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Housing Commentary: Section II

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Federal Reserve System and Private Indicators
The GDPNow model forecast for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2017 is 2.6 percent on July 11, down from 2.7 percent on July 6. The forecast of second-quarter real GDP growth fell 0.2 percentage points to 2.5 percent after Friday’s employment release from the U.S. Bureau of Labor Statistics. The model’s estimate of the dynamic factor for June – normalized to have mean 0 and standard deviation 1 and used to forecast the yet-to-be released monthly GDP source data – decreased from 1.08 to 0.34. The forecast of the contribution of inventory investment to second-quarter real GDP growth increased from 0.57 to 0.61 percentage points after this morning’s wholesale trade report from the U.S. Census Bureau.” – Pat Higgins, Economist, Federal Reserve Bank of Atlanta.
The NFCI ticked down to –0.88 in the week ending July 7. The credit subindex decreased slightly from the previous week, while the risk, leverage, and nonfinancial leverage subindexes were unchanged. The ANFCI also ticked down from the previous week, to –0.24.

The current level of the ANFCI indicates that financial conditions in the latest week were roughly consistent with what would typically be suggested by current economic conditions as captured by the three-month moving average of the Chicago Fed National Activity Index (CFNAI-MA3) and three-month total inflation according to the Price Index for Personal Consumption Expenditures (PCE).” – Scott Brave, Economic Research, The Federal Reserve Bank of Chicago

Source: https://www.chicagofed.org/publications/nfci/index; 7/12/17
Index Points to Slower Economic Growth in May

“Led by declines in production-related indicators, the Chicago Fed National Activity Index (CFNAI) moved down to –0.26 in May from +0.57 in April. Three of the four broad categories of indicators that make up the index decreased from April, and three of the four categories made negative contributions to the index in May. The index’s three-month moving average, CFNAI-MA3, declined to +0.04 in May from +0.21 in April.

The CFNAI Diffusion Index, which is also a three-month moving average, decreased to –0.08 in May from +0.10 in April. Thirty-two of the 85 individual indicators made positive contributions to the CFNAI in May, while 53 made negative contributions. Twenty-six indicators improved from April to May, while 56 indicators deteriorated and three were unchanged. Of the indicators that improved, ten made negative contributions.” – Laura LaBarbera, Media Relations, The Federal Reserve Bank of Chicago

A zero value for the index indicates that the national economy is expanding at its historical trend rate of growth; negative values indicate below-average growth; and positive values indicate above-average growth.

“The contribution from production-related indicators to the CFNAI declined to –0.16 in May from +0.53 in April. Total industrial production was unchanged in May after moving up 1.1 percent in April, and manufacturing production decreased 0.4 percent in May after increasing 1.1 percent in the previous month.”
Index Points to Slower Midwest Economic Growth in May

“The manufacturing sector’s contribution to the MEI decreased to +0.32 in May from +0.37 in April. The pace of manufacturing activity decreased in Indiana, Iowa, and Michigan and was unchanged in Illinois and Wisconsin. Manufacturing’s contribution to the relative MEI decreased to +0.17 in May from +0.28 in April.

The construction and mining sector’s contribution to the MEI decreased to +0.01 in May from +0.10 in April. The pace of construction and mining activity was lower in all five Seventh District states. Construction and mining made a contribution of +0.01 to the relative MEI in May, down from +0.14 in April.

The service sector made a contribution of –0.04 to the MEI in May, down from +0.06 in April. The pace of service sector activity was down in Illinois, Indiana, Iowa, and Wisconsin and unchanged in Michigan. The service sector’s contribution to the relative MEI decreased to –0.22 in May from +0.07 in April.

The contribution from consumer spending indicators to the MEI increased to +0.22 in May from +0.20 in April. Consumer spending indicators were, on balance, up in Indiana, Michigan, and Wisconsin, but down in Illinois and Iowa. Consumer spending’s contribution to the relative MEI decreased to +0.13 in May from +0.15 in April.”

– Laura LaBarbera, Media Relations, The Federal Reserve Bank of Chicago

Source: https://www.chicagofed.org/publications/mei/index; 6/30/17
Texas Manufacturing Continues to Expand but at a Slower Pace

“Texas factory activity increased in June, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell 11 points to 12.3, indicating output grew but at a slower pace than in May.

Other measures of current manufacturing activity also indicated that growth moderated. The new orders and growth rate of orders indexes fell several points each, coming in at 9.6 and 4.7, respectively. The capacity utilization index moved down to 12.3, and the shipments index retreated to 8.5 after surging last month.

Perceptions of broader business conditions improved in June, although the indexes were less positive than in May. The general business activity index edged down to 15.0. The company outlook index posted a 10th consecutive positive reading but fell nine points to 10.8.” – Emily Kerr, Business Economist, The Federal Reserve Bank of Dallas
Texas Service Sector Activity Picks Up

“Texas service sector activity continued to reflect expansion in June albeit at a slightly slower pace, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, ticked down one point to 14.8 in June.

Labor market indicators reflected faster employment growth and longer workweeks this month. The employment index moved up four points to 11.9. The hours worked index rose slightly from 2.1 to 4.3.

Perceptions of broader economic conditions reflected more optimism in June. The general business activity index edged up from 7.7 to 10.1. The company outlook index advanced seven points to 14.2, its highest reading in five months, with 23 percent of respondents reporting that their outlook improved from last month and 8 percent noting it worsened.” – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

Source: https://www.dallasfed.org/research/surveys/tssos/2017/1705; 6/27/17
Retail sales grew in June at a slower pace than last month, according to business executives responding to the Texas Retail Outlook Survey. The sales index fell from 10.1 in May to 3.5 in June, its lowest reading in eight months. Inventories increased at a faster pace this month.

Labor market indicators were mixed this month. The employment index rebounded to positive territory to a reading of 10.1, suggesting retail employment increased on net. The hours worked index remained in negative territory, falling one point to –2.7, suggesting workweeks shortened again in June.

However, retailers’ perceptions of broader economic conditions improved in June. The general business activity index surged 12 points to 9.6, its highest reading in five months. The company outlook index also jumped 12 points coming in at 12.8, with 21 percent of respondents reporting that their outlook improved from last month and 8 percent noting that it worsened.” – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

Source: https://www.dallasfed.org/research/surveys/tssos/2017/1705; 6/27/17
The month-over-month composite index was 11 in June, up from 8 in May and 7 in April. The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Most year-over-year factory indexes increased from the previous month. The composite year-over-year index rose from 18 to 28, its highest level since June 2011, and the production, shipment, and new orders indexes also increased moderately. Activity increased moderately at both durable and non-durable goods plants, particularly for aircraft, computers and electronics, chemicals, and plastics. Month-over-month indexes were mixed. The production index jumped from -1 to 23, and the shipments and employment indexes also increased. On the other hand, the new orders index eased from 9 to 4, and the order backlog index fell into negative territory. Both inventory indexes inched lower.” – Pam Campbell, The Federal Reserve Bank of Kansas City

“Firms reported faster growth in June than earlier in the second quarter. The share of factories planning to add workers over the next six months also rose solidly.” – Chad Wilkerson, Vice President and Economist, The Federal Reserve Bank of Kansas City

The Federal Reserve Bank of Kansas City

The KCFSI suggests financial stress remains low

“The Kansas City Financial Stress Index (KCFSI) decreased from -0.56 in May to -0.74 in May. The KCFSI is constructed to have a mean value of zero and a standard deviation of one. A positive value of the KCSFI indicates that financial stress is above the long-run average, while a negative value signifies that financial stress is below the long-run average. A useful way to assess the level of financial stress is to compare the index in the current month to the index during a previous episode of financial stress, such as October 2008.” – Bill Medley, Media Relations, The Federal Reserve Bank of Kansas City

Empire State Manufacturing Survey

“Business activity rebounded strongly in New York State, according to firms responding to the June 2017 Empire State Manufacturing Survey. The headline general business conditions index shot up twenty-one points to 19.8, its highest level in more than two years. The new orders index posted a similar increase, rising twenty-three points to 18.1, and the shipments index advanced to 22.3. The inventories index climbed to 7.7, indicating a rise in inventory levels, and labor market indicators pointed to a modest increase in employment and hours worked. The pace of input price increases was unchanged, while selling price increases picked up somewhat. Looking ahead, firms remained optimistic about the six-month outlook.” – The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/empire/empiresurvey_overview.html#tabs-1; 6/15/17
Empire State Manufacturing Survey

Business Activity Bounces Back

“Manufacturing firms in New York State reported that business activity grew at a solid clip in June. After dropping to a level just below zero last month, the general business conditions index more than made up for lost ground, rising twenty-one points to 19.8, its highest level since September 2014. Thirty-six percent of respondents reported that conditions had improved over the month, while 16 percent reported that conditions had worsened. The new orders index, which showed a decline in orders last month, jumped twenty-three points to 18.1, indicating that orders increased markedly. The shipments index rose to 22.3, pointing to a substantial increase in shipments. The unfilled orders index moved up to 4.6, and the delivery time index was little changed at 5.4. The inventories index rose to 7.7, a sign that inventory levels were higher.”

Labor Market Conditions Continue to Improve

Employment indexes remained positive, pointing to continued modest growth in employment levels and hours worked. The index for number of employees edged down four points to 7.7, and the average workweek index was little changed at 8.5. The prices paid index held steady at 20.0, and the prices received index rose six points to 10.8, pointing to a pickup in selling price increases.

Firms Remain Optimistic

“Indexes assessing the six-month outlook suggested that firms continued to expect conditions to improve. The index for future business conditions was little changed at 41.7, and the index for future new orders rose nine points to 42.2. Inventories were expected to be slightly lower in the months ahead, and employment was expected to increase modestly. The capital expenditures index rose to 20.8, and the technology spending index was 11.5.” – Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/empire/empiresurvey_overview.html#tabs-1; 6/15/17
“Activity in the region’s service sector expanded slightly, according to firms responding to the Federal Reserve Bank of New York’s June 2017 Business Leaders Survey. The survey’s headline business activity index edged down three points but remained positive at 3.4. The business climate index tumbled eighteen points to -15.5, signaling that respondents viewed the business climate as worse than normal. The employment index fell to 2.7, indicating a slight increase in employment levels, while the wages index retreated 12 points to 27.5, suggesting that wages rose but at a slower pace than last month. Price indexes declined, pointing to a slowing of both input price increases and selling price increases. Capital spending grew modestly, and indexes assessing the six-month outlook suggested that firms continued to express fairly widespread optimism about future business conditions.” – The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/business_leaders/bls_overview; 6/15/17
July 11, 2017: Highlights

• News from this week’s data releases increased the nowcast by 0.1 percentage point for Q2 and 0.2 percentage point for Q3.
• Positive surprises from the ISM PMI drove most of the increase.”
Manufacturing Activity Continued to Expand in June

Current Indicators Reflect Continued Growth

“The index for current manufacturing activity in the region decreased from a reading of 38.8 in May to 27.6 this month (see Chart 1). The index has been positive for 11 consecutive months. Forty-two percent of the firms indicated increases in activity in June, down from 51 percent last month. The shipments index decreased 11 points, while the new orders index was little changed. Both the delivery times and unfilled orders indexes were positive for the eighth consecutive month, suggesting longer delivery times and increases in unfilled orders.

Firms reported overall increases in manufacturing employment this month, but the current employment index fell 1 point. The index has remained positive for seven consecutive months. The percentage of firms reporting an increase in employment was 21 percent, down slightly from 23 percent last month. Firms also reported an increase in work hours this month: The average workweek index remained positive for the eighth consecutive month but decreased 1 point.” — Mike Trebing, Senior Economic Analyst, Federal Reserve Bank of Philadelphia

GDPplus is a measure of the quarter-over-quarter rate of growth of real GDP in annualized percentage points. It improves on the BEA's expenditure- and income-side measures, GDP_E and GDP_I, respectively. GDP_E is the “standard” GDP measure used routinely, whereas GDP_I is little used, but each contains useful information.

Source: https://philadelphiafed.org/research-and-data/real-time-center/gdpplus/; 6/29/17
“The Federal Reserve Bank of Philadelphia has released the leading indexes for the 50 states for May 2017. The indexes are a six-month forecast of the state coincident indexes (also released by the Bank). Forty-four state coincident indexes are projected to grow over the next six months, five are projected to decrease, and one (Kentucky) is not available this month. 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” – Daneil Mazone, The Federal Reserve Bank of Philadelphia

“Reports from Fifth District manufacturers improved in June, according to the latest survey by the Federal Reserve Bank of Richmond. The composite manufacturing index rose from 1 in May to 7 in June, as the indexes for shipments and new orders increased. The employment index was relatively flat. Most firms continued to report steady or higher wages; although the index for wages did fall in June, it remained above 0. Meanwhile, more firms reported a decline in the average workweek than reported an increase.

Looking six months ahead, manufacturing executives were more optimistic in June than in May, although even the May readings were very positive. Among the indexes for expected activity, only two fell: the capital expenditures index declined from 34 in May to 26 in June and the expected shipments metric inched down from 39 to 38.

Survey responses pointed toward more moderate growth in both prices paid and prices received. Expected growth in prices received also moderated, although expected growth in prices paid picked up somewhat.” – Jeannette Plamp, Economic Analyst, The Federal Reserve Bank of Richmond
U.S. Economic Indicators
“The U.S. economy appears to have completed its long recovery and is now proceeding along a sustainable growth path, characterized by output growth, inflation and unemployment close to their long-run levels.

The most recent data indicate that output growth is continuing at a healthy pace. While real GDP in the first quarter rose only 1.2% at an annualized rate, this slowdown is largely due to transitory factors as well as the tendency of seasonal adjustment of first quarter growth figures to be somewhat biased downward. Recent monthly readings of a number of economic indicators, including those on retail sales, purchase orders, capacity utilization, industrial production, and capital expenditure, suggest continued strong momentum for spending and output. Consumer spending will continue to benefit from robust fundamentals including a strong labor market, rising incomes, and wealth, as well as buoyant consumer sentiment. We anticipate GDP growth to bounce back in the second quarter to an annualized growth rate close to 3%, and in 2017 average to about 2%. Based on our estimate of potential output growth of around 1½ to 1¾%, output is growing modestly faster than its underlying trend.

Wage growth, largely missing from this recovery, remains below pre-recession levels, partially due to lower productivity growth. But over the last year, a broad-based acceleration of wage growth has materialized in a number of wage and compensation indicators, confirming the notion that there is little if any slack left in the labor market.” – Michael Bauer, Research Advisor, The Federal Reserve Bank of San Francisco
“U.S. house prices rose in April, up 0.7 percent from the previous month, according to the Federal Housing Finance Agency (FHFA) seasonally adjusted monthly House Price Index (HPI). The previously reported 0.6 percent increase in March was revised upward to reflect a 0.7 percent increase.

For the nine census divisions, seasonally adjusted monthly price changes from March 2017 to April 2017 ranged from -0.1 percent in the East South Central division to +1.6 percent in the West South Central division. The 12-month changes were all positive, ranging from +4.7 percent in the West North Central division to +8.9 percent in the Mountain division.” – Stefanie Johnson and Corinne Russell, FHFA

Mexico Economy Expands in First Quarter; Fourth Quarter Revised Higher

“Mexico’s economy grew solidly in the first quarter despite higher inflation, interest rates and uncertainty over trade relations with the U.S. Gross domestic product (GDP) expanded at a 2.4 percent annualized rate, while fourth-quarter output was revised higher to 2.9 percent. The consensus 2017 GDP growth forecast was revised up from 1.5 percent to 1.7 percent. Recent data on exports, industrial production, retail sales and employment showed continued expansion but at a slower pace. Inflation increased, but the peso recovered some ground against the dollar in May for a third consecutive month.” – Jesus Cañas, Senior Business Economist, The Federal Reserve Bank of Dallas

Markit Canada Manufacturing PMI™

Manufacturing recovery slows in June

“At 54.7 in June, down from 55.1 in May, the seasonally adjusted (IHS Markit Canada Manufacturing Purchasing Managers’ Index® PMI™) eased further from April’s six-year peak (55.9). Nonetheless, the latest reading was well above the neutral 50.0 threshold and signalled a solid improvement in overall business conditions. Slower rates of new business and employment growth were the main factors weighing on the headline PMI in June.” – Markit Canada Manufacturing PMI™

“June data pointed to a sustained rebound in manufacturing sector business conditions, but the pace of recovery eased to a four-month low amid weaker growth of incoming new work. The latest survey also revealed a further slowdown in job creation from April’s six-year peak. However, manufacturing companies remain upbeat about their prospects for growth over the next 12 months, which contributed to a robust rise in purchasing activity and a further accumulation of pre-production inventories.

The manufacturing sector recovery has started to lose momentum, with new order volumes expanding at the slowest pace since the beginning of 2017. Output growth and job creation also remain softer than recent peaks. Survey respondents are relatively upbeat about the outlook for the next 12 months, in part reflecting hopes of a sustained recovery in export demand. The latest rise in new work from abroad was the strongest since late-2014, which manufacturers linked to rising sales to U.S. clients.

There was also positive news in terms of input price inflation in June, which eased to a six-month low. However, supply chain pressures persisted as stronger demand for manufacturing inputs led to stretched capacity and low stocks among vendors.” – Tim Moore, Senior Economist, HIS Markit

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/2cc0cf4fab3642d4910535f393fbd3ccf; 7/3/17
“The PMI climbed back into positive territory in June, with firms noting slightly stronger increases in production and new orders. This prompted companies to increase their purchasing activity, albeit only slightly. However, relatively muted client demand overall led manufacturers to reduce their inventory holdings and trim their workforce numbers again. At the same time, optimism towards the business outlook edged down to its lowest level in 2017 to date.”

“At 50.4 in June, the seasonally adjusted Purchasing Managers’ Index™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – moved back above the 50.0 no-change mark. This was up from 49.6 and signalled an improvement in the health of the sector after a marginal deterioration in May. Operating conditions have now strengthened in nine of the ten past months, though the latest improvement was only slight.

The Caixin China General Manufacturing PMI stood at 50.4 in June, up from 49.6 in the previous month, as manufacturing activity expanded. Sub-indices for output and new orders rose marginally from the previous month, while input and output prices showed renewed increases in June, in which input prices rose at a faster pace. However, sub-indices for stocks of purchases and stocks of finished goods were both in contraction territory, signaling that businesses are more cautious in restocking. The manufacturing sector recovered slightly in June, but based on the inventory trends and confidence around future output, the June reading was more like a temporary rebound, with an economic downtrend likely to be confirmed later.” – Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis, CEBM Group

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/45fb23c2544f01b00f3303da1a697; 7/3/17
The rate of expansion in the eurozone manufacturing sector accelerated to its fastest in over six years in June, reflecting improved performances across Germany, France, Italy, the Netherlands, Ireland, Greece and Austria. Output expanded on the back of rising inflows of new work, encouraging companies to maintain the pace of job creation close to May’s 20-year survey record high.

 Eurozone manufacturing upturn gains further momentum as PMI hits 74-month high

“The final IHS Markit Eurozone Manufacturing PMI® rose to 57.4 in June, up from 57.0 in May and the earlier flash estimate of 57.3. The PMI has now remained above the neutral 50.0 mark throughout the past four years. Moreover, the average reading during the second quarter (57.0) is the best outcome in over six years (since Q1 2011).

Eurozone manufacturing growth gained further momentum in June, rounding off the best quarter for just over six years. At current levels, the PMI is indicative of factory output growing at an annual rate of some 5%, which in turn indicates the goods-producing sector will have made a strong positive contribution to second quarter economic growth.

There’s no sign of the impressive performance ending any time soon. Optimism about the year ahead has risen to the highest for at least five years, backlogs of orders are building up at the fastest rate for over seven years and factories are reporting near-record hiring as they struggle to deal with the upturn in demand. As such, the manufacturing sector is clearly in expansion mode and looks poised for continued robust growth in coming months.” – Chris Williamson, Chief Business Economist, Markit®
Eurozone economic growth at six-year high during second quarter

“The eurozone economy enjoyed its best quarter for just over six years during the second quarter of 2017. Although output growth slowed slightly in June, continued robust inflows of new work and elevated business confidence kept the pace of job creation among the best seen over the past decade.

The final headline PMI came in above the earlier flash estimate and consequently signalled only a very slight loss of growth momentum at the end of the second quarter. The latest readings are indicative of the eurozone growing by an impressive 0.7% in the second quarter.

The added encouragement to the healthy picture is the broad-based nature of the upturn signalled for economic growth, employment and prices. All four of the largest euro nations are reporting faster growth in the second quarter as a whole, adding to the picture of an increasingly self-sustaining recovery amid rising domestic demand in the single currency area.” – Chris Williamson, Chief Business Economist, Markit®
German manufacturing expands at fastest pace in over six years

“The German manufacturing sector continued to grow at the strongest rate in over six years midway through 2017, according the June PMI® survey data from IHS Markit and BME. Overall operating conditions improved at the strongest pace since April 2011. Moreover, the 12-month outlook for production remained strongly positive. Meanwhile, input prices rose at the slowest pace in seven months, albeit one that remained strong overall.”

“The PMI rose for the sixth time in seven months in June, posting 59.6, up from 59.5 in May. This signalled the strongest overall improvement in manufacturing business conditions in Germany since April 2011. The upward movement in the PMI reflected a faster rise in new orders and a greater lengthening in supplier delivery times, while growth of output and employment remained strong despite easing slightly since May. The current 31-month period of overall growth in the goods-producing sector is the second-longest in the 21-year survey history.

German manufacturers turned out another impressive performance in June with the PMI rising for the sixth time in seven months to the highest since April 2011. Over the second quarter as a whole the PMI trended at 59.1, the highest quarterly average since Q1 2011. The latest PMI data therefore strongly suggest that the manufacturing sector will continue to boost German GDP in the second quarter. Although output growth held broadly steady and job creation eased slightly since May, the expansion in new orders accelerated further. Suppliers remained under intense pressure with input delivery times lengthening to the greatest extent since April 2011.” – Trevor Balchin, Senior Economist, IHS Markit®
“At 52.6 in June, unchanged from May, the J.P. Morgan Global Manufacturing PMI™ – a composite index1 produced by J.P. Morgan & IHS Markit in association with ISM and IFPSM – signalled a further solid and steady improvement in manufacturing operating conditions. The average reading over the second quarter as a whole (52.7) was slightly below that for quarter one (52.9).”

Global manufacturing growth solid and steady through second quarter

“Developed markets tended (on average) to outperform emerging nations in June. This was mainly due to the ongoing improvement in the euro area manufacturing sector, where the PMI rose to its highest level in over six years. Rates of expansion accelerated in almost all of the euro area nations covered – the sole exception being Spain – with the strongest growth registered in Austria, Germany and the Netherlands.

Rates of expansion accelerated in both the consumer and investment goods sectors, with the sharper growth signalled in the latter. The PMI reading for the intermediate goods category fell to a five-month low.

The Global Manufacturing PMI was unchanged in June and continues to point to solid, steady gains in global industry at mid-year. At the same time, firming new orders and broadly based production gains across consumer goods and business equipment suggest factory output is well supported heading into the second half of the year.” – David Hensley, Global Economist, J.P. Morgan

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/86ea13cd52754d3f87df6e492120586e; 7/3/17
At 54.3 in June, down from 56.3 in May, the seasonally adjusted IHS Markit/CIPS Purchasing Managers’ Index® (PMI®) posted its lowest reading in three months. However, the average PMI level over the second quarter as a whole (55.9) was the best registered for three years.”

UK manufacturing growth slows at end of second quarter

“The end of the second quarter saw manufacturers report further expansions of both production and new order volumes. However, rates of increase decelerated, as growth of new business slowed in both the domestic and export markets. Price pressures continued to ease, with rates of inflation in input costs and output charges down further from highs reached at the start of the year.

The UK manufacturing sector largely weathered the uncertainty of a general election and start of formal Brexit negotiations to eke out further output growth at the end of the second quarter. However, the rate of expansion eased again in June, with growth weakening across the consumer, intermediate and investment goods industries.

New business rose at the weakest pace for nearly a year and growth was down sharply from April’s near three-year high. This slowdown was largely centred on the domestic market, where increased business uncertainty appears to have led to some delays in placing new contracts.

While the survey data add to signs that the economy is likely to have shown stronger growth in the second quarter, further doubts are raised as to whether this performance can be sustained into the second half of the year.” – Rob Dobson, Director & Senior Economist, IHS Markit

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/5c12cda5843a4817a8028785232865dd; 7/3/17
May Architecture Billings Index
ABI May 2017: Firm billings grow at slower pace

“Architecture firm billings increased for the third consecutive month in May. However, the Architecture Billings index (ABI) score of 50.9 for the month indicates that fewer firms reported billings growth this month than in March. Firms indicated that plenty of work remains in the pipeline, though, as inquiries into new projects and the value of new design contracts both increased again in May.

Probably even better news for the construction outlook is that new project work coming into architecture firms has seen exceptionally strong growth so far this year. In fact, new project activity has pushed up project backlogs at architecture firm to their highest level since the design market began its recovery earlier this decade.” – Kermit Baker, Hon. AIA, Chief Economist, AIA

“Key May ABI highlights:
• Regional averages: South (55.3), Midwest (53.3), West (50.9), Northeast (50.7)
• Sector index breakdown: institutional (54.0), mixed practice (53.4), commercial / industrial (52.4), multi-family residential (49.9)
• Project inquiries index: 60.2
• Design contracts index: 53.2”

Business conditions continue to show encouraging trends

“Billings at US architecture firms increased for the fourth straight month in May. AIA’s Architecture Billings Index (ABI) was 53.0 for the month, up from April’s reading of 50.9, and surpassing the 51.4 average score for firm billings for the first four months of the year.

New project inquiries and new design contracts also saw accelerated growth in May. Both indicators recorded their highest readings for the year. These results show that design activity is healthy at present, and that is should continue to remain so for at least the next several quarters.” – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: https://www.aia.org/pages/135971-abi-may-2017-business-conditions-continue-t; 6/23/17
“In spite of very solid national readings, regional business conditions are unusually varied. Firms in the South posted the strongest growth in billings in several years. Firms in the West reported continued positive momentum in business conditions. In contrast, Midwest firms saw hardly any increase in billings in May, while Northeast firms saw a sharp decline in billings, which came on top of a small slide in April.” – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: https://www.aia.org/pages/135971-abi-may-2017-business-conditions-continue-t; 6/23/17
“By construction sector specialization, in contrast, business conditions are remarkably similar. Firms concentrating in the residential sector reported a healthy uptick in billings, a trend matched by commercial/industrial as well as institutional firms. However, while commercial/industrial firms saw a modest acceleration in billings, institutional firms reported slowing growth after several months of strong results.” – Kermit Baker, Hon. AIA, Chief Economist, AIA
Private Indicators

Dodge Data & Analytics

New Construction Starts in May Edge Up One Percent

“At a seasonally adjusted annual rate of $651.2 billion, new construction starts in May increased a slight 1% from April, according to Dodge Data & Analytics. Public works construction bounced back 30% from its subdued April amount, helped by the May start of four large pipeline projects totaling a combined $3.0 billion. This enabled the nonbuilding construction sector (which also includes electric utilities and gas plants) to register a 23% gain in May, offsetting modest 4% declines for both nonresidential building and housing. Through the first five months of 2017, total construction starts on an unadjusted basis were $274.3 billion, down 5% from the same period a year ago. If the volatile manufacturing plant and electric utility/gas plant categories are excluded, total construction starts during the first five months of 2017 would be up 2% relative to last year.

“While May revealed slight improvement over April, the pace of expansion so far this spring has generally slowed following the elevated activity in the first quarter. This is consistent with the up-and-down behavior that’s often been present in the current expansion, and a continuation of this pattern means that renewed strengthening can be expected in the months ahead. On the plus side, long-term interest rates remain quite low, with the 10-year Treasury bill rate easing back to 2.2% even as the Federal Reserve raised the federal funds rate another quarter point last week. Numerous state and local bond measures passed in recent years are providing near term support for public works and institutional building. The expected benefits of a new federal infrastructure program, assuming one gets passed during the second half of 2017, would affect construction activity more in 2018. And, while vacancy rates for commercial building and multifamily housing are beginning to rise, the increases witnessed so far have been generally small.” – Robert Murray, Chief Economist, McGraw Hill Construction

Private Indicators

Dodge Data & Analytics

New Construction Starts in May Edge Up One Percent

“The 5% decline for total construction starts on an unadjusted basis during the first five months of 2017 was due to a varied pattern by major sector. Nonbuilding construction fell 25% year-to-date, with electric utilities/gas plants down 67% while public works construction was down just 3%. Nonresidential building grew 5% year-to-date, with institutional building up 17%, commercial building down 5%, and manufacturing building down 9%. Residential building year-to-date was flat, with single family housing up 8% while multifamily housing decreased 17%. By geography, total construction starts in the January-May period of 2017 showed this behavior – the Midwest, down 18%; the South Central, down 14%; the Northeast, down 3%; the West, unchanged; and the South Atlantic, up 8%.

Additional perspective comes from looking at twelve-month moving totals, in this case the twelve months ending May 2017 versus the twelve months ending May 2016. On this basis, total construction starts were up 3%. By major sector, nonbuilding construction fell 12%, with electric utilities/gas plants down 41% while public works slipped 2%. Nonresidential building increased 14%, with manufacturing building up 20%, institutional building up 16%, and commercial building up 11%. Residential building grew 3%, with single family housing up 7% while multifamily housing fell 6.” – Robert Murray, Chief Economist, McGraw Hill Construction

Private Indicators

“Residential building” was $284.9 billion (annual rate) in May, down 4%. Multifamily housing retreated 10% following increases over the previous two months that saw activity rise 20%. There were seven multifamily projects valued at $100 million or more that reached groundbreaking in May, … . In May, the top five metropolitan areas in terms of the dollar amount of multifamily starts were the following – New York NY, Los Angeles CA, Philadelphia PA, Chicago IL, and Boston MA. Through the first five months of 2017, the top five metropolitan areas were the following – New York NY, Los Angeles CA, Chicago IL, Washington DC, and San Francisco CA. The New York NY share of the national multifamily total so far in 2017 is 18%, up slightly from the 17% share reported for full year 2016, although down from the 25% share reported for full year 2015.

Single family housing settled back 2% in May, with its upward track pausing for the third month in a row after showing steady growth during the fourth quarter of 2016 and the first two months of 2017. By major region, single family housing in May revealed this performance – the West, down 7%; the Midwest, down 5%; the South Atlantic, up 1%; the South Central, up 2%; and the Northeast, up 4%. One plus for single family housing going forward is the recent retreat in the cost of financing, with the 30-year fixed mortgage rate slipping to 3.9% in early June, after reaching 4.3% in late 2016.” – Robert Murray, Chief Economist, McGraw Hill Construction

Private Indicators

May 2017 Construction Starts

The Dodge Index of New Construction Starts
(Year 2000 = 100)

Source: Dodge Data & Analytics

Monthly Summary of Construction Starts
Prepared by Dodge Data & Analytics

<table>
<thead>
<tr>
<th>Monthly Construction Starts</th>
<th>Seasonally Adjusted Annual Rates, in Millions of Dollars</th>
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<td>Residential Building</td>
<td>284,941</td>
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<tr>
<td>Nonbuilding Construction</td>
<td>146,942</td>
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<td>Total Construction</td>
<td>$651,152</td>
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The Dodge Index
Year 2000=100, Seasonally Adjusted
May 2017 ......138
April 2017 ......137

Year-to-Date Construction Starts
Unadjusted Totals, in Millions of Dollars

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<tr>
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<th>5 Mos. 2017</th>
<th>5 Mos. 2016</th>
<th>% Change</th>
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<td>Nonbuilding Construction</td>
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<td>Total Construction</td>
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<td>Total Construction, excluding manufacturing buildings and electric utilities/gas plants</td>
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<td>$255,033</td>
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The MNI Chicago Business Barometer rose to 65.7 in June from 59.4 in May, the highest level in over three years.” – Shaily Mittal, Senior Economist, MNI Indicators

June Chicago Business Barometer at 65.7 vs 59.4 in May

“Optimism among firms about business conditions rose for the fifth consecutive month. Four of the five Barometer components led June’s increase, with only Employment falling, albeit slightly. Successive rises in the barometer left the Q2 calendar quarter average at 61.1, significantly above Q1’s 55.1, and the highest level since Q2 2014.

Demand accelerated in June, offsetting the loss witnessed in the previous month. New orders rose by 10.5 points to 71.9 in June, the highest level since May 2014. In line with growing demand, Production strengthened. The indicator was up 4.5 points to 67.7 from 63.2 in May. Order Backlogs grew significantly in June, to a level not seen since July 1994, after jumping out of contractionary territory last month. In Q2, backlogs averaged 52.5, after contracting for nine consecutive quarters. Suppliers took longer to deliver key inputs, with the respective indicator at 62.8, the highest since June 2011.

June’s MNI Chicago Business Barometer Survey is a testament to firms’ expectations of a busy summer. With Production and New Orders touching levels not seen in three years, rising pressure on backlogs and delivery times has led to higher optimism among firms both in general business conditions and the local economy.” – Shaily Mittal, Senior Economist, MNI Indicators
The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3 percent in May to 127.0 (2010 = 100), following a 0.2 percent increase in April, and a 0.4 percent increase in March.

Expansion in Economic Activity Will Continue Through 2017

“The U.S. LEI continued on its upward trend in May, suggesting the economy is likely to remain on, or perhaps even moderately above, its long-term trend of about 2 percent growth for the remainder of the year. The improvement was widespread among the majority of the leading indicators except for housing permits, which declined again. And, the average workweek in manufacturing has recently shown no sign of improvement.” – Ataman Ozyildirim, Director of Business Cycles and Growth Research, The Conference Board

“The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1 percent in May to 115.3 (2010 = 100), following a 0.3 percent increase in April, and a 0.1 percent increase in March.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.1 percent in May to 124.2 (2010 = 100), following a 0.3 percent increase in April and a 0.2 percent increase in March.”

Source: https://www.conference-board.org/data/bcicountry.cfm?cid=1; 6/22/17
Online Job Ads Decreased 45,800 in June

- Following the May increase, HWOL registered a small loss in June
- All four regions showed losses
- Most occupations showed losses over the month

“Online advertised vacancies decreased 45,800 to 4,763,400 in June, according to The Conference Board Help Wanted OnLine® (HWOL) Data Series. The May Supply / Demand rate stands at 1.43 unemployed for each advertised vacancy, with a total of 2.1 million more unemployed workers than the number of advertised vacancies. The number of unemployed was approximately 6.9 million in May.” – Carol Courter, The Conference Board
United States Economic Forecast
2nd Quarter 2017
Scenarios

“Our scenarios are designed to demonstrate the different paths down which the new administration’s policies might take the American economy. Foreign risks have not dissipated, 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 restrains business investment in early 2017, but infrastructure spending pushes up GDP in 2018 and ’19. With the economy at full employment, the faster GDP growth creates some inflationary pressures. A small increase in trade restrictions adds to business costs, but this is offset by lower regulatory costs. Annual growth rises to 2.5 percent before falling off as the impact of the stimulus fades.

Recession (5 percent): Policy moves in the United States, Europe, and China trigger a global financial crisis. The crisis is exacerbated by a large rise in global supply chain cost structures from higher US trade barriers, as well as retaliation from other countries. The Fed and the European Central Bank act to ease financial conditions, and growth starts to pick up as businesses adapt to the new global costs and restructure their capital to reflect the new global cost structure. GDP falls in the last two quarters of 2017 and recovers after 2018.” – Dr. Daniel Bachman and Rumki Majumdar, Deloitte Consulting

Private Indicators

United States Economic Forecast
2nd Quarter 2017
Scenarios

“Slower growth (30 percent):” The infrastructure program and tax cuts stall in Congress even as the administration places significant restrictions on American imports, raising costs and disrupting supply chains. Businesses hold back on investments to restructure their supply chains because of uncertainty about future policy. GDP growth falls to 1 percent over the forecast period, and the unemployment rate rises.

Successful policy takeoff (10 percent):” The administration takes only symbolic action on trade. With supply chain disruptions off the table, businesses focus on tax cuts that are designed to increase investment spending, and the opportunities available from the infrastructure plan. Growth remains above 2 percent for the next five years.

Consumer News

Early 2017 saw a disconnect between what consumers said they believed, and what they did. Consumer confidence continued its post-election rise through March, although real consumer spending was down in January and February. Although spending recovered in March, the saving rate continued to rise, reaching 5.9 percent.

Headline retail sales followed a similar pattern, and were stronger in April. Sales at auto dealers, however, were down three of the four months ending in April. Light vehicle sales have, in fact, fallen from 18.4 million units (at an annual rate) in December to 16.9 million units in April.” – Dr. Daniel Bachman and Rumki Majumdar, Deloitte Consulting

Private Indicators

Figure 1. Real GDP growth

Source: Deloitte analysis.

“Every year, thousands of young Americans abandon the nest, happy to leave home and start their own households. But more than usual stayed put during the recession: The number of households didn’t grow nearly enough to account for all the newly minted young adults. We expect those young adults would prefer to live on their own and create new households; as the economy continues to recover, they will likely do exactly that – as previous generations have.

This means some positive fundamentals for housing construction in the short run. Since 2008, the United States has been building fewer new housing units than the population would normally require; in fact, housing construction was hit so hard that the over supply turned into an under supply. But the hole is shallower than you might think. Several factors offset each other: If household size returns to mid-2000s levels, we would need an additional 3.2 million units; on the other hand, household vacancy rates are much higher than normal. Vacancy returning to normal would make available an additional 2.5 million units – which would fill three-quarters of the pent-up demand for housing units.

But are the existing vacant houses in the right place or condition, or are they the right type, for that pent-up demand? The future of housing may look very different than in the past. Growth in new housing construction has been concentrated in multifamily units. If that persists, we may conclude it is related to young buyers’ growing reluctance to settle in existing single-family units.

While economic growth and job creation may point to strong house sales, higher interest rates may moderate any potential housing boom. Higher inflation and a strong Fed response may drive up mortgage rates more quickly than businesses in the housing sector would like.” – Dr. Daniel Bachman and Rumki Majumdar, Deloitte Consulting
Private Indicators

Figure 3. Housing

- Housing starts (left axis)
- Residential construction (right axis)

Source: Deloitte analysis.

U.S. Weekly Leading Index (WLI)

Monthly U.S. WLI Falls

“The level of the monthly U.S. Weekly Leading Index decreases to 142.0 from 142.4, as its growth rate falls to 2.9% from 4.5%.” – Lakshman Achuthan, Co-Founder & Chief Operations Officer, ECRI

Source: https://www.businesscycle.com/ecri-reports-indexes/all-indexes; 7/11/17
US Gallup Good Jobs Rate Increases in June as Expected

• Gallup Good Jobs rate at 46.3% in June, up from 45.4% in May
• Workforce participation rate at record-high 68.6%
• Unemployment and underemployment rates hold steady

“The U.S. Gallup Good Jobs (GGJ) rate, which measures the percentage of the U.S. adult population with full-time jobs, rose to 46.3% in June, up from 45.4% in May. This is the highest level so far in 2017. The current level is roughly equal to the rate in June 2016, when the GGJ stood at 46.0%.” – RJ Reinhart, Consulting Associate, Gallup

May 2017 Manufacturing ISM® Report On Business®
May NMI® at 57.8%

New Orders, Production, Backlog of Orders and Employment Growing, Supplier Deliveries Slowing, Inventories Contracting, Prices Increasing at Slower Rate

“Economic activity in the manufacturing sector expanded in May, and the overall economy grew for the 97th consecutive month, say the nation’s supply executives in the latest Manufacturing ISM® Report On Business®.

“The June PMI® registered 57.8 percent, an increase of 2.9 percentage points from the May reading of 54.9 percent.

The New Orders Index registered 63.5 percent, an increase of 4 percentage points from the May reading of 59.5 percent.

The Production Index registered 62.4 percent, a 5.3 percentage point increase compared to the May reading of 57.1 percent.

The Employment Index registered 57.2 percent, an increase of 3.7 percentage points from the May reading of 53.5 percent.

The Supplier Deliveries index registered 57 percent, a 3.9 percentage point increase from the May reading of 53.1 percent.

The Inventories Index registered 49 percent, a decrease of 2.5 percentage points from the May reading of 51.5 percent.

The Prices Index registered 55 percent in June, a decrease of 5.5 percentage points from the May reading of 60.5 percent, indicating higher raw materials’ prices for the 16th consecutive month, but at a slower rate of increase in June compared with May.

Comments from the panel generally reflect expanding business conditions; with new orders, production, employment, backlog and exports all growing in June compared to May and with supplier deliveries and inventories struggling to keep up with the production pace.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

Source: https://www.instituteforsupplymanagement.org/ismreport/mfgrob.cfm?SSO=1; 7/3/17
Private Indicators

June 2017 Non-Manufacturing ISM® Report On Business®

May NMI® at 57.4 %
Business Activity Index at 60.8%, New Orders Index at 60.5%,
Employment Index at 55.8%


“The NMI® registered 57.4 percent, which is 0.5 percentage point higher than the May reading of 56.9 percent. This represents continued growth in the non-manufacturing sector at a slightly faster rate.

The Non-Manufacturing Business Activity Index increased to 60.8 percent, 0.1 percentage point higher than the May reading of 60.7 percent, reflecting growth for the 95th consecutive month, at a slightly faster rate in June.

The New Orders Index registered 60.5 percent, 2.8 percentage points higher than the reading of 57.7 percent in May.

The Employment Index decreased 2 percentage points in June to 55.8 percent from the May reading of 57.8 percent.

The Prices Index increased 2.9 percentage points from the May reading of 49.2 percent to 52.1 percent, indicating prices increased in June after decreasing in May.

According to the NMI®, 16 non-manufacturing industries reported growth. The non-manufacturing sector continued to reflect strength for the month of June. The majority of respondents’ comments are positive about business conditions and the overall economy.” – Anthony Nieves, CPSM, C.P.M., CFPM, Chair of the Institute for Supply Management® (ISM®) Non-Manufacturing Business Survey Committee

Source: https://www.instituteforsupplymanagement.org/ISMReport/NonMfgROB.cfm; 7/6/17
"The seasonally adjusted IHS Markit final US Manufacturing Purchasing Managers’ Index™ (PMI™) registered 52.0 in June, down from 52.7 during May, to signal the least marked improvement in overall business conditions since September 2016. Slower rates of output and new business growth were the main factors weighing on the headline PMI in June, which more than offset a stronger contribution from the stocks of purchases component.”

Manufacturing growth weakens again in June

“June data pointed to a relatively subdued month for the U.S. manufacturing sector, with output, new order and employment growth all slowing since May. At the same time, survey respondents signalled resilient confidence towards the year ahead outlook, with optimism up to its strongest level since February. Meanwhile, cost pressures were the weakest recorded for 15 months, which resulted in the slowest pace of factory gate price inflation since late-2016.

Manufacturers reported a disappointing end to the second quarter, with few signs of growth picking up any time soon. The PMI has been sliding lower since the peak seen in January and the June reading points to a stagnation – at best – in the official manufacturing output data.

Forward looking indicators – notably a further slowdown in inflows of new business to a nine-month low and a sharp drop in the new orders to inventory ratio – suggest that the risks are weighted to the downside for coming months. Any good news was saved for inflation, with price pressures easing substantially in June on the back of waning global commodity prices.” – Chris Williamson, Chief Economist, Markit®
Business activity growth accelerates further in June

“Business activity in the US service sector increased at the fastest pace since January in June, according to the latest survey data. Meanwhile, accelerations in new order and employment growth supported increased optimism in the sector. On the price front, input price inflation was the fastest since June 2015, while output charges rose at the strongest pace in the current 16-month sequence of inflation.

The final PMI numbers came in higher than the initial flash reading and provide news of a welcome uptick in the pace of growth in the vast services economy at the end of the second quarter. However, the average all-sector PMI reading for the second quarter is down slightly on the first quarter, suggesting that the underlying pace of economic growth remains somewhat subdued though still robust. The surveys are historically consistent with annualised GDP growth of just over 2%. Actual GDP data are expected to show a stronger rebound, though largely reflecting volatile quarterly seasonal variations in the official data.” – Chris Williamson, Chief Economist, Markit®
“This month’s Credit Managers’ Index (CMI) reading from the National Association of Credit Management (NACM) declined, leaving the reading barely higher than it was in April, but falling short of the positive signal sent by May's increase. The readings are still firmly in growth territory, but are now just not trending in the preferred direction. The services sector took the brunt of the impact, and the manufacturing sector did not budge, for the second month in a row.

After the readings last month, it was thought that the CMI would show continued progress, but the manufacturing sector was flat and the service sector experienced a very sharp decline – enough to drag the index down. The drop was unexpected, which has suddenly become a common refrain as some other data releases are starting to show similar trends. The economy is clearly not out of the woods just yet, and the latest revision of first quarter GDP also came as a shock. It now appears that the economy contracted by far more than originally reported. Add to this the latest data on durable goods and there is something amiss. Consumer confidence numbers have recovered to levels not seen since the start of the recession, but that renewed level of enthusiasm has not been enough to pull the economy forward, or so it would seem.

The damage was greater in the unfavorable categories, although the favorable factors saw some decline as well. The biggest drop was in sales, which is still higher than it was at any point since November of last year, but after last month's surge, it was hoped the trend would accelerate. Dollar collections dropped out of the 60s and amount of credit extended also slipped but stayed very close to the record highs of late. New credit applications improved, which could be good or bad news. The problem is that there were more rejections of credit applications as well. When there are more applicants and more rejections, it is a signal that more companies in financial distress are seeking credit in the hopes that somebody will help them survive.” – Dr. Chris Kuehl, Economist, NACM

Source: http://web.nacm.org/CMI/PDF/CMIcurrent.pdf; 6/30/17
Private Indicators

Combined Index Monthly Change
(seasonally adjusted)

Combined Manufacturing and Service Sectors (seasonally adjusted)

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<th>Jun '16</th>
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<th>Aug '16</th>
<th>Sep '16</th>
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Source: http://web.nacm.org/CMI/PDF/CMIcurrent.pdf; 6/30/17
May 2017 Report:
Small Business Optimism Fades in June

“The Index of Small Business Optimism fell 0.9 points to 103.6, but sustained the surge in optimism that started the day after the election.” – National Federation of Independent Business (NFIB) Index of Small Business Optimism.”

Senate gridlock on healthcare bill dragging down optimism

“The Index peaked at 105.9 in January and has dropped 2.3 points to date, no doubt in part due to the mess in Washington, D.C. Four of the 10 Index components posted a gain, five declined, and one was unchanged. Progress is being made, but poorly communicated, and the biggest issues, healthcare and tax reform remain stuck in the bowels of Washington politics. Economic growth in the first half of this year will be about the same as we have experienced for the past three or four years, no real progress. There isn’t much euphoria in the outlook for the second half of the year.” – William C. Dunkelberg, Chief Economist, NFIB

The Paychex | IHS Small Business Jobs Index

National Highlights

“Despite a strong start to 2017, at 100.10, four consecutive declines have the national index at its lowest level since late 2011, with employment growth conditions returning to the levels established during the base year of 2004. This coincides with the U.S. unemployment rate declining to similar levels of that time, per the BLS.

Continuing its deceleration, the Small Business Jobs Index declined 0.24 percent to 100.10, the lowest one-month growth rate in four years.” – James Diffley, Chief Regional Economist, IHS Markit
"At 100.85, the South is the only region with an index level significantly greater than 100, signifying faster growth than the country achieved in the 2004 base year. Small business job gains slowed in all four regions. Midwest is the only region with employment growth stronger now than during its base year. At 99.98, the West slipped below its 2004 base year growth level, 100.13, for the first time since 2011.” – James Diffley, Chief Regional Economist, IHS Markit
“The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, covering all nine U.S. census divisions, reported a 5.5% annual gain in April, down from 5.6% last month. The 10-City Composite annual increase came in at 4.9%, down from 5.2% the previous month. The 20-City Composite posted a 5.7% year-over-year gain, down from 5.9% in March.” – S&P Dow Jones Indices and CoreLogic

The S&P CoreLogic Case-Shiller National Home Price NSA Index Sets Record For Five Consecutive Months

“As home prices continue rising faster than inflation, two questions are being asked: Why? And, could this be a bubble? Since demand is exceeding supply and financing is available, there is nothing right now to keep prices from going up. The increase in real, or inflation-adjusted, home prices in the last three years shows that demand is rising. At the same time, the supply of homes for sale has barely kept pace with demand and the inventory of new or existing homes for sale shrunk down to only a four-month supply. Adding to price pressures, mortgage rates remain close to 4% and affordability is not a significant issue.

The question is not if home prices can climb without any limit; they can’t. Rather, will home price gains gently slow or will they crash and take the economy down with them? For the moment, conditions appear favorable for avoiding a crash. Housing starts are trending higher and rising prices may encourage some homeowners to sell. Moreover, mortgage default rates are low and household debt levels are manageable. Total mortgage debt outstanding is $14.4 trillion, about $400 billion below the record set in 2008. Any increase in mortgage interest rates would dampen demand. Household finances should be able to weather a fairly large price drop.” – David Blitzer, Managing Director and Chairman of the Index Committee, S&P Dow Jones

S&P/Case-Shiller Home Price Indices

Are Home Prices Really Above Their Pre-Recession Peak?

“In 2016, national home prices not only rose for the fifth year in a row, they finally surpassed their pre-recession peak in nominal dollars, according to most national measures of home prices. However, as our new State of the Nation’s Housing report notes, when adjusted for inflation, home prices were still 9 to 16 percent below peak, depending on the measure used (Figure 1).” – Alexander Hermann, Research Assistant, Joint Center for Housing Studies

Note: Prices are adjusted for inflation using the CPI-U for All Items less shelter. Source: JCHS tabulations of S&P CoreLogic Case-Shiller Home Price Index data.
Total US Consumer Credit

$3,842.6 billion dollars – closing in on 2008’s high.
And, 20.2% of total US GDP.

Source: https://fred.stlouisfed.org/series/TOTALLSL; 7/11/17
Total Consumer Loans Owned by Federal Government, Outstanding

A.K.A “Student Debt”

$1,092.3 billion dollars – 28.4% of consumer credit outstanding

Source: https://fred.stlouisfed.org/series/TOTALGOV; 7/11/17
Demographics

Population Migration
Overview

“The number of people living in nonmetro counties declined by nearly 21,000 (-0.05 percent) between July 2015 and July 2016, continuing 6 years of modest population losses. Although many individual nonmetro counties have shown population losses for decades, this is the first period of overall nonmetro population decline. ERS tracks demographic change in nonmetro areas and conducts research to help explain the relationship between population change and the socioeconomic well-being of rural and small-town residents.

• The total population in nonmetro counties stood at 46.1 million in July 2016—14 percent of U.S. residents spread across 72 percent of the Nation's land area. Annual population losses averaged 43,000 per year between 2011 and 2015, but dropped to 21,000 in 2016.

• Population change varies widely across rural and small-town America (see map). A record 1,350 nonmetro counties have lost population since 2010, as a group declining by 790,000 people. At the same time, nonmetro counties that gained population added 598,000 residents.

• Nonmetro population growth from net migration peaked in 2006, then declined precipitously and shifted geographically in response to rising unemployment, housing-market challenges, energy-sector developments, and other factors. Suburban expansion and migration to scenic, retirement/recreation destinations were primary drivers of rural demographic change for several decades, but for the time-being, their influence has considerably weakened.

• Population growth rates in nonmetro areas have been significantly lower than in metro areas since the mid-1990s, and the gap widened considerably in recent years. While annual rates of population change in nonmetro areas went from 0.7 percent to below zero between 2006 and 2016, metro rates declined only slightly, from 1 percent to 0.8 percent.” – John Cromartie, Geographer, Resource and Rural Economics Division, USDA

Source: https://www.ers.usda.gov/topics/rural-economy-population/population-migration/; 6/13/17
Demographics

Population change by metro/nonmetro status, 1976-2016

Percent change from previous year

<table>
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<th>Nonmetro</th>
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Nonmetro population change, 2010-16


Counties changing metro status, 2003-2013

Source: USDA, Economic Research Service using data from the U.S. Census Bureau.

Source: https://www.ers.usda.gov/topics/rural-economy-population/population-migration/; 6/13/17
Demographics

Recent Population Change

“Nonmetro areas in some parts of the country have experienced population loss for decades. However, the 2010-16 period marks the first time with an estimated population loss for nonmetro America as a whole.

• Population loss of just over 190,000 people represents a -0.4 percentage loss for nonmetro areas as a whole over the 2010-16 period. However, population loss is not evenly distributed across all nonmetro counties. Larger rates of population loss in some regions are offset by gains in other regions.

• The number of nonmetro counties losing population during 2010-16 reached an historic high of 1,350. Taken together, these counties declined in population by 790,000 people (-2.8 percent), while the 626 nonmetro counties that gained population grew by 3.4 percent and added 598,000 people.

Nonmetro America also "loses" population every 10 years when nonmetro counties that have been growing rapidly enough become reclassified as metro. In the latest update announced by the Office of Management and Budget in March 2013, 113 nonmetro counties (with 5.9 million people) switched to metro status, while 36 counties (with 1 million people) no longer qualified as metro, resulting in a net nonmetro population "loss" of 4.9 million from reclassification. In the long run, removal of fast-growing counties means nonmetro America is less likely to sustain overall population growth.” – John Cromartie, Geographer, Resource & Rural Economics Division, USDA

Source: https://www.ers.usda.gov/topics/rural-economy-population/population-migration/; 6/13/17
Demographics

Shifting Geography of Population Change

“Urban population size, metro proximity, attractive scenery, and recreation potential have historically contributed to nonmetro population growth. For the time being at least, their influence has weakened. Over the last 6 years, suburban and exurban population growth has contracted considerably — for the first time since World War II — affecting not only outlying metro counties but nonmetro counties adjacent to metro areas as well.

- The housing mortgage crisis slowed suburban development and contributed to an historic shift within metro regions, with outlying counties now growing at a slower rate than central counties (see chart on population change by rural-urban continuum).

- Similarly, nonmetro counties adjacent to metro areas grew rapidly from exurban development for decades, with many hundreds of counties growing large enough to be reclassified as metropolitan. These types of counties declined in population for the first time as a group during 2010-16. The rate of decline was relatively small (-0.5 percent), but the drop from 2.9 percent growth during 2002-08 was larger than the declines seen in nonadjacent counties with or without a town.

The most recent set of annual population estimates (2015-16) suggests that this period may simply be a short-term interruption in suburbanization rather than the end of a major demographic regime that has transformed small towns and rural areas throughout the country for decades. Outlying counties in metro areas are once again growing faster than central counties (1.1 percent compared with 0.8 percent). Adjacent nonmetro counties showed a slight increase in population for the first time in 6 years. Despite these recent upticks, it remains to be seen whether suburbanization trends will return to pre-recession levels.” – John Cromartie, Geographer, Resource & Rural Economics Division, USDA

Source: https://www.ers.usda.gov/topics/rural-economy-population/population-migration/; 6/13/17
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