise the cost of capital, which in turn rendered it less likely that certain commercial projects would move forward. However, 2019 has been vastly different. Inflationary pressures have not emerged as anticipated, allowing the Federal Reserve to decrease rates three times in recent months. The lower cost of capital may explain why backlog in the commercial/institutional segment expanded in October.

Backlog in the heavy industrial category declined, which is likely a reflection of a manufacturing sector that continues to be weighed down by a sturdy U.S. dollar, weakening global economy, stagnant U.S. auto sector and ongoing trade disputes. Although backlog in the infrastructure category also declined, this category tends to vary significantly from month to month. That said, October's decline was significant, which may have something to do with the impending insolvency of the nation's Highway Trust Fund, anticipated for 2021 absent congressional action. On the other hand, state and local government finances in America remain generally healthy in the context of the lengthiest economic expansion in U.S. history, which should help smooth out backlog in the infrastructure category going forward.” – Anirban Basu, Chief Economist, ABC

Private Indicators

Associated Builders and Contractors

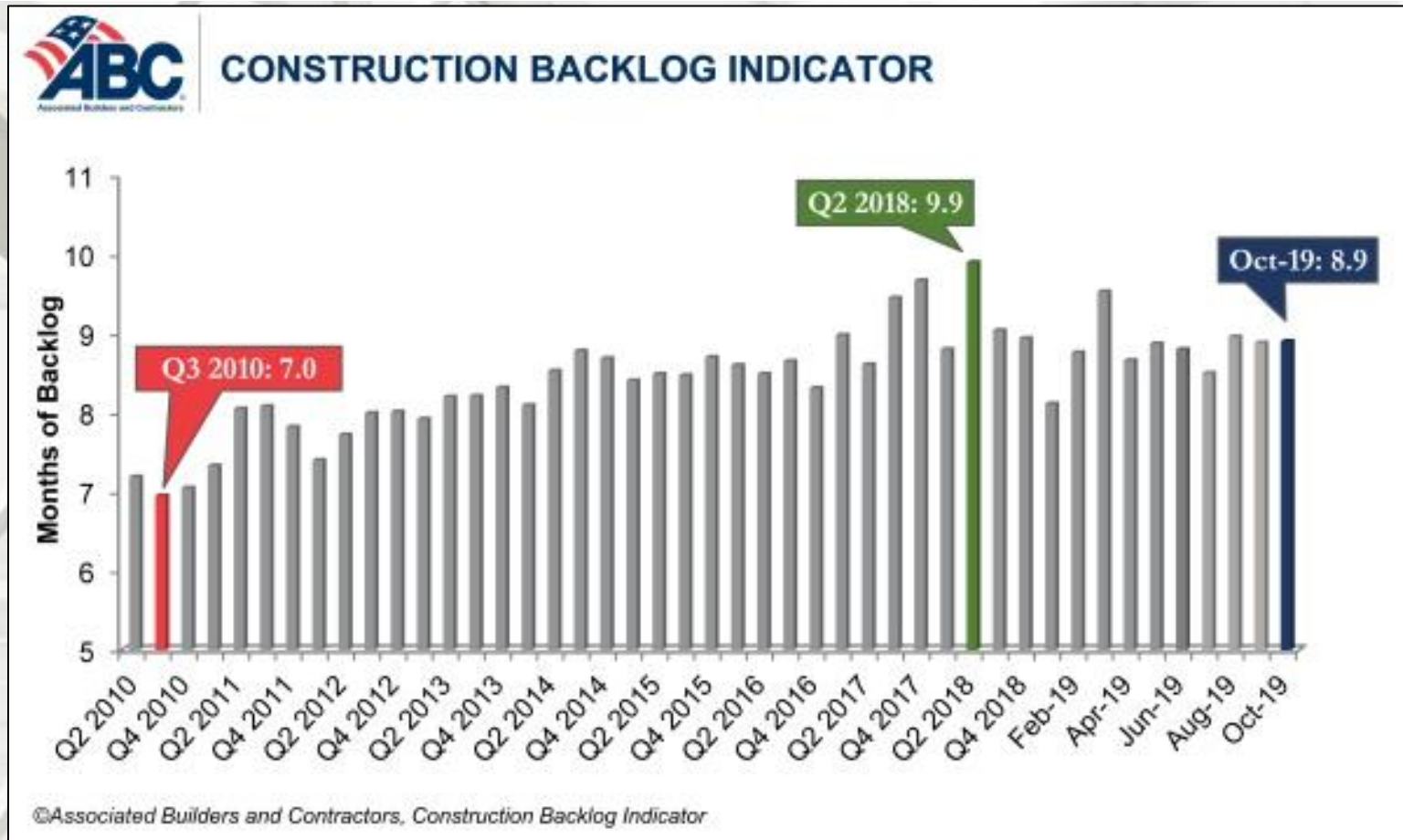
Construction Backlog Indicator

	October 2019	September 2019	Net Change	% Change
Total	8.9	8.9	0.0	0.2%
Industry				
Commercial & Institutional	9.1	8.9	0.2	2.6%
Heavy Industrial	6.7	6.8	-0.1	-2.4%
Infrastructure	9.6	11.8	-2.2	-18.7%
Region				
Middle States	8.1	7.2	0.9	12.9%
Northeast	8.6	9.8	-1.2	-12.1%
South	11.3	9.6	1.7	17.9%
West	6.4	8.8	-2.4	-27.6%
Company Size				
<\$30 Million	8.1	8.5	-0.4	-4.7%
\$30-\$50 Million	10.3	7.9	2.4	30.8%
\$50-\$100 Million	9.9	8.7	1.2	13.4%
>\$100 Million	12.6	12.7	-0.1	-0.7%

©Associated Builders and Contractors, Construction Backlog Indicator

Private Indicators

Associated Builders and Contractors





Private Indicators American Institute of Architects (AIA)

Architecture Billings Index November 2019

Architecture firm billings continue to grow at a modest pace

“Billings at architecture firms increased modestly for the second consecutive month in November, with an Architecture Billings Index (ABI) score of 51.9 (any score over 50 indicates billings growth). Following several months of flat and declining billings through the spring and summer, a slight majority of firms are once again reporting that business conditions are improving. In addition, inquiries into new work strengthened in November, and the value of new design contracts also remained fairly strong. Although some firms continue to report a softening in their billings, the overall picture is one of at least modest growth continuing into the near future.” – Katharine Keane, Senior Associate Editor, The American Institute of Architects

Private Indicators

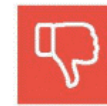
American Institute of Architects (AIA)

National

Firm billings increase for second consecutive month following softness earlier in the year



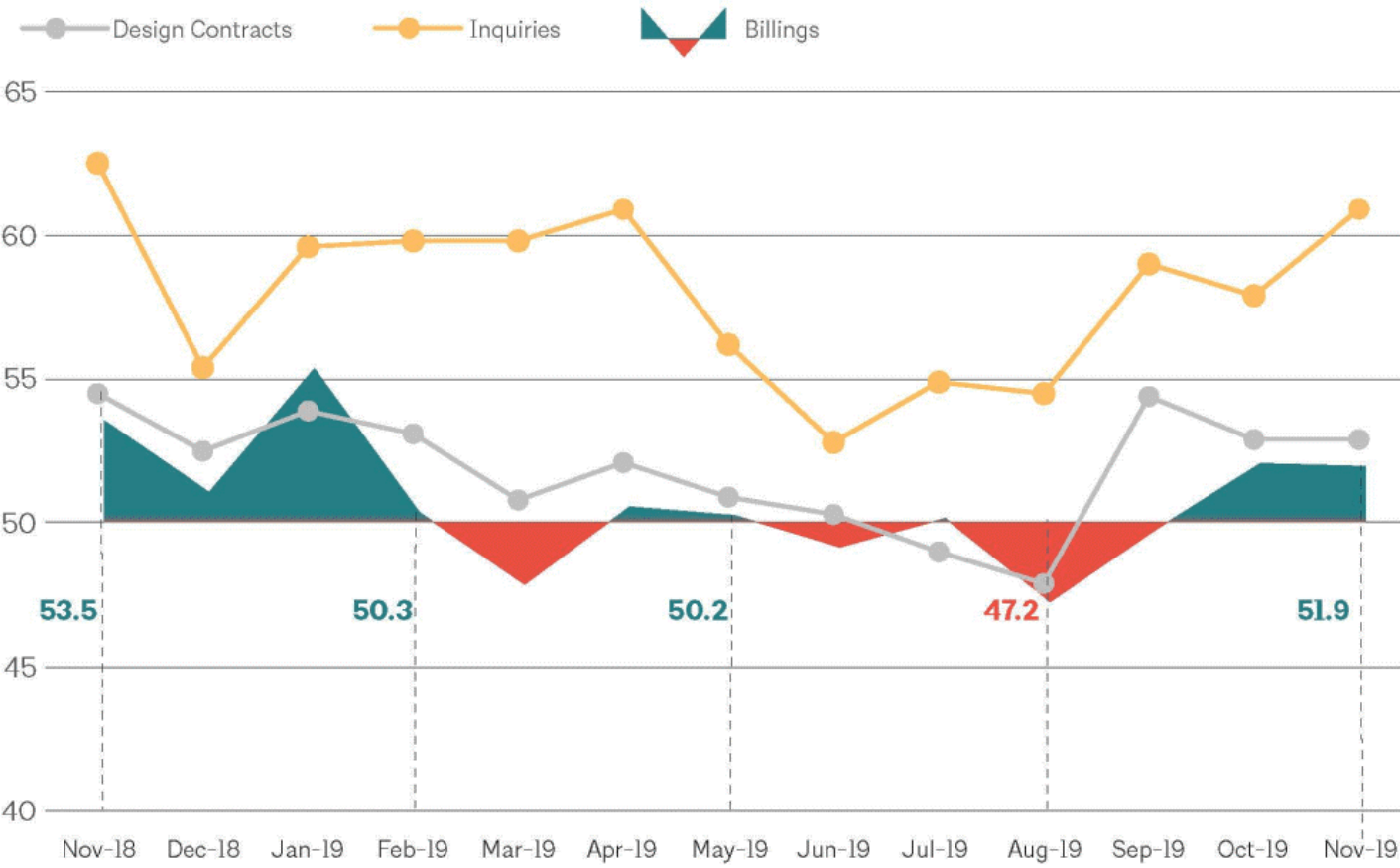
Above 50



Below 50

No change from previous period

Graphs represent data from November 2018–November 2019.

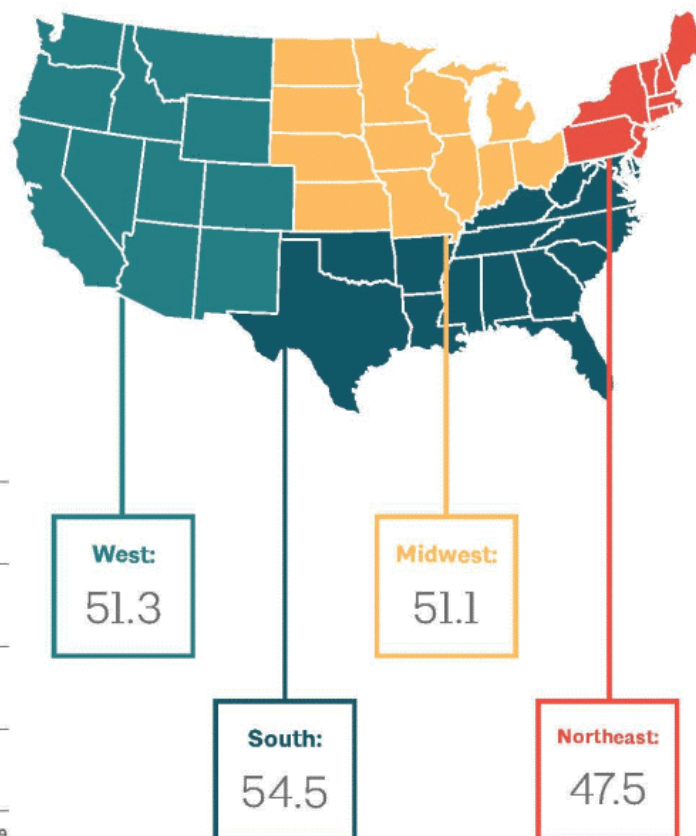
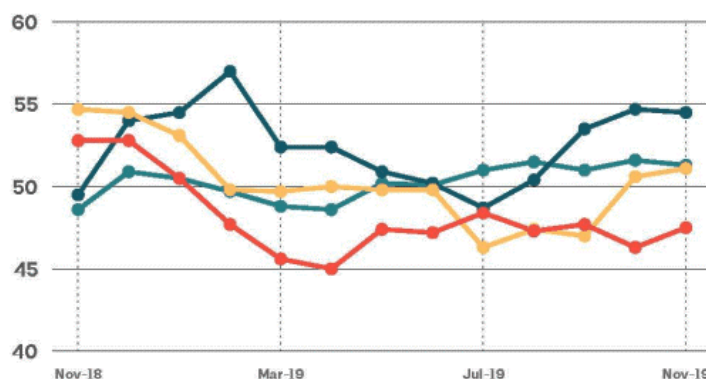


Private Indicators: AIA

Regional

Business conditions continue to strengthen in all regions of the country except the Northeast

Graphs represent data from November 2018–November 2019 across the four regions. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



Region

Three out of four regions see growth

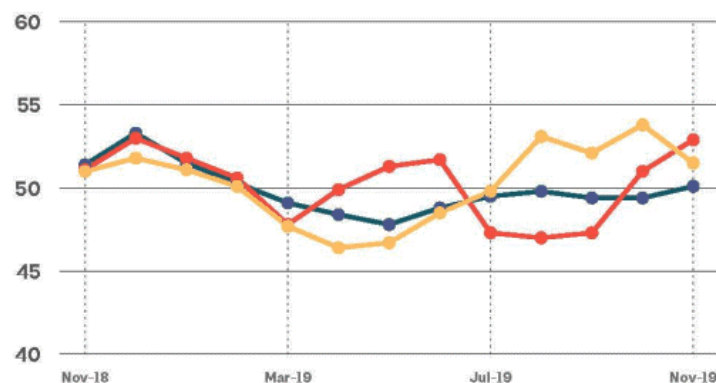
“Business conditions also improved across much of the country in November, with firms located in every region except the Northeast seeing billings growth for the month. Firms located in the Northeast continued to report weak billings, although a slightly smaller share reported declining billings in November versus October.” – Katharine Keane, Senior Associate Editor, The American Institute of Architects

Private Indicators: AIA

Sector

Firms of all specializations reported billings growth in November

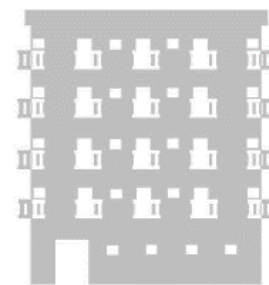
Graphs represent data from November 2018–November 2019 across the three sectors. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



Commercial/Industrial: 52.9



Institutional: 50.1



Residential: 51.5

Sector

“And firms of all specializations reported billings growth in November for the first time since February. In particular, business conditions continued to strengthen at firms with a commercial/industrial specialization.” – Katharine Keane, Senior Associate Editor, The American Institute of Architects

Private Indicators

Dodge Data & Analytics

Construction Starts Surge 37% Higher in November

Large projects lead to gains across most major construction sectors

“Construction starts moved 37% higher from October to November, reaching a seasonally adjusted annual rate of \$988.9 billion. The large percentage gain was not only a response to a particularly weak October, but also numerous massive projects that broke ground during the month. By major sector, nonresidential building starts gained 61% over the month, while nonbuilding starts moved 82% higher. Residential building starts were flat from October to November.

November’s gain pushed the Dodge Index to 209 (2000=100) compared to the 153 posted in October. The dichotomy between the weakness in October and strength in November is startling. However, the average of the two months is 181 – not much higher than the 11-month average of 173.” – Nicole Sullivan, Public Relations & Social Media, AFFECT

“The presence or absence of large projects continues to add immense volatility to the monthly data. However, the underlying trend for the year remains intact – that construction starts are settling back following nine consistent years of growth.” – Richard Branch, Chief Economist, Dodge Data & Analytics

Private Indicators

Dodge Data & Analytics

Residential building starts in November were essentially flat when compared to the previous month at a seasonally adjusted annual rate of \$333.9 billion. Over the month, single family starts dropped 8%, offsetting a 20% gain in multifamily starts. The largest multifamily building to break ground was the \$500 million Calyer Place Apartment Development in Brooklyn NY. Also starting in November was the \$350 million Seattle House Mixed-Use Development in Seattle WA and the \$350 million Avenue Bellevue Mixed-Use Development in Bellevue WA.

On a year-to-date basis through eleven months, total residential buildings starts were down 4%. **Single family starts** were 2% lower, while multifamily starts declined 10%.

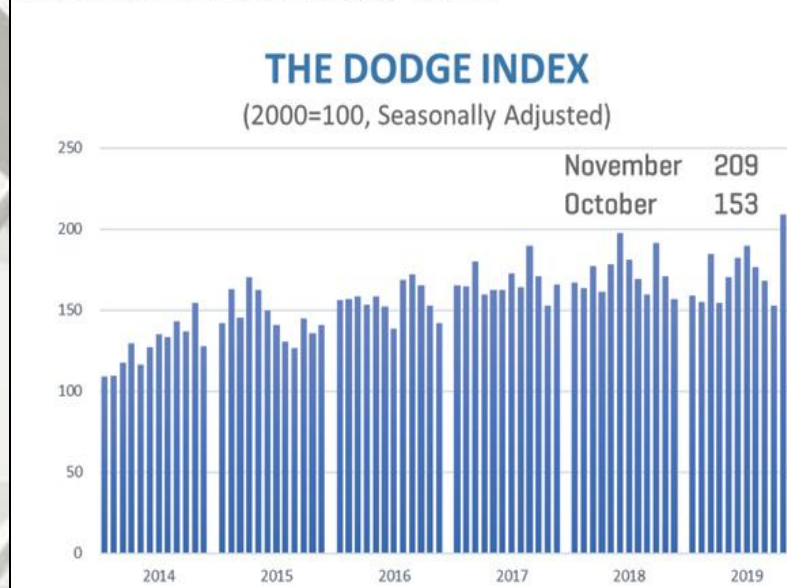
Nonresidential building gained 61% from October to November to \$366.5 billion (at a seasonally adjusted annual rate) as several large projects got underway during the month. Manufacturing starts rose 782% over the month due to the start of a large petrochemical plant, while institutional starts rose 27% and commercial starts moved 23% higher. Only two nonresidential building categories fell in November – hotels and healthcare.

The largest nonresidential building project to break ground in November was a \$7.0 billion ExxonMobil petrochemical ethylene project in Gregory TX. Also starting in November was the Rancho Los Amigos South Campus \$330 million office building in Los Angeles CA as well as the \$296 million first phase of the Volkswagen Body Shop in Chattanooga TN.

Year-to-date through November, nonresidential building starts were 3% lower than a year earlier. Commercial building starts were up 3% with gains in office buildings, warehouses, and parking structures. Institutional starts were 6% lower through November with all major categories posting declines and manufacturing starts were down 15% through eleven months.” – Richard Branch, Chief Economist, Dodge Data & Analytics

Private Indicators

November 2019 Construction Starts



November 2019 Construction Starts

MONTHLY CONSTRUCTION STARTS

(Millions of Dollars, Seasonally Adjusted Annual Rate)

	November 2019	October 2019	% Change
Nonresidential Building	\$366,472	\$227,625	61
Residential Building	333,910	335,577	0
Nonbuilding Construction	288,481	158,796	82
Total Construction	\$988,863	\$721,999	37

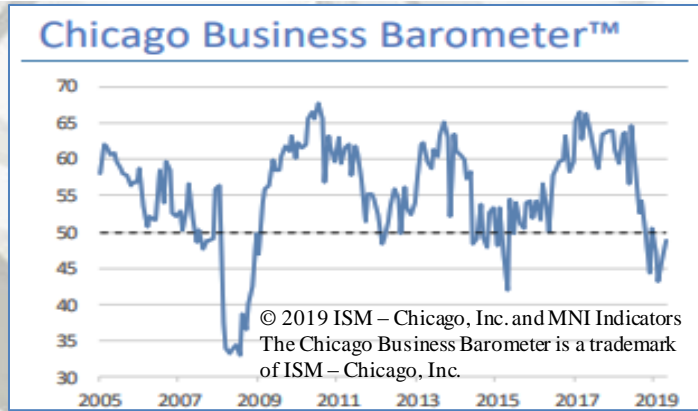
YEAR-TO-DATE CONSTRUCTION STARTS

Unadjusted Totals, in Millions of Dollars

	11 Mos. 2019	11 Mos. 2018	% Change
Nonresidential Building	\$270,557	\$279,241	-3
Residential Building	296,003	309,264	-4
Nonbuilding Construction	188,404	177,178	6
Total Construction	\$754,964	\$765,683	-1

Source: Dodge Data & Analytics

Private Indicators



MNI Chicago

“The Chicago Business Barometer™, produced with MNI, rose 2.6 points in December, hitting a four-month high of 48.9. Business sentiment dropped by 1.2 points to 46.2 in Q4, marking the lowest quarterly reading since Q2 2009. The index was below the 50-mark for the second successive quarter.

Chicago Business Barometer™ – Rose to 48.9 in December

Among the main five categories, Supplier Deliveries and Production led the increase, rising to 55.4 and 47.2 respectively. Production gain 4.9 points to 47.2, hitting the highest level since August. However, demand slowed in December, indicated by a marginal decline to 49.1 in New Orders after November’s reading of 49.4.

After dropping to an almost four-year low in October, Order Backlogs picked up in November and increased further in December, leaving the index at a three-month high of 46.2. However, Order Backlogs saw the largest quarterly decline, falling to 41.4.

Inventories remained in contraction for the fifth consecutive month in December. Nevertheless, the index strengthened by 4.4 points to 47.4. While Employment cooled to 47.4 in December, showing the largest monthly decline, it also scored the biggest quarterly gain, up by 11.1% to 48.9. Supplier Delivery times increased by 5.1 points to 55.4 and it is the only component among the main five remaining above the 50-mark. Prices at the factory gate jumped 9.2% to 58.4 in December, hitting the highest level since August.

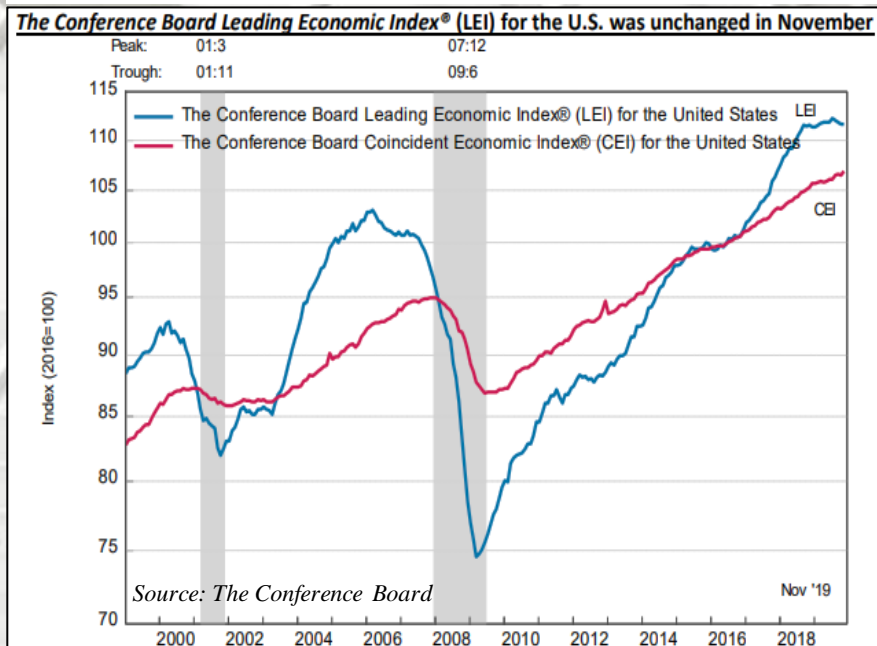
December’s special question asked, “What percent of your firm’s 2020 Capital Budget plan is focused on labor productivity?” The majority (50%) are planning less than 5% of their capital budget on labor productivity, while 26.2% will spend more than 5% and 23.8% more than 10%.” – Les Commons, Senior Economist and Irene Prihoda, Economist, MNI Indicators

Private Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. was Unchanged in November

The Conference Board Leading Economic Index® (LEI) for the U.S. was unchanged in November, remaining at 111.6 (2016 = 100), following a 0.2 percent decline in both October and September.

U.S. Composite Economic Indexes (2016 = 100)



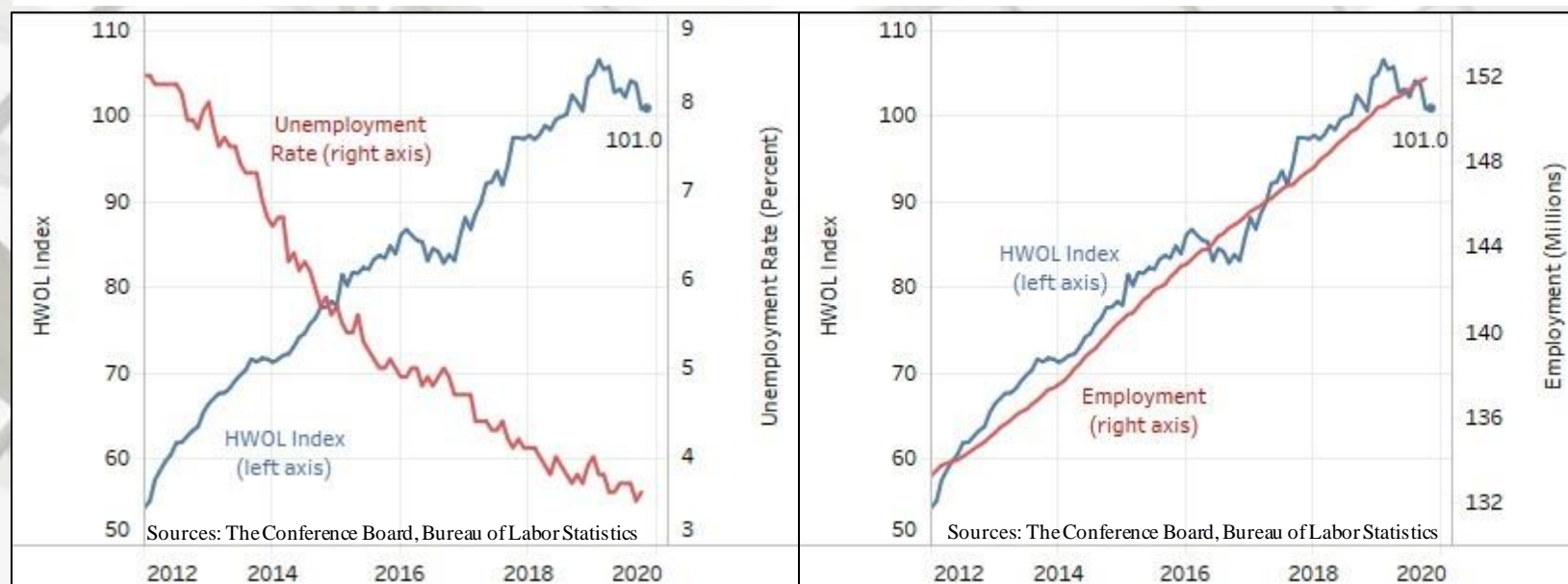
Economic Growth Likely to Stabilize Around 2 Percent in 2020

“The US LEI was unchanged in November after three consecutive monthly declines. Strength in residential construction, financial markets, and consumers’ outlook offset weakness in manufacturing and labor markets. While the six-month growth rate of the LEI remains slightly negative, the Index suggests that economic growth is likely to stabilize around 2 percent in 2020.” – Ataman Ozyildirim, Senior Director of Economic Research, The Conference Board

“The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.4 percent in November to 106.8 (2016 = 100), following a 0.1 percent decline in October and a 0.1 percent increase in September.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.5 percent in November to 108.7 (2016 = 100), following a 0.2 percent increase in October, and a 0.1 percent increase in September.”

Private Indicators



The Conference Board Help Wanted OnLine® (HWOL) Online Labor Demand Rose in November

- “HWOL Index edged up in November, following a decline in October
- Most States and Occupations experienced a small increase

The Conference Board Help Wanted OnLine® (HWOL) Index edged up in November and now stands at 101.0 (July 2018=100), up from 100.9 in October. The Index declined 2.9 percent from the prior month (Sept-Oct) and is up 0.3 percent from a year ago.

In the Midwest, Wisconsin increased 2.2 percent and Nebraska grew 1.8 percent. In the Northeast, New Jersey grew 3.1 percent and Rhode Island increased 2.5 percent. In the South, Oklahoma increased 3.2 percent and Louisiana increased 2.0 percent. In the West, Hawaii grew 3.5 percent and Nevada increased 2.5 percent.

The Professional occupational category experienced increases in Legal (4.7 percent), Arts, design, entertainment, sports, and media (1.5 percent), Computer and math (0.7 percent), and Education (0.7). The Services/ Production occupational category experienced declines in Farming, fishing, and forestry (-5.2 percent), and increases in Protective Services (1.8), Building and grounds (1.5) and Sales (1.3).” – Gad Levanon, Chief Economist, North America, at The Conference Board

Equipment Leasing and Finance Association:

Confidence Up Again in December

“The [Equipment Leasing & Finance Foundation](#) (the Foundation) releases the December 2019 [Monthly Confidence Index for the Equipment Finance Industry](#) (MCI-EFI). Designed to collect leadership data, the index reports a qualitative assessment of both the prevailing business conditions and expectations for the future as reported by key executives from the \$900 billion equipment finance sector. Overall, confidence in the equipment finance market is 56.2, an increase from the November index of 54.9.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

“We are experiencing a strong finish to the year and the fourth quarter. Given all the distractions of the national political stage I am a bit surprised. The tariffs that were imposed earlier in the year are having their effect on certain industries, but we continue to see good investment in equipment with the predominance of our customer base. I believe many have learned to tune out the ‘noise’ and focus on the necessities to compete in today’s markets. Waiting to make certain equipment investments is just not optional if you want to stay in the game.” – Valerie Jester, President, Brandywine Capital Associates, Inc.

“We’re more hopeful than optimistic that there is pent-up small business capital equipment demand that will release and spur increased financing volume. We wonder whether the trucking recession is the canary in a coalmine for future problems, or an isolated sector problem.” – Quentin Cote, CLFP, President, Mintaka Financial, LLC.

“Our volume, credit quality and portfolio performance have all remained strong. Economic indicators are positive. Moving into an election year and the uncertainty that comes with it may cause stagnation.” – David Normandin, CLFP, President and CEO, Wintrust Specialty Finance

“Demand for financing within our core commercial & industrial loan business remains steady, and the pipeline is strong into the beginning of 2020 indicating continued pent-up demand for capital expenditures. Money costs remain at all-time lows, which may continue to fuel growth. Unemployment numbers continue to decline. Admittedly there is uncertainty in some sectors such as rail, but these seem to be cyclical in nature and focus primarily around energy. We do anticipate growth in the plastics sector to offset some of this.” – Frank Campagna, Business Line Manager, M&T Commercial Equipment Finance

Equipment Leasing and Finance Association:

Confidence Up Again in December

“December 2019 Survey Results: The overall MCI-EFI is 56.2, an increase from 54.9 in November.

- When asked to assess their business conditions over the next four months, 10.3% of executives responding said they believe business conditions will improve over the next four months, down from 13.3% in November. 82.8% of respondents believe business conditions will remain the same over the next four months, an increase from 73.3% the previous month. 6.9% believe business conditions will worsen, down from 13.3% in November.
- 10% of the survey respondents believe demand for leases and loans to fund capital expenditures (capex) will increase over the next four months, a decrease from 13.3% in November. 76.7% believe demand will “remain the same” during the same four-month time period, an increase from 63.3% the previous month. 13.3% believe demand will decline, down from 23.3% in November.
- 20% of the respondents expect more access to capital to fund equipment acquisitions over the next four months, 80% of executives indicate they expect the “same” access to capital to fund business, and none expect “less” access to capital, all unchanged from November.
- When asked, 30% of the executives report they expect to hire more employees over the next four months, an increase from 26.7% in November. 63.3% expect no change in headcount over the next four months, a decrease from 73.3% last month. 6.7% expect to hire fewer employees, up from none the previous month.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

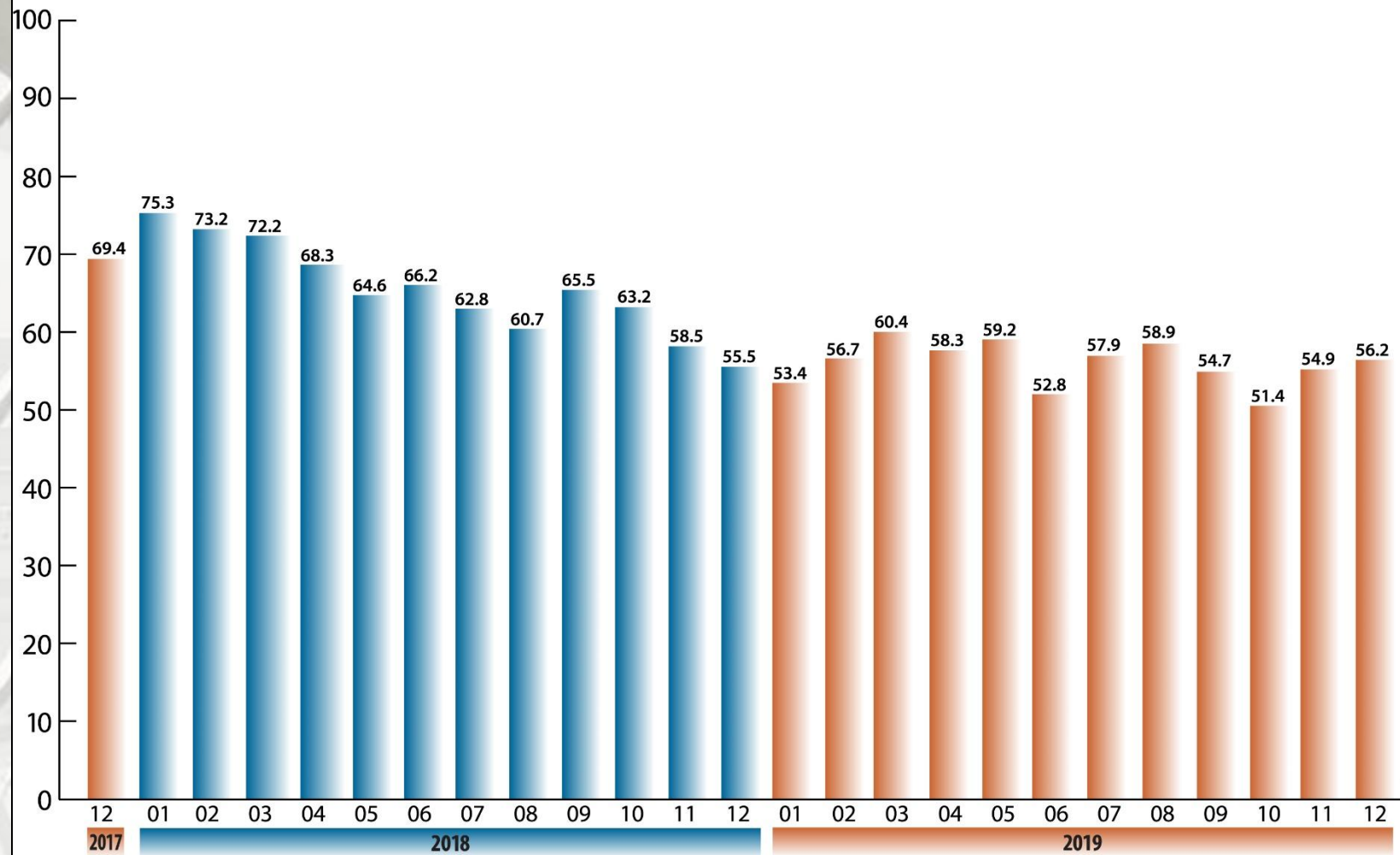
Equipment Leasing and Finance Association: Confidence Up Again in December

- “23.3% of the leadership evaluate the current U.S. economy as “excellent,” up from 16.7% the previous month. 76.7% of the leadership evaluate the current U.S. economy as “fair,” down from 83.3% in November. None evaluate it as “poor,” unchanged from last month.
- 13.3% of the survey respondents believe that U.S. economic conditions will get “better” over the next six months, up from 10% in November. 80% of survey respondents indicate they believe the U.S. economy will “stay the same” over the next six months, an increase from 76.7% the previous month. 6.7% believe economic conditions in the U.S. will worsen over the next six months, a decrease from 13.3% in November.
- In December, 23.3% of respondents indicate they believe their company will increase spending on business development activities during the next six months, a decrease from 30% last month. 73.3% believe there will be “no change” in business development spending, an increase from 63.3% in November. 3.3% believe there will be a decrease in spending, down from 6.7% last month.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

Equipment Leasing and Finance Association



24-Month Monthly Confidence Index - Equipment Finance Industry (MCI-EFI)



Private Indicators

Equipment Leasing and Finance Association's Survey of Economic Activity: Monthly Leasing and Finance Index

Monthly Leasing and Finance Index: November 2019

November New Business Volume Down 3 Percent Year-over-year and 23 Percent Month-over-month; Up 5 Percent Year-to-date

“The [Equipment Leasing and Finance Association's](#) (ELFA) [Monthly Leasing and Finance Index \(MLFI-25\)](#), which reports economic activity from 25 companies representing a cross section of the \$900 billion equipment finance sector, showed their overall new business volume for November was \$7.8 billion, down 3 percent year-over-year from new business volume in November 2018. Volume was down 23 percent month-to-month from \$10.1 billion in October. Year to date, cumulative new business volume was up 5 percent compared to 2018.

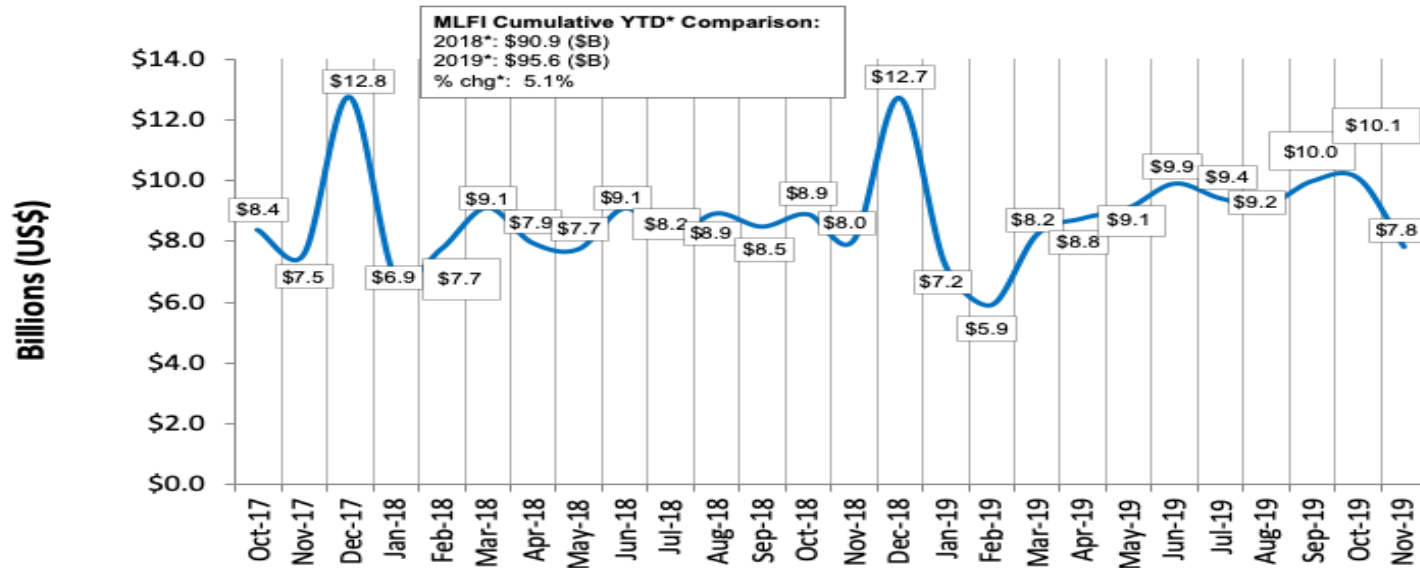
Receivables over 30 days were 1.80 percent, down from 2.00 percent the previous month and up from 1.60 percent the same period in 2018. Charge-offs were 0.43 percent, down from 0.46 percent the previous month, and up from 0.37 percent in the year-earlier period.

Credit approvals totaled 75.7 percent, down from 76.3 percent in October. Total headcount for equipment finance companies was down 2.9 percent year-over-year.

Separately, the Equipment Leasing & Finance Foundation's Monthly Confidence Index (MCI-EFI) in December is 56.2, an increase from the November index of 54.9.” – Amy Vogt, Vice President, Communications and Marketing; Equipment Leasing & Finance Association

Private Indicators

MLFI-25 New Business Volume (Year-Over-Year Comparison)



* YTD NBV numbers will not match the numbers from the chart due to rounding



Equipment Leasing and Finance Association

“Reflecting an overall softening in equipment and software investment during much of the year – and particularly in Q3 – November’s decline in new business volume reported by MLFI respondents was not terribly surprising. Uncertainty brought on by the prolonged trade frictions with China, which at the time of this writing appear to be significantly mitigated as a result of a recently announced Phase 1 trade deal between the two countries, was also partly responsible for this slowdown. Credit markets continue to perform well, with losses and delinquencies still in very acceptable ranges.” – Ralph Petta, President and CEO, ELFA

December 2019 Manufacturing ISM® Report On Business®

PMI® at 47.2%

New Orders, Production, and Employment Contracting

Supplier Deliveries Slowing at Faster Rate; Backlog Contracting

Raw Materials Inventories Contracting; Customers' Inventories Too Low

Prices Increasing; Exports and Imports Contracting

“Economic activity in the **manufacturing sector** contracted in December, and the **overall economy** grew for the 128th consecutive month, say the nation's supply executives in the latest **Manufacturing ISM® Report On Business®**. The December PMI® registered 47.2 percent, a decrease of 0.9 percentage points from the November reading of 48.1 percent. This is the PMI®'s lowest reading since June 2009, when it registered 46.3 percent.

The New Orders Index registered 46.8 percent, a decrease of 0.4 percentage point from the November reading of 47.2 percent.

The Production Index registered 43.2 percent, down 5.9 percentage points compared to the November reading of 49.1 percent.

The Backlog of Orders Index registered 43.3 percent, up 0.3 percentage point compared to the November reading of 43 percent.

The Employment Index registered 45.1 percent, a 1.5-percentage point decrease from the November reading of 46.6 percent.

The Supplier Deliveries Index registered 54.6 percent, a 2.6-percentage point increase from the November reading of 52 percent.

The Inventories Index registered 46.5 percent, an increase of 1 percentage point from the November reading of 45.5 percent.

The Prices Index registered 51.7 percent, a 5-percentage point increase from the November reading of 46.7 percent.

The New Export Orders Index registered 47.3 percent, a 0.6-percentage point decrease from the November reading of 47.9 percent.

The Imports Index registered 48.8 percent, a 0.5-percentage point increase from the November reading of 48.3 percent.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

December 2019 Manufacturing ISM® Report On Business®

“Comments from the panel were consistent with November, with sentiment improving compared to the third quarter. December was the fifth consecutive month of PMI® contraction, at a faster rate compared to the prior month. **Demand** contracted, with the New Orders Index contracting faster, the Customers’ Inventories Index remaining at ‘too low’ status and the Backlog of Orders Index contracting for the eighth straight month (and at similar rates to November). The New Export Orders Index contracted for the second month in a row, recording 10 months of poor performance and likely contributing to the faster contraction of the New Orders Index. **Consumption** (measured by the Production and Employment indexes) contracted, due primarily to lack of demand, contributing negatively (a combined 7.4-percentage point decrease) to the PMI® calculation. **Inputs** – expressed as supplier deliveries, inventories and imports – improved in December, due primarily to slowing contraction in inventories and supplier deliveries remaining in expansion territory. Imports contraction eased slightly. Overall, inputs indicate (1) supply chains began to stress in December and (2) companies remained cautious that materials received would be consumed by the end of the fourth quarter. Prices increased for the first time since May 2019, a positive for 2020.

Global trade remains the most significant cross-industry issue, but there are signs that several industry sectors will improve as a result of the phase-one trade agreement between the U.S. and China. Among the six big industry sectors, Food, Beverage & Tobacco Products remains the strongest, while Transportation Equipment is the weakest. Overall, sentiment this month is marginally positive regarding near-term growth.

Of the 18 manufacturing industries, three reported growth in December: Food, Beverage & Tobacco Products; Miscellaneous Manufacturing; and Computer & Electronic Products. The 15 industries reporting contraction in December – listed in order – are: Apparel, Leather & Allied Products; Wood Products; Printing & Related Support Activities; Furniture & Related Products; Transportation Equipment; Nonmetallic Mineral Products; Paper Products; Fabricated Metal Products; Petroleum & Coal Products; Electrical Equipment, Appliances & Components; Textile Mills; Primary Metals; Chemical Products; Plastics & Rubber Products; and Machinery.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

Private Indicators

December 2019 Non-Manufacturing ISM® Report On Business®

NMI® at 55.0%; GDP Growing at 2.2%

**Business Activity Index at 57.2%, New Orders Index at 54.9%
Employment Index at 55.2%**

“Economic activity in the **non-manufacturing sector** grew in December for the 119th consecutive month, say the nation’s purchasing and supply executives in the latest **Non-Manufacturing ISM® Report On Business®**.

The NMI® registered 55 percent, which is 1.1 percentage points higher than the November reading of 53.9 percent. This represents continued growth in the non-manufacturing sector, at a slightly faster rate. The Non-Manufacturing Business Activity Index rose to 57.2 percent, a 5.6-percentage point increase compared to the November reading of 51.6 percent, reflecting growth for the 125th consecutive month.

The New Orders Index registered 54.9 percent, 2.2 percentage points lower than the reading of 57.1 percent in November.

The Employment Index decreased 0.3 percentage point in December to 55.2 percent from the November reading of 55.5 percent.

The Prices Index reading of 58.5 percent is the same as the November figure, indicating that prices increased in December for the 31st consecutive month.

According to the NMI®, 11 non-manufacturing industries reported growth. The non-manufacturing sector had an uptick in growth in December. The respondents are positive about the potential resolution on tariffs. Capacity constraints have eased a bit; however, respondents continue to have difficulty with labor resources.” – Anthony Nieves, CPSM, C.P.M., A.P.P., CFPM, Chair of the Institute for Supply Management® (ISM®) Non-Manufacturing Business Survey Committee

Private Indicators

December 2019 Non-Manufacturing ISM® Report On Business®

NMI® at 55.0%; GDP Growing at 2.2%

“The 11 non-manufacturing industries reporting growth in December — listed in order — are: Retail Trade; Arts, Entertainment & Recreation; Management of Companies & Support Services; Health Care & Social Assistance; Utilities; Accommodation & Food Services; Information; Transportation & Warehousing; Professional, Scientific & Technical Services; Other Services; and Finance & Insurance. The six industries that reported a decrease in December — listed in order — are: Educational Services; Real Estate, Rental & Leasing; Wholesale Trade; Public Administration; Mining; and Construction.” – Anthony Nieves, CPSM, C.P.M., A.P.P., CFPM, Chair of the Institute for Supply Management® (ISM®) Non-Manufacturing Business Survey Committee

Private Indicators

Markit U.S. Manufacturing PMI™

Manufacturing output continues to recover amid further new order growth

“December data pointed to a further recovery in operating conditions across the U.S. manufacturing sector. The sustained improvement was supported by a solid rise in new business and a further upturn in production. Output expectations remained historically muted, however. Meanwhile, rates of both input price and output charge inflation quickened amid higher cost burdens and the ongoing impact of tariffs.

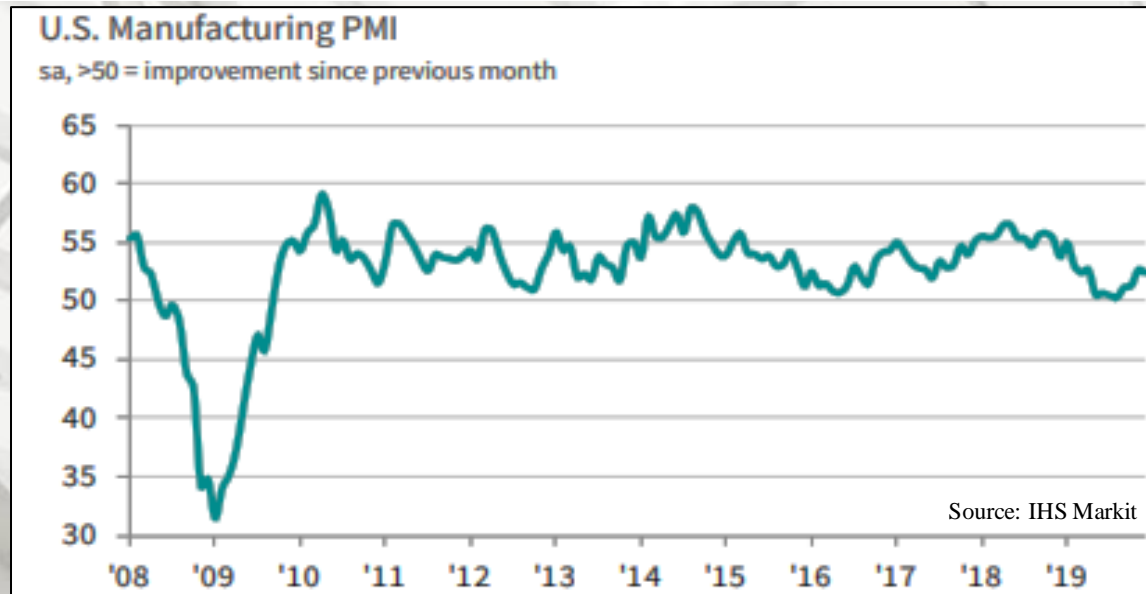
Output growth across the sector softened from November's recent peak, but was moderate nonetheless. The expansion was linked to greater client demand and a rise in new order volumes. The rate of increase was still well below those seen at the end of 2018, however.

New business received by manufacturing firms grew at a solid rate in December, and one that was the second-strongest since April. The sustained rise in client demand was partially attributed to the acquisition of new clients and reviving export sales. Goods producers reported a third consecutive upturn in new export orders. ...

Despite an increase in client demand, output expectation towards the coming year remained relatively muted at the end of 2019. Nonetheless, the degree of confidence picked up from that seen in November, with optimism reportedly stemming from new product development, new client wins and investment in new facilities. Meanwhile, a further upturn in new business drove firms to expand their workforce numbers in December. Employment growth was the second-fastest since May, with firms stating the increase largely stemmed from greater production requirements. ...

Finally, input buying rose for the third month running amid efforts to stockpile raw materials. Post-production inventories were little-changed, however, as sales from stock weighed on growth.”
– Chris Williamson, Chief Economist, Markit®

Private Indicators



Markit U.S. Manufacturing PMI™

“The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers’ Index™ (PMI™) posted 52.4 in December, down slightly from 52.6 in November and in line with the flash figure. The latest data indicated a modest improvement in the health of the U.S. manufacturing sector. The final quarterly average of 2019 was in fact the strongest since the opening three months of the year.

The US manufacturing sector continued to recover from the soft-patch seen in the summer, ending 2019 with its best quarter since the early months of 2019. The overall rate of expansion nevertheless faltered somewhat in December and remains well below that seen this time last year, suggesting producers are starting 2020 on a softer footing than they had enjoyed heading into 2019. Business sentiment about the outlook remains especially subdued compared to a year ago, reflecting ongoing worries about geopolitics and trade wars, especially the impact of tariffs, as well as fears that political and economic uncertainty surrounding the 2020 elections could dampen demand. The impact of tariffs was clearly evident via higher prices, while the relatively subdued level of business confidence manifested itself in a pull-back in hiring, hinting at risk aversion and cost-cutting.” – Chris Williamson, Chief Economist, Markit®

Private Indicators

Markit U.S. Manufacturing PMI™

Business activity growth accelerates to five-month high in December

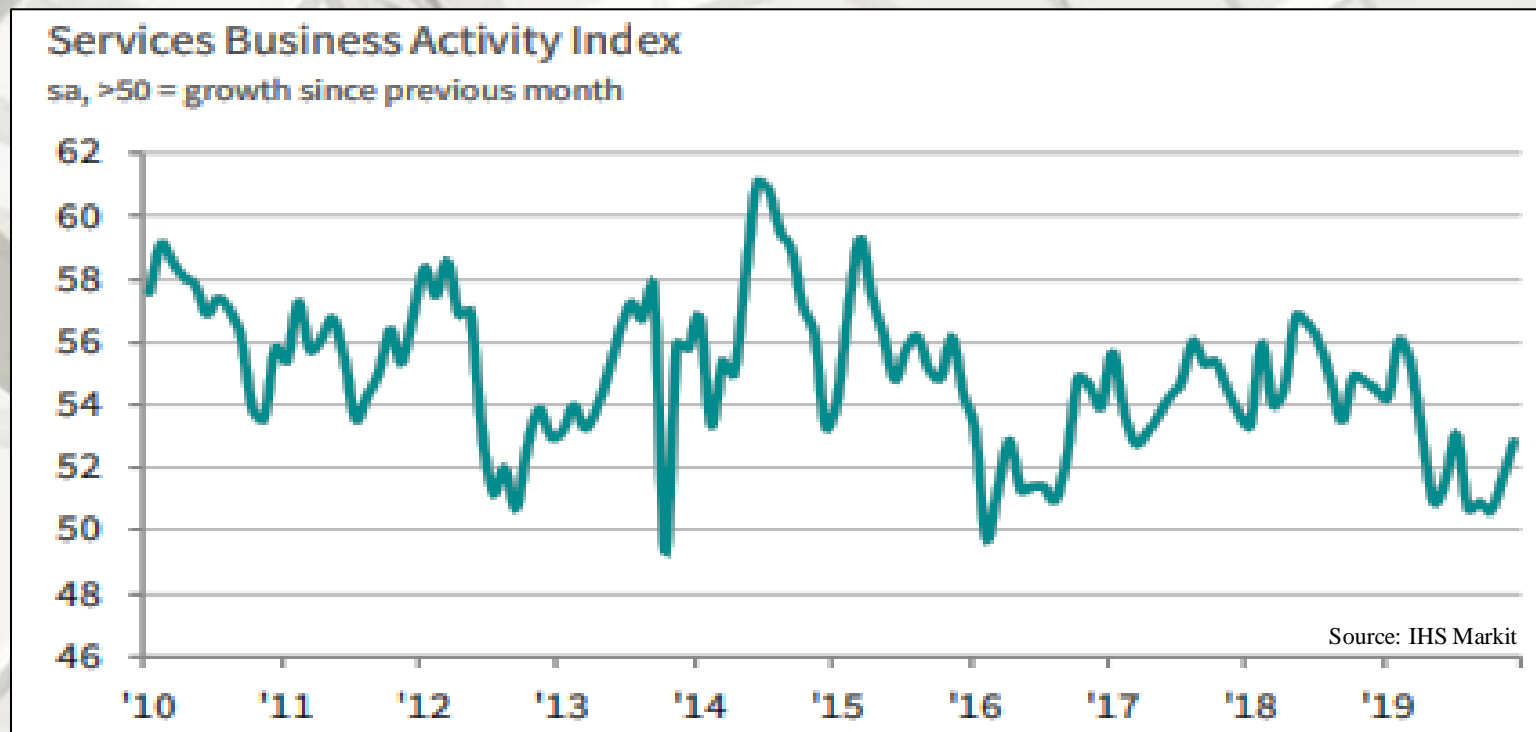
“U.S. service sector firms indicated a moderate expansion in business activity at the end of 2019, with growth driven by a stronger rise in new orders. Foreign client demand also picked up, as new export orders increased for the first time since July. Subsequently, the rate of job creation ticked up to a five-month high despite only fractional pressure on capacity. Business confidence, however, remained well below the series average. Meanwhile, service providers were able to increase their selling prices at a faster pace amid a quicker, albeit only modest, rise in cost burdens.

A second successive increase in new business drove the expansion in output, with stronger client demand leading to the fastest rise in new orders for five months. Although growth was relatively lacklustre overall, it signalled a turnaround from the slight contraction seen in October. Foreign client demand also improved, with service providers recording the first upturn in new business from abroad since July. The rate of expansion was fractional overall but was only slightly slower than the series trend. ...

Business activity in the vast service sector picked up pace at the end of last year as rising domestic demand and signs of reviving exports led to higher workloads. Combined with indications of manufacturing lifting out of its recent lull, the survey data suggest the overall pace of economic growth accelerated to its fastest since last April. Finally, business expectations for the year ahead improved in December. Where firms foresee an increase in activity over the next 12 months, they attributed this to hopes of further boosts to new sales. That said, the degree of confidence was well below the series trend and levels seen at the end of 2018, with a number of firms reporting uncertainty as to the stability of client demand.

However, while moving in the right direction, service sector growth remains well below that seen in the early months of 2019, and the overall survey results are indicative of GDP rising at a relatively modest annual rate of 1.8% in December.” – Chris Williamson, Chief Economist, Markit®

Private Indicators



Markit U.S. Manufacturing PMI™

“The seasonally adjusted final IHS Markit US Services Business Activity Index registered 52.8 in December, up from 51.6 in November, signalling a further rebound in output growth following a slump in activity during the summer. The moderate upturn accelerated to the fastest since July and was linked to more favourable demand conditions.

The missing ingredient compared to this time last year is optimism about the future, with business sentiment regarding prospects for the next twelve months running well below levels seen this time last year, and close to the lowest for at least seven years. Indeed, much of the recent improvement in demand has come from stronger sales to consumers, with business spending and investment remaining under pressure amid this anxiety about the economic and political outlook” – Chris Williamson, Chief Economist, Markit®

Private Indicators

National Association of Credit Management – Credit Managers' Index

December Credit Managers' Index

“The latest score from the Credit Managers' Index (CMI) is not likely to cause any dancing in the street, but it isn't exactly all doom and gloom either. “The reading this month was a little down from the month before, but compared to the big declines the Purchasing Managers' Index has been experiencing, the data remains very solid,” said NACM Economist, Chris Kuehl, Ph.D.

December's composite score of 54.6 is exactly the same as it was in October. The November reading was a bit better with a 55.5 reading. “The really good news for an end-of-the-year report is the numbers have stayed quite consistent and in reasonably positive territory,” he added. The lowest point all year was 53.4, reached in January and again in July. The highest readings were in May (55.7) and November (55.5).

There was a similar story in terms of the favorable and unfavorable categories. Generally speaking, the favorable numbers have been very solid with numbers in the high 50s and low 60s. The current favorable numbers dipped a little to 59.3 from a reading of 61.6 in November, but overall, the scores have been consistent all year. The low point was July when the reading hit 58.6 and the high point was May's 63.8. The majority of the concern expressed by the CMI shows up in the unfavorable numbers. The current reading is exactly the same as it was last month at 51.5, on par with the data presented all year. The high point has been the last two months with that 51.5 reading, while the low point was 49.4 in January. The numbers have been in expansion territory for 10 of the 12 months with only January and March in contraction (a score below 50).” – Andrew Michaels, Editorial Associate, NACM

Private Indicators

National Association of Credit Management

“The details tell a fairly compelling story as far as next year is concerned. The sales numbers have been high all year. The latest reading of 58.8 was a little down from November (61.6), but higher than in either September or October. The new credit application category also fell out of the 60s with a reading of 59.4 compared to 61.2 in November. The dollar collections reading slipped quite a bit though from 59.2 to 57.9. This is the lowest it has been since July. Kuehl noted that there had been some good numbers here for a while as it seemed many companies were working to get their credit obligations under better control. The amount of credit extended also slowed a little — down from 64.3 to 61.1.

The data in the unfavorable categories were a little more vexing. The rejections of credit applications improved a little from 51.3 to 52, good news given that applications have been down a little. The accounts placed for collection escaped the contraction zone with a reading of 50.3. This marks the first time these numbers have been in the 50s since June. Kuehl said that this is one of those indications that companies are trying to get their credit affairs in order for the coming year. The disputes numbers stayed about where they were the prior month, but this is good news as both months have been in the 50s. Last month it was at 50.3 and this month at 50.8. The dollar amount beyond terms data slipped a little (52.6 to 51), but still stayed out of the contraction zone. The dollar amount of customer deductions was almost the same as it had been last month with a reading of 51.3 compared to November’s 51.4. The filings for bankruptcies also maintained an even reading of 53.4 compared to 53.5 last month. “The most encouraging aspect of the unfavorable data this month is all the readings are in expansion territory for the first time in several years,” he said. “The turnaround is not spectacular and it will not take much to see these numbers deteriorate again, but for now the data shows companies are in generally better shape as far as their trade credit is concerned. We will see what the data looks like after the first of the year when the retailers determine what those sales did to their profit expectations.”” – Andrew Michaels, Editorial Associate, NACM

Private Indicators

National Association of Credit Management

Manufacturing Sector

“The manufacturing sector has been experiencing its share of ups and downs this year; it has been harder than usual to get an accurate read, according to Kuehl. For example, the data from the Purchasing Managers’ Index (PMI) has been in contraction territory for four straight months. In contrast, the latest industrial production numbers show a recovery in the manufacturing sector despite the inhibitions in place due to the trade wars. There has been some question about how important manufacturing really is for the overall U.S. economy, but it is important to remember that the manufacturing share of the U.S. GDP is over \$2.7 trillion, larger than the entire GDP of India.

The overall numbers for the manufacturing sector remained very close to what they had been the month before — 54.8 as compared to 54.5. The favorable factors slipped just slightly from 59.7 to 58.9, while the unfavorable factors improved from 51.1 to 52. The trend is certainly better than has been with the PMI of late. The details are, as always, interesting.

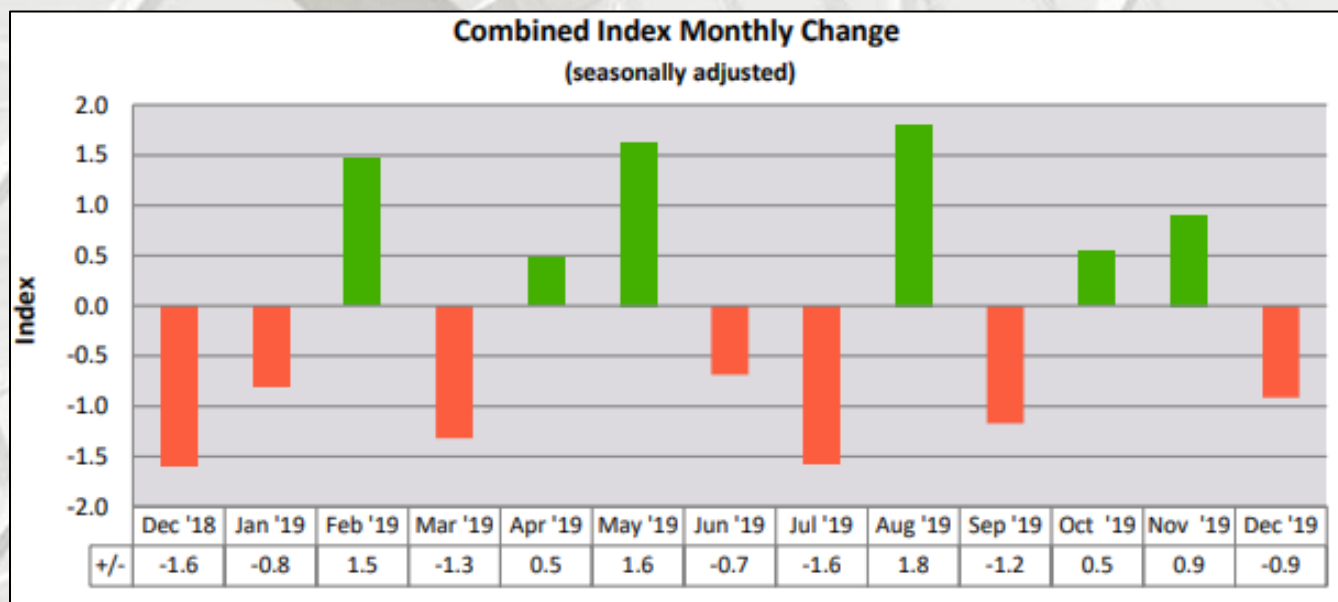
Service Sector

With all the good news that has been coming from the manufacturing sector, Kuehl noted that it was a bit of a wonder that overall numbers for the CMI have not been better. The culprit has been the service sector. That creates a certain amount of concern regarding the coming year. The problem has been an uneven retail season and some issues affecting construction. The composite numbers are not awful, but they declined from 56.5 to 54.4, even lower than in October. The composite for the favorable factors dropped quite a bit from the 63.4 notched in November, but these are still in the high 50s at 59.7. The unfavorable score stayed fairly close to the prior month with a reading of 50.9 compared to November’s 51.8. The sales numbers slipped from 62.5 to 59.7, but that is pretty consistent with the numbers registered all year. “The real concern here is that sales are up due to all the discounting and specials, but profits are not keeping pace with those revenues,” Kuehl said. There was also a steep decline for the category of new credit applications as it slowed from 62.6 to 57.6. The dollar collections data went south as well — moving from 61.7 to 58.3. The amount of credit extended slid a bit from the 66.9 reading in November to 63 in December, but that remains a very solid number.” – Andrew Michaels, Editorial Associate, NACM

Private Indicators

National Association of Credit Management

Combined Manufacturing and Service Sectors (seasonally adjusted)	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19
Sales	59.0	59.7	62.6	58.2	61.0	65.9	60.4	58.4	64.4	58.7	57.9	61.6	58.8
New credit applications	57.5	58.2	58.9	57.8	59.7	64.2	62.4	60.8	60.9	59.7	59.0	61.2	59.4
Dollar collections	59.3	59.0	59.1	56.6	59.1	59.8	60.3	56.6	60.0	58.5	62.1	59.2	57.9
Amount of credit extended	61.9	61.2	62.3	63.5	60.6	65.4	62.5	58.7	61.7	59.7	61.6	64.3	61.1
Index of favorable factors	59.4	59.5	60.7	59.0	60.1	63.8	61.4	58.6	61.8	59.1	60.1	61.6	59.3
Rejections of credit applications	51.4	51.8	52.1	51.2	52.0	51.8	52.4	52.6	52.1	51.4	52.1	51.3	52.0
Accounts placed for collection	49.7	48.2	49.0	46.4	48.5	47.0	50.0	46.2	48.6	48.4	49.1	49.8	50.3
Disputes	49.6	47.1	48.5	49.5	48.5	48.6	48.6	50.5	49.4	50.0	48.1	50.3	50.8
Dollar amount beyond terms	49.3	47.4	51.3	50.0	47.6	51.3	49.8	46.1	53.6	50.2	52.0	52.6	51.0
Dollar amount of customer deductions	49.7	48.0	50.0	48.8	49.7	49.3	50.0	51.2	50.0	52.1	50.9	51.4	51.3
Filings for bankruptcies	55.0	53.8	54.9	53.7	53.9	53.3	53.5	53.2	51.6	52.1	53.4	53.5	53.4
Index of unfavorable factors	50.8	49.4	51.0	49.9	50.0	50.2	50.7	50.0	50.9	50.7	50.9	51.5	51.5
NACM Combined CMI	54.2	53.4	54.9	53.6	54.0	55.7	55.0	53.4	55.2	54.1	54.6	55.5	54.6



Private Indicators

National Federation of Independent Business (NFIB) December 2019 Report

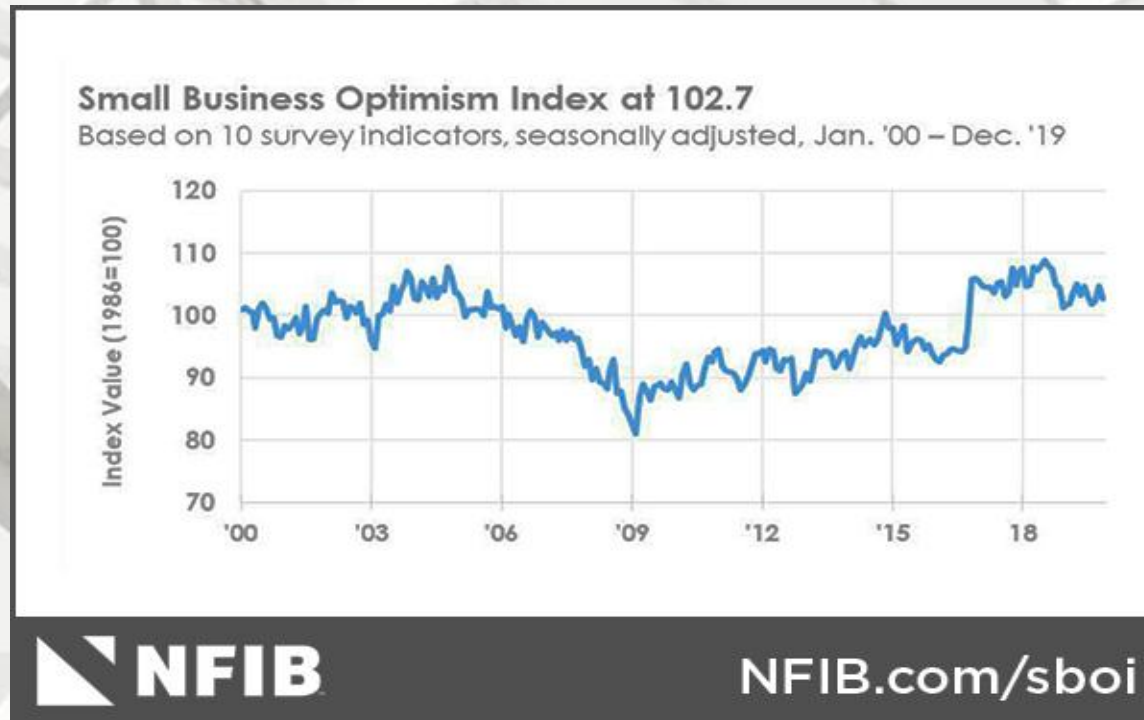
Small Business Optimism Dips in December; Remains Historically Strong in 2019

“Small business optimism ended the year historically strong, with a reading of 102.7, down 2 points from November. Seven of 10 components fell, two improved, and one was unchanged. An increased number of small business owners reported better business conditions and expect higher nominal sales in the next three months. While frequency of plans to raise compensation fell 2 points, it remains one of the highest readings in the survey’s 46-year history. Small businesses continued to hire and create new jobs with actual job creation matching November’s reading, the highest since May.

Although the NFIB Uncertainty Index rose 8 points in November to 80, owners expecting better business conditions increased 3 points to a net 16%. A net 9% of all owners (seasonally adjusted) reported higher nominal sales in the past three months, 3 points above the average reading for 2019. The net percent of owners expecting higher real sales volumes increased 3 points to a net 16% of owners, bouncing back from November’s weak reading. Actual sales volumes are strong, and owners are a bit more certain of future sales growth.

The net percent of owners raising average selling prices rose 2 points to a net 14%, seasonally adjusted, continuing a measured upward trend since September. Unadjusted, 10% (up 2 points) reported lower average selling prices and 20% (up 3 points) reported higher average prices.” – Holly Wade, NFIB

Private Indicators



NFIB December 2019 Report

“The current focus and noise in Washington, D.C. around impeachment is having little, if any, impact on small business owners, no different than during the Clinton impeachment proceedings. The Index showed little variation over the 1998-99 period that included the pre-impeachment news coverage, the impeachment proceedings, and its aftermath. The initial 2019 path is starting in a similar fashion, albeit at a stronger position.

As reported in last week’s [NFIB’s monthly jobs report](#), a seasonally-adjusted net 19% plan to create new jobs, down 2 points. Finding qualified workers remains the top issue for small business owners, with 23% reporting this as their number one problem. A net 29 percent, seasonally adjusted, reported raising compensation (down 1 point) and a net 24% plan to do so in the coming months, down 2 points.” – Holly Wade, NFIB

Private Indicators

NFIB Small Business Optimism Index

“December marked the end of another banner year for the small business economy, as owners took full advantage of strong consumer spending, and federal tax and regulatory relief. 2020 is starting out with a solid foundation for continued growth, two-years into the Tax Cuts and Jobs Act that’s providing fuel to grow small businesses and their workforce.

Owners are aggressively moving forward with their business plans, proving that when they’re given relief from the government, they put their money where their mouth is, and they invest, hire, and increase wages. What really matters to small business owners are issues directly impacting their bottom lines. Currently, their biggest problem is finding qualified labor, surpassing taxes or regulations. Two years ago, Congress and the President provided real, significant tax relief to small business owners. Now owners are anxious to have their tax cuts made permanent.”
– Bill Dunkelberg, Chief Economist, NFIB

Private Indicators

NFIB Small Business Optimism Index

Small Business Optimism

Small Business Optimism Dips in December

Index Component	Net %	Change From Nov.
Plans to Increase Employment	19%	▼ -2
Plans to Make Capital Outlays	28%	▼ -2
Plans to Increase Inventories	3%	— 0
Expect Economy to Improve	16%	▲ 3
Expect Real Sales Higher	16%	▲ 3
Current Inventory	-4%	▼ -5
Current Job Openings	33%	▼ -5
Expected Credit Conditions	-3%	— 0
Now a Good Time to Expand	25%	▼ -4
Earnings Trends	-8%	▼ -10



NFIB.com/sboi

Private Indicators

NFIB December 2019 Report Commentary

“December marked the end of another strong year for the small business economy, adding to a historic run of elevated optimism among owners. 2020 is starting out with a solid foundation for continued growth. News coverage of a possible recession is muted and the Federal Reserve finally suspended its run of rate cuts. The USMCA agreement will soon find its way to the White House and the President is set to sign a phase one trade deal with China. But most importantly, Congress passed a significant tax addendum to the Tax Cuts and Jobs Act in December that repealed the dreaded Health Insurance Tax and the Cadillac tax, taxes that would have increased the cost of health insurance, further limiting the ability of small business owners to offer employee sponsored health insurance.

The current focus and noise in Washington, D.C. around impeachment has little, if any, impact on small business owners, no different than 21 years ago during the Clinton impeachment proceedings. The Index showed little variation over the 1998-99 period that includes the preimpeachment news coverage, the impeachment proceedings, and its aftermath. The initial 2019 path is starting in similar fashion, albeit at a stronger position. What really matters to small business owners are the issues that directly impact their bottom line. And right now, the biggest problem is finding qualified labor to fill open positions for 23 percent of owners, far more than those citing taxes or regulations. Two years ago, Congress and the President provided real, significant tax relief to small business owners. Now owners are anxious to have their tax cuts made permanent, so Congress needs to get back to work.

As we should be reminded often, expansions don't die of old age (or by incessant news premonitions). They end because something bad happens, often by elected officials enacting bad policies that undermine the regular flow of commerce. Elected officials should be reminded of that often as we enter a new decade.” – Holly Wade, NFIB

Private Indicators

The Paychex | IHS Markit Small Business Employment Watch

Weekly Earnings Growth Ends the Year at All-Time High

The Paychex | IHS Markit Small Business Employment Watch shows accelerating wage growth amid tight labor market

“The competitive job market continues to drive wage growth higher, according to the latest Paychex | IHS Markit Small Business Employment Watch. Steady growth in hourly earnings and hours worked – with hours worked in December posting the strongest gains since 2012 – pushed weekly earnings growth to 4.13 percent, a new all-time high for employees of small businesses. The pace of small business employment growth remains consistent, with the national jobs index increasing slightly (0.06 percent) in December to 98.16.

“Small business job gains have flattened in the second half of the year as labor markets prove very tight,” said James Diffley, chief regional economist at IHS Markit. “In response, weekly earnings have accelerated, surging from 2.49 percent mid-year to 4.13 percent at year-end.”

“The new high seen in weekly earnings growth this month is certainly positive news for the employees of small businesses,” said Martin Mucci, Paychex president and CEO. “Not only are businesses raising wages, but they’re also increasing hours for their current employees, a sure sign employers are responding to the pressures of the tight labor market.”” – Lisa Fleming, Kate Smith, and Tess Flynn, Paychex, Inc.

Private Indicators

The Paychex | IHS Markit Small Business Employment Watch

Weekly Earnings Growth Ends the Year at All-Time High

The Paychex | IHS Markit Small Business Employment Watch shows accelerating wage growth amid tight labor market

“Broken down further, the December report showed:

- The South remains the leading region for small business employment growth; the West continues as the top region for hourly earnings growth, followed closely by the Northeast.
- Tennessee remains the leader among states in small business job growth; New York leads in hourly earnings growth at the state level.
- Dallas is again the top metro for small business job growth; Los Angeles again leads metros in hourly earnings growth.
- Leisure and Hospitality tops industry sectors in all three wage growth components, hourly and weekly earnings as well as weekly hours worked.” – Lisa Fleming, Kate Smith, and Tess Flynn, Paychex, Inc.

Private Indicators

The Paychex | IHS Markit Small Business Employment Watch

December Jobs Index

Index
98.16

12-Month Change
-0.73%

December Wage Data

Hourly Earnings
\$27.64

12-Month Growth
+3.07% (+\$0.82)

Source: Paychex | IHS Markit Small Business Employment Watch

Private Indicators

The Paychex | IHS Markit Small Business Employment Watch National Jobs Index

- “The pace of small business employment growth increased slightly in December, up 0.06 percent from the previous month.
- In the last six months of 2019, job growth levels have been consistent, moderating slightly from 98.18 in July to 98.16 in December.
- Year-over-year the national index is down 0.73 percent, with declines concentrated in the first half of 2019.” – Lisa Fleming, Kate Smith, and Tess Flynn, Paychex, Inc.

Historical View



Source: Paychex | IHS Markit Small Business Employment Watch

Demographics

Demo Memo

Teens Are Driving Less

“The nation's teenagers are driving less than they once did. Only 50 percent of 16-to-17-year-olds drive on an average day, according to the 2017 National Household Travel Survey. This is down from 58 percent in 2009 and 63 percent in 2001.

Percentage of 16-to-17-year-olds who drive on an average day

2017: 50%

2009: 58%

2001: 63%

What's behind the decline in teen driving? One factor is that fewer 16-to-17-year-olds have a driver's license. Only 27 percent of 16-year-olds had a driver's license in 2018, down from 34 percent in 2001. Among 17-year-olds, the figure fell from 54 to 46.5 percent during those years, according to the [Federal Highway Administration](#).

But there may be another reason for teens' lack of interest in cars. As the National Household Travel Survey report explains, “...given the fact that teens have grown up in a society that is largely connected by technology, their travel patterns may be different in 2017 as compared to 2001.” In other words, the smartphone is an easier and cheaper way to stay in touch with friends than the automobile.” – Cheryl Russell, Demographer, Demo Memo

Economics

Deloitte

United States Economic Forecast Fourth Quarter 2019

Introduction: Coming in for a (soft) landing?

“If you can walk away from a landing,” test pilot Chuck Yeager is supposed to have said, “it’s a good landing.” That’s not quite true for economies: A bumpy landing might be quite uncomfortable, especially given the considerable risks facing today’s economy. And there’s no question that the US economy is coming in for a landing. A slowdown in late 2019 and early 2020 has been a feature of the Deloitte US economic forecast since early 2018, so this is hardly a surprise. But it leaves a question: Just how rapidly will the economy slow – and could it slow enough to actually crash?

The landing is particularly complicated because policymakers have jiggled the controls on the economy several times in the past two years. Here’s a list of the major policy changes—and, yes, that’s more than usual in such a short period of time.

- The 2017 tax cut bill put a substantial amount of short-term demand into the economy in the first half of 2018. And the economy responded: The 2018 growth rate was nearly 3.0 percent, considerably above the forecast rate.
- The 2018 budget agreement raised spending in 2018 by quite a bit, which added to the growth of short-term demand and helped to boost the growth rate.
- The 2018–19 government shutdown temporarily reduced demand and added to uncertainty. That helped to reduce spending – especially business spending – in the subsequent quarters.” – Dr. Daniel Bachman; Senior Manager, Deloitte Services LP

Economics

Deloitte

United States Economic Forecast Fourth Quarter 2019

- “Starting in 2017 and continuing through today, the Trump administration has continued to impose additional tariffs, often unexpectedly. The tariffs have been met with retaliation (especially on the part of China). The results: slowing exports and more uncertainty, adding to the reluctance of businesses to spend money on investment.
- The Federal Reserve continued the tightening cycle it started in 2015 until this past summer. The high level of uncertainty and falling business investment (and recession in the manufacturing sector), combined with the lack of inflation, convinced most of the decision-makers at the Fed that monetary policy needed to be more accommodating. Since then, the Fed has lowered the funds rate three times and started to purchase Treasuries to increase reserves.

Despite, or perhaps because of these offsetting policy moves, the US economy is moving gradually toward its long-run potential growth rate of between 1.5 percent and 2.0 percent. Don’t be surprised if that slowdown is accompanied by a few bumps, in the form of ugly monthly or quarterly data releases. But monthly data is volatile – and a single weak release does not indicate that the economy is headed for recession.

There is, however, one area of substantial concern: The manufacturing sector is in recession, at least according to the *Wall Street Journal* Survey of Forecasters.¹ As of November, manufacturing output was down for the year. Most analyses attribute the slowdown to a combination of trade restrictions and business uncertainty about policy – especially trade policy.² The manufacturing slowdown is global and has already had an economywide impact in Germany and China. The rest of the US economy could start to feel it soon.^{3”} – Dr. Daniel Bachman; Senior Manager, Deloitte Services LP

Economics

FIGURE 1

Real GDP growth

— Baseline — Coordinated global recovery — Recession — Continued slow growth



Source: Deloitte analysis.

Deloitte Insights | deloitte.com/insights

Economics

Deloitte

United States Economic Forecast Fourth Quarter 2019

Scenarios

“Our scenarios are designed to demonstrate the different paths down which the administration’s policies and congressional action might take the American economy. Foreign risks are, if anything, rising, and we’ve incorporated them into the scenarios. But for now, we view the greatest uncertainty in the US economy to be that generated within the nation’s borders.

The baseline (55 percent probability): Uncertainty from the trade war with China dampens investment spending. Employment and consumer spending are slow but remain relatively strong. Employment growth stays above the replacement level for another year or two but eventually slows to below 100,000 per month as the stock of potential workers is exhausted. While government spending does not fall, it no longer contributes to accelerating growth. Growth slows below potential in 2020 but picks up to potential (a bit below 2.0 percent) for the remainder of the forecast.

Recession (25 percent): The economy weakens in late 2019 and early 2020 from the impact of tariffs and softening investment spending. With the economy already weak, a financial crisis pushes the economy into recession. The Fed and the European Central Bank act to ease conditions, and the financial system recovers relatively rapidly. GDP falls in the first three quarters of 2020 and then recovers.” – Dr. Daniel Bachman; Senior Manager, Deloitte Services LP

Economics

Deloitte

United States Economic Forecast Fourth Quarter 2019

Scenarios

“Slower growth (10 percent): Productivity growth becomes even more sluggish. Tariffs raise costs and disrupt supply chains. The combination of low returns on investment and uncertainty about trade policy propels businesses to hold back on investments. Foreign growth lowers the demand for US exports. GDP growth falls to less than 1.5 percent over the forecast period, while the unemployment rate rises.

Productivity bonanza (10 percent): Technological advances begin to lower corporate costs, as continuing deregulation improves business confidence. Trade agreements reduce uncertainty. Tariffs turn out to have a smaller impact than many economists expected. Business investment picks up as companies rush to take advantage of the low cost of putting the technology in place. The US economy grows 2.5 percent in 2019, with growth at 2.3 percent after 2021, while inflation remains subdued. ...” – Dr. Daniel Bachman; Senior Manager, Deloitte Services LP

Economics

Deloitte

United States Economic Forecast

Fourth Quarter 2019

Housing Sector

“The housing market has stabilized, and is growing modestly. In fact, we might have already seen the best of the recovery from the sector’s destruction in the 2007–09 crash. Housing starts at the current level of around 1.2 to 1.3 million may be able to meet the needs of the population, limiting the upside to the sector. We created a simple model of the market based on demographics and reasonable assumptions about the depreciation of the housing stock,⁷ and it suggests that housing starts are likely to stay in the 1.1–1.2 million range. In the baseline forecast, the housing sector stagnates as the economy weakens in the next year or two and, then, gradually recovers over the five-year horizon.

Housing remains a smaller share of the economy than it was before the Great Recession, and that’s to be expected. In some ways, it’s a relief to see the sector return to “normalcy.” But with slowing population growth, housing simply can’t be a major generator of growth for the US economy in the medium and long run.

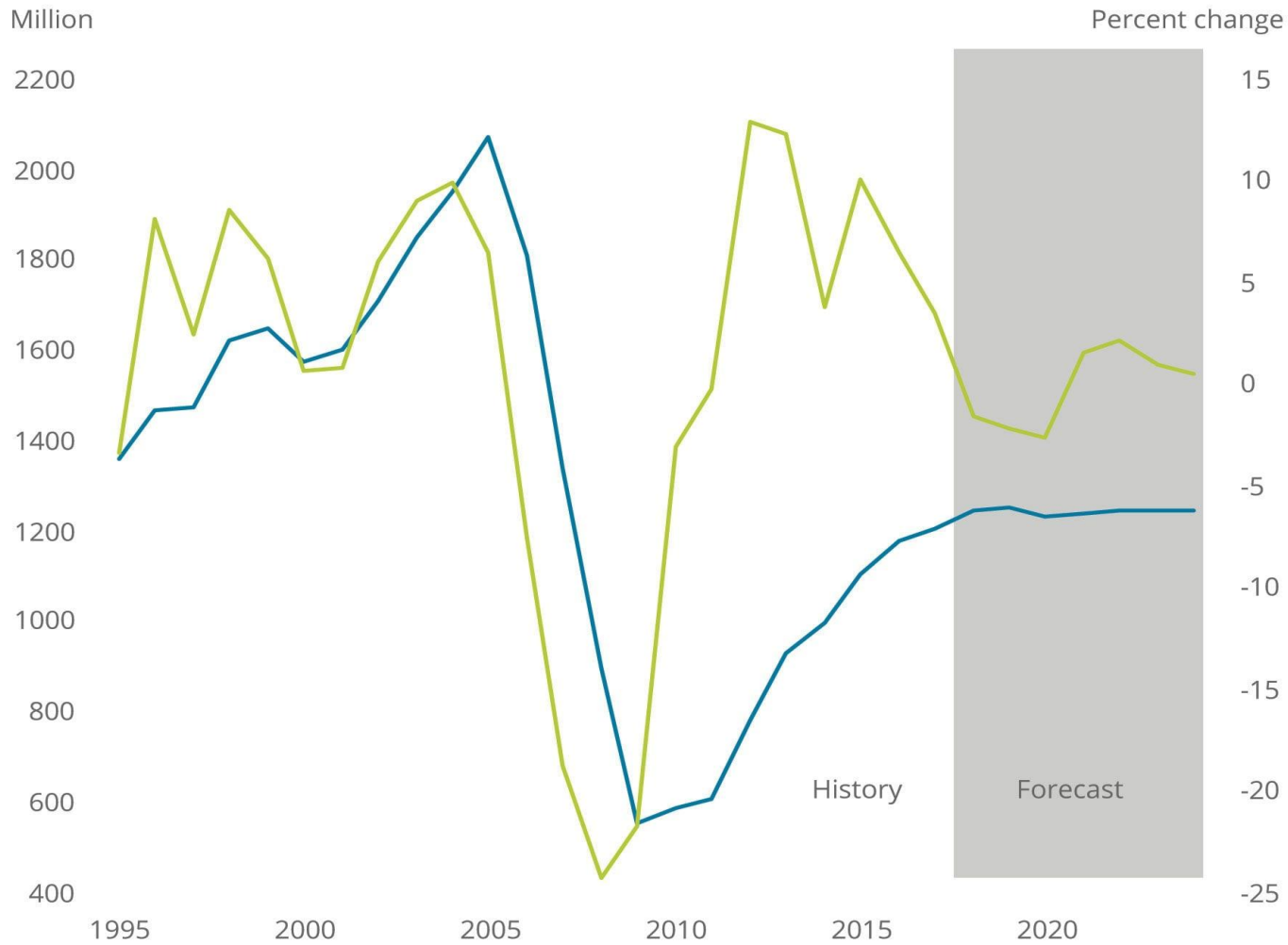
Some folks reacted to the slowing housing market with alarm, remembering something about how the last recession was connected to a housing problem.⁸ It’s certainly not a happy sight, especially for anybody in the home construction business. But a construction decline didn’t cause the last recession: Construction began subtracting from GDP growth in the fourth quarter of 2005, two years before the recession, and GDP growth remained healthy. It was housing finance that ultimately created the crisis, not housing itself. Today, housing accounts for just under 4.0 percent of GDP, down from about 6.0 percent in 2005. The sector simply isn’t large enough to cause a recession – unless, once again, huge hidden bets on housing prices come to light. ...” – Dr. Daniel Bachman; Senior Manager, Deloitte Services LP

Economics

FIGURE 4

Housing

— Housing starts (LHS) — Residential construction (RHS)



Source: Deloitte analysis.

Deloitte Insights | deloitte.com/insights

Economics

FIGURE 5

Housing

	History						Forecast					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Real investment in private housing	13.0	12.4	3.8	10.2	6.5	3.5	-1.5	-2.2	-2.5	1.6	2.2	1.0
Housing starts (millions)	0.78	0.93	1.00	1.11	1.18	1.21	1.25	1.25	1.24	1.24	1.25	1.25
Stock of houses (millions)	132.8	133.5	134.4	135.3	136.3	137.3	138.5	139.6	140.8	141.9	143.0	144.1
30-year fixed mortgage rate (percent)	3.66	3.98	4.17	3.85	3.65	3.99	4.54	3.94	4.19	4.76	4.71	4.89

Sources: Historical data: US government agencies and Oxford Economics.
Forecast: Deloitte, using the Oxford Global Economic Model.

Deloitte Insights | deloitte.com/insights

Deloitte

United States Economic Forecast-Fourth Quarter 2019

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1. Harriet Torry, “[WSJ survey: Majority of economists say manufacturing sector in recession](#),” *Wall Street Journal*, October 10, 2019. [View in article](#)
2. Ibid. [View in article](#)
3. Unless otherwise noted, the data is supplied by [Haver Analytics](#), which compiles statistics from the US Bureau of Labor Statistics, the Bureau of Economic Analysis, and other databases. [View in article](#)
7. Lester Gunnion, [Housing America: A forecast of housing construction in the United States](#), *Economics Spotlight*, Deloitte Insights, February 28, 2019. [View in article](#)
8. See, for example, Dave Goodson and Colin Dugas, “[U.S. housing: Headlines suggest trouble](#),” Voya Investment Management, November 6, 2018. [View in article](#)

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