Housing Commentary: Section II

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Atlanta Fed GDPNow™

Latest forecast: 2.3 percent — April 12, 2019

“The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the first quarter of 2019 is 2.3 percent on April 8, up from 2.1 percent on April 2. After this morning’s manufacturing report from the U.S. Census Bureau, the nowcast of the contribution of inventory investment to first-quarter real GDP growth increased from 0.15 percentage points to 0.24 percentage points.” — Pat Higgins, Economist, Federal Reserve Bank of Atlanta
Index points to a pickup in Midwest economic growth in February

“The Midwest Economy Index (MEI) increased to +0.43 in February from +0.24 in January. Contributions to the February MEI from three of the four broad sectors of nonfarm business activity and four of the five Seventh Federal Reserve District states increased from January. The relative MEI moved up to +0.62 in February from +0.43 in January. Contributions to the February relative MEI from three of the four sectors and four of the five states increased from January.

The manufacturing sector’s contribution to the MEI ticked down to +0.19 in February from +0.20 in January. The pace of manufacturing activity was unchanged in all five Seventh District states. Manufacturing’s contribution to the relative MEI ticked up to +0.25 in February from +0.24 in January.

The construction and mining sector contributed +0.08 to the MEI in February, up from –0.01 in January. The pace of construction and mining activity was faster in all five Seventh District states. The contribution from construction and mining to the relative MEI moved up to +0.10 in February from +0.05 in January.

The service sector contributed +0.16 to the MEI in February, up from +0.10 in January. The pace of service sector activity was up in Indiana, Michigan, and Wisconsin, but down in Iowa and unchanged in Illinois. The service sector’s contribution to the relative MEI increased to +0.26 in February from +0.12 in January.” – Michael Adleman, Media Relations, The Federal Reserve Bank of Chicago
Index points to a pickup in Midwest economic growth in February

“Consumer spending indicators made a neutral contribution to the MEI in February, up slightly from –0.03 in January. Consumer spending indicators were, on balance, up in Illinois, but steady in Indiana, Iowa, Michigan, and Wisconsin. Consumer spending’s contribution to the relative MEI was unchanged at +0.01 in February.” – Michael Adleman, Media Relations, The Federal Reserve Bank of Chicago

Source: http://app.frbcommunications.org/e/er; 3/29/19
The Chicago Fed National Activity Index (CFNAI) edged down to –0.29 in February from –0.25 in January. Two of the four broad categories of indicators that make up the index decreased from January, and three of the four categories made negative contributions to the index in February. The index’s three-month moving average, CFNAI-MA3, moved down to –0.18 in February from a neutral reading in January.” – Graham Justice, Media Relations, The Federal Reserve Bank of Chicago
Index points to little change in economic growth in February

“The CFNAI Diffusion Index, which is also a three-month moving average, decreased to –0.05 in February from +0.12 in January. Thirty-eight of the 85 individual indicators made positive contributions to the CFNAI in February, while 47 made negative contributions. Thirty-seven indicators improved from January to February, while 48 indicators deteriorated. Of the indicators that improved, 16 made negative contributions.

The contribution from production-related indicators to the CFNAI moved up to –0.16 in February from –0.29 in January. Manufacturing industrial production decreased 0.4 percent in February after falling 0.5 percent in January. The sales, orders, and inventories category made a contribution of +0.03 to the CFNAI in February, up slightly from +0.01 in January.

Employment-related indicators contributed –0.10 to the CFNAI in February, down from +0.07 in January. Total nonfarm payrolls increased by 20,000 in February after rising by 311,000 in the previous month. The contribution of the personal consumption and housing category to the CFNAI edged down to –0.06 in February from –0.03 in January.” – Michael Adleman, Media Relations, The Federal Reserve Bank of Chicago

Source: https://www.chicagofed.org/publications/cfnai/index; 3/25/19
Texas Manufacturing Expansion Continues to Grow

“Texas factory activity continued to expand in March, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, held fairly steady at 11.5, indicating output growth continued at about the same pace as last month.

Other measures of manufacturing activity also suggested continued expansion in March, although demand growth slowed. The new orders index fell from 6.9 to 2.4, and the growth rate of orders index slipped into negative territory for the first time since December 2016. The shipments index declined five points to 5.8, while the capacity utilization index moved up four points to 10.9.

Perceptions of broader business conditions continued to improve in March, although outlooks were less optimistic than in February. The general business activity index remained positive but fell five points to 8.3. Similarly, the company outlook index stayed in positive territory but fell from 14.2 to 6.0. The index measuring uncertainty regarding companies’ outlooks was largely unchanged at a 10-month low of 3.4.

Labor market measures suggested continued employment growth and longer workweeks in March. The employment index held steady at 13.1, a reading well above average. Twenty-two percent of firms noted net hiring, compared with 9 percent noting net layoffs. The hours worked index came in at 4.6, up slightly from February.” – Emily Kerr, Business Economist, The Federal Reserve Bank of Dallas

Source: https://www.dallasfed.org/research/surveys/tmos/2019/1903; 3/25/19
Texas Manufacturing Expansion Continues to Grow

“Upward pressure on prices and wages continued in March. The raw materials and finished goods prices indexes held fairly steady at 20.4 and 6.9, respectively. Twenty-seven percent of firms noted higher input costs this month — about twice the share noting higher selling prices. The wages and benefits index remained elevated at 30.1.

Expectations regarding future business conditions remained positive in March, although the indexes showed mixed movements. The index of future general business activity inched up two points to 19.7, while the index of future company outlook fell nine points to 17.5. Most other indexes for future manufacturing activity pushed further into positive territory this month.” – Emily Kerr, Business Economist, The Federal Reserve Bank of Dallas

Source: https://www.dallasfed.org/research/surveys/tmos/2019/1903; 3/25/19
Texas Service Sector Activity Decelerates

“Texas service sector activity growth softened in March, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, fell from 19.2 in February to 12.8 in March. Labor market indicators reflected faster employment growth and longer workweeks this month. The employment index inched up slightly to 10.9, while the hours worked index was largely unchanged at 5.7 in March.

Perceptions of broader business conditions weakened, and measures of uncertainty rose this month. The general business activity index slipped into negative territory at -4.4, indicating that on net more respondents see business activity worsening than improving. The company outlook index declined over seven points to -1.2, while the outlook uncertainty index ticked up to 11.6.

Price and wage pressures picked up slightly this month. The wages and benefits index increased from 19.1 to 22.0, while the selling prices index rose over three points to 11.2, and the input prices index picked up from 20.6 to 25.1 — its highest value so far this year. Respondents’ expectations regarding future business conditions remained optimistic overall compared with last month. The future general business activity index remained positive but slipped from 11.0 to 7.6 in March, while the future company outlook index was unchanged at 17.3. Other indexes of future service sector activity, such as revenue and employment, strengthened and pointed to expectations of further growth over the next six months.” – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

Source: https://www.dallasfed.org/research/surveys/tssos/2019/1903.aspx 3/26/19
The Federal Reserve Bank of Dallas

Texas Service Sector Outlook Survey Revenue Index

Index, seasonally adjusted

12.8
Mar.

Source: https://www.dallasfed.org/research/surveys/tssos/2019/1903.aspx 3/26/19
Retail Sales Flatten Out

“Retail sales were largely unchanged in March, according to business executives responding to the Texas Retail Outlook Survey. The sales index fell from 9.2 in February to -0.6 in March. Inventory growth picked up, with the inventories index rising from 13.6 to 16.0.

Retail labor market indicators suggested weakness in employment and mostly steady workweek length. The employment index fell from 6.3 in February to -1.0 in March, while the hours worked index fell slightly to -0.8.

Retailers’ perceptions of broader business conditions worsened in March. The general business activity index fell nearly 13 points to -18.5, its lowest value since early 2016. The company outlook index declined into negative territory, falling from 0.5 to -8.5.

Retail price pressures were mixed, while wage pressures increased this month. The selling prices index fell to its lowest value since mid-2017, from 11.0 to 7.4, while the input prices index surged over 14 points to 20.4. The wages and benefits index rose sharply from 11.1 in February to 19.0 in March.

Retailers’ perception of future business conditions softened this month. The future general business activity index fell from 7.5 to -1.6, while the future company outlook index declined about five points to 3.3. Other indexes of future retail sector activity, such as sales and employment, rose notably and reflected optimism over the next six months.” – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

Source: https://www.dallasfed.org/research/surveys/tssos/2019/1903.aspx 3/26/19
The Federal Reserve Bank of Dallas

Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted

-60 -50 -40 -30 -20 -10 0 10 20 30 40 50 60

2015 2016 2017 2018 2019

Federal Reserve Bank of Dallas

Source: https://www.dallasfed.org/research/surveys/tssos/2019/1903.aspx 3/26/19
Tenth District manufacturing activity accelerated moderately in March, and expectations for future activity also increased. The month-over-month finished goods and raw materials price indexes both declined in March, while price expectations for the next six months edged higher.

“The Tenth District manufacturing activity accelerated moderately in March, and expectations for future activity also increased. The month-over-month finished goods and raw materials price indexes both declined in March, while price expectations for the next six months edged higher.

The month-over-month composite index was 10 in March, up from 1 in February and 5 in January (Table 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Factories expanded production of both durable and nondurable goods, particularly food and beverage products, as well as wood, paper, and printing manufacturing. Most month-over-month indexes increased in March, with production, shipments, new orders, order backlog, new orders for exports, and materials inventories rebounding back into positive territory. Most year-over-year factory indexes grew in March, and the composite index rose from 23 to 27. The future composite index also climbed up from 13 to 22, as future factory activity expectations increased across the board.” – Chad Wilkerson, Vice President and Oklahoma City Branch Executive, The Federal Reserve Bank of Kansas City
Table 1. Summary of Tenth District Manufacturing Conditions, March 2019

<table>
<thead>
<tr>
<th>Plant Level Indicators</th>
<th>March vs. February (percent)*</th>
<th>March vs. Year Ago (percent)*</th>
<th>Expected in Six Months (percent)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composite Index</td>
<td>Increase</td>
<td>No Change</td>
<td>Decrease</td>
</tr>
<tr>
<td>Production</td>
<td>39</td>
<td>43</td>
<td>20</td>
</tr>
<tr>
<td>Volume of shipments</td>
<td>38</td>
<td>41</td>
<td>22</td>
</tr>
<tr>
<td>Volume of new orders</td>
<td>36</td>
<td>43</td>
<td>21</td>
</tr>
<tr>
<td>Backlog of orders</td>
<td>20</td>
<td>54</td>
<td>16</td>
</tr>
<tr>
<td>Number of employees</td>
<td>26</td>
<td>63</td>
<td>11</td>
</tr>
<tr>
<td>Average employees workweek</td>
<td>23</td>
<td>68</td>
<td>9</td>
</tr>
<tr>
<td>Prices received for finished product</td>
<td>16</td>
<td>77</td>
<td>6</td>
</tr>
<tr>
<td>Prices paid for raw materials</td>
<td>28</td>
<td>63</td>
<td>9</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>37</td>
<td>41</td>
<td>22</td>
</tr>
<tr>
<td>New orders for exports</td>
<td>13</td>
<td>79</td>
<td>8</td>
</tr>
<tr>
<td>Supplier delivery time</td>
<td>10</td>
<td>85</td>
<td>5</td>
</tr>
<tr>
<td>Inventories: Materials</td>
<td>29</td>
<td>54</td>
<td>17</td>
</tr>
<tr>
<td>Inventories: Finished goods</td>
<td>26</td>
<td>58</td>
<td>16</td>
</tr>
</tbody>
</table>

*Percentage may not add to 100 due to rounding.
*Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.
**Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-12.

Note: The March survey was open for a five-day period from March 20-25, 2019 and included 80 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.
U.S. Economic Indicators

The Federal Reserve Bank of Kansas City

Tenth District services activity edged down

“Tenth District services activity edged down in March, though expectations for future months remained positive. The price indexes were lower than last month but still positive, and business contacts expect prices to continue to rise.

**Business Edged Lower in March**

The month-over-month services composite index was -2 in March, down from 10 in February and 15 in January (Chart 1). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Most month-over-month indexes declined, and several indexes remained or turned negative. The general revenue/sales index dropped considerably in March, driven by a decrease in transportation activity and healthcare services. However, the month-over-month capital expenditures index climbed from 17 to 27, the highest reading in over a year. Additionally, year-over-year services indexes grew modestly. Compared with a year ago, the services composite index rose from 15 to 21. In contrast, expectations for future services activity inched down, with the future composite index dipping from 25 to 23.” – Chad Wilkerson, Vice President and Oklahoma City Branch Executive, The Federal Reserve Bank of Kansas City
“This month contacts were asked special questions about their expectations for capital spending. Nearly 39 percent of business contacts indicated they expect spending on new plant and equipment to increase over the next 6 to 12 months relative to actual spending over the past 6 to 12 months. Conversely, 14 percent of firms expect to decrease capital spending. Most firms reported that recent changes in business and consumer confidence had little effect on their capital spending plans. Of the contacts who reported plans to increase capital spending, 42 percent indicated they needed to replace other capital goods. Additionally, around 30 percent noted expectations of high sales growth, high capacity utilization, and a need to replace information technology equipment as major drivers behind their spending plans.” – Chad Wilkerson, Vice President and Oklahoma City Branch Executive, The Federal Reserve Bank of Kansas City

The Federal Reserve Bank of Kansas City

The KCFSI increased last month

“The Kansas City Financial Stress Index (KCFSI) increased from -0.48 in February to -0.36 in March, but remained below its historical average.

The second table on the following page documents the contribution of each variable to the index. Yield spreads collectively reduced 0.01 from the KCFSI in March. The behavior of asset prices, particularly the increased volatility of bank stock prices, added 0.12 to the KCFSI in February.” – Bill Medley, The Federal Reserve Bank of Kansas City

Empire State Manufacturing Survey

Sluggish Growth

“Business activity grew only slightly in New York State, according to firms responding to the March 2019 Empire State Manufacturing Survey. The headline general business conditions index fell five points to 3.7 (Figure 1). New orders increased only marginally, while shipments grew modestly. Delivery times and inventories held steady. Labor market indicators pointed to an increase in employment, but a small decline in hours worked. The prices paid index moved higher for the first time in four months, pointing to a pickup in input price increases, while the prices received index moved lower, indicating a slowing in selling price increases. Indexes assessing the six-month outlook suggested that firms remained fairly optimistic about future conditions.” – Richard Deitz and Jason Bram, The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/empire/empiresurvey_overview.html; 3/15/19
Empire State Manufacturing Survey

Employment Expands, But Workweek Falls

“The index for number of employees climbed ten points to 13.8, pointing to an increase in employment levels, though the average workweek index turned negative for the first time since 2016. The prices paid index moved higher, rising seven points to 34.1, indicating a pickup in input price increases. The prices received index fell five points to 18.1, suggesting that selling price increases slowed.

Firms Remain Fairly Optimistic

Optimism about the six-month outlook was slightly lower than last month. The index for future business conditions edged down three points to 29.6. The indexes for future new orders and shipments were also somewhat below last month’s levels. Firms expected solid increases in employment and hours worked in the months ahead. The capital expenditures index was little changed at 28.3, and the technology spending index came in at 20.3.” – Richard Deitz and Jason Bram, The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/empire/empiresurvey_overview.html; 3/15/19
Activity Grows Modestly

“Activity in the region’s service sector grew modestly, according to firms responding to the Federal Reserve Bank of New York’s March 2019 Business Leaders Survey. The survey’s headline business activity index fell three points to 10.8, indicating a slightly slower pace of growth than last month. The business climate index fell five points to -1.3, its near-zero level indicating that, on balance, firms regarded the business climate as normal. Employment levels climbed, and the wages index reached its highest level in more than a decade. Both the prices paid and prices received indexes remained elevated. Firms remained fairly optimistic about the six-month outlook.

Business activity in the region’s service sector expanded modestly in March. The headline business activity index fell three points to 10.8, pointing to a somewhat slower pace of growth than in February. Thirty-five percent of respondents reported that conditions improved over the month, and 24 percent said that conditions worsened. The business climate index hovered around zero for a third consecutive month, signaling that, on balance, firms viewed the business climate as normal.” – Jason Bram and Richard Deitz, The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/business_leaders/bls_overview; 3/18/19
Business Leaders Survey (Services)

Wages Increase at Fastest Pace in a Decade

The employment index climbed seven points to 14.2, indicating that employment levels increased at a solid clip. The wages index rose ten points to 54.8, reaching its highest level in more than ten years, suggesting that wages increased at a relatively steep pace. The prices paid index edged down two points to 56.8, indicating that input prices increased at a slightly slower pace than last month. The prices received index advanced three points to 27.5, a sign that selling prices increased at a somewhat faster pace. The capital spending index was little changed at 15.0, suggesting that capital spending increased at a respectable clip.

Firms Remain Fairly Optimistic

Indexes assessing the six-month outlook indicated that firms remained fairly optimistic about future conditions. The index for future business activity edged down two points to 29.2, and the index for future business climate was little changed at 7.6. The indexes for future employment and wages were both positive, but lower than last month, and the index for planned capital spending held steady at 27.3.” – Jason Bram and Richard Deitz, The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/business_leaders/bls_overview; 3/18/19
Business Activity
Diffusion Index of Current and Expected Activity

February 2018: 10.8
February 2019: 31.2

Source: https://www.newyorkfed.org/survey/business_leaders/bls_overview; 3/18/19
April 12, 2019: Highlights

“Manufacturing conditions in the region improved this month, according to firms responding to the March Manufacturing Business Outlook Survey. The indicators for general activity, new orders, and shipments returned to positive territory, while the indicator for employment remained positive. Price pressures also moderated, according to the surveyed firms. Most of the survey’s indexes for future conditions continued to moderate, but the firms remained generally optimistic about growth over the next six months.

The index for current manufacturing activity in the region increased from a reading of -4.1 in February to 13.7 this month. The index nearly recovered its decline from last month, when it dropped to its first negative reading in almost three years (see Chart 1). Both the new orders and shipments indexes also increased this month. The current new orders index improved modestly, increasing from -2.4 in February to 1.9 in March. The current shipments index increased 25 points to 20.0.

The firms continued to add to their payrolls this month. The current employment index, however, decreased from a reading of 14.5 in February to 9.6 this month. Nearly 20 percent of the responding firms reported increases in employment, while 10 percent of the firms reported decreases in employment. The current workweek index remained positive and increased 6 points to 10.6.” – 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 March 2019

Diffusion Index

Six-Month Forecast

Current Activity

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.

“Price pressures arising from purchased inputs continued to ease. The prices paid index decreased 2 points to 19.7. The prices paid index declined for the eighth consecutive month and is at its lowest reading since July 2017 (see Chart 2). Nearly 24 percent of the firms reported higher input prices this month, down from 28 percent last month. With respect to prices received for firms’ own manufactured goods, 26 percent of the firms reported higher prices, down from 33 percent last month. The prices received index decreased 3 points to 24.7.

Firms Less Optimistic but Still Expect to Expand Employment

The diffusion index for future general activity declined nearly 10 points to 21.8 this month, its lowest reading since February 2016 (see Chart 1). Nearly 42 percent of the firms expect increases in activity over the next six months, while 20 percent expect declines. The future new orders index also decreased 10 points, and the future shipments index decreased 19 points. The future employment index edged up 1 point to 24.9. The percentage of firms expecting to increase employment over the next six months (38 percent) remained higher than the percentage expecting to decrease employment (13 percent). The future capital spending index fell 12 points to 19.5, its lowest reading since November 2016.” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia
The Federal Reserve Bank of Philadelphia

Chart 2. Current Prices Paid and Prices Received Indexes
January 2007 to February 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Prices Paid</th>
<th>Prices Received</th>
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<tbody>
<tr>
<td>2007</td>
<td></td>
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<tr>
<td>2008</td>
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<td>2017</td>
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<tr>
<td>2018</td>
<td></td>
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<tr>
<td>2019 (March)</td>
<td>24.7</td>
<td>19.7</td>
</tr>
</tbody>
</table>

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.

March 2019 Manufacturing Business Outlook Survey

Firms Report Increasing Difficulties Finding Skilled Workers in Tight Labor Market

“In special questions this month, the firms were asked generally about worker shortages, any perceived mismatches between skill requirements and labor supply, and how they were dealing with these problems. Nearly 74 percent of the firms indicated labor shortages, while 66 percent indicated skills mismatches between requirements and available labor. Nearly 51 percent of the surveyed firms also reported that they had positions that have remained vacant for more than 90 days. Over 47 percent of the firms indicated a tightening of the labor market, such that it is getting harder to fill positions, up from 35 percent when the question was asked last year. In addition to increasing wages and stepping up recruiting efforts, the firms have adopted a mix of strategies to deal with these problems, including increasing training of existing employees and new hires as well as recruiting outside the region. A sizable share of firms (30 percent) indicated that they have hired less qualified workers to meet their labor requirements.

Summary

The firms’ responses indicated some growth in the region’s manufacturing sector this month. The survey’s broadest measures for activity, new orders, and shipments were positive and recovered from negative readings last month. On balance, the firms continued to report growth in employment. The survey’s future indexes indicate that respondents continue to expect growth over the next six months, but most readings have been trending lower.” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia

Current Indicators Further Strengthen

“The diffusion index for current general activity at the firm level rose 9 points to 38.3 in March (see Chart 1). Readings of this index have returned to 2018 levels, following a slightly negative reading back in January. The new orders index rose 8 points to 24.5. The share of firms reporting increases in new orders (32 percent) was higher than the share reporting decreases (7 percent). The sales/revenues index strengthened even further, rising 23 points to 42.5 in March. Nearly 59 percent of the responding firms reported increases in sales/revenues, while only 16 percent reported decreases. The regional activity index rose 12 points to 21.7.

Full-Time Employment Index Near All-Time High

The firms continued to report overall increases in full-time employment. The full-time employment index rose 11 points to 33.3 in March, just below its all-time high reading of 33.7 in September 2018. Half of the reporting firms (50 percent) reported steady full-time employment levels, while the share of firms reporting increases (40 percent) was higher than the share reporting decreases (7 percent). The part-time employment index edged down to 18.5, while the wages and benefits indicator rose 5 points to 43.8. The average workweek index rose 11 points to 29.9.” – Elif Sen, Research Department, The Federal Reserve Bank of Philadelphia
Firms Continue to Report Overall Price Increases

“Both price indicators rose from last month’s readings, suggesting overall increases in prices for inputs and for the firms’ own goods and services. The prices paid index rose 12 points to 28.0. Although the majority of respondents (56 percent) reported stable input prices, 32 percent of the respondents reported increases, while only 4 percent reported decreases. Regarding prices for firms’ own goods and services, the prices received index rose 2 points from February to 11.0 in March. While 19 percent of the firms reported increases in prices received, 8 percent reported decreases. More than 63 percent of the firms reported no change in their own prices.

Firms Anticipate Continued Growth

Both future activity indexes suggest that firms expect growth to continue over the next six months. The diffusion index for future activity at the firm level fell from a reading of 58.9 in February to 45.8 this month (see Chart 1). While only 11 percent of the firms expect a decrease in activity at their firms over the next six months, the share of firms that expect an increase fell from 66 percent last month to 57 percent this month. Thirty-two percent of the firms expect no change over the next six months. The future regional activity index held mostly steady at 27.2.

Summary

Responses to this month’s Nonmanufacturing Business Outlook Survey suggest that nonmanufacturing activity expanded further in the region. Indicators for firm-level general activity, new orders, sales/revenues, and full-time employment rose for the second consecutive month. Respondents remain optimistic about growth over the next six months in their own firms and in the region.” – Elif Sen, Research Department, The Federal Reserve Bank of Philadelphia
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

GDPplus: An Alternative Measure of Real U.S. Output Growth

Last Updated: March 28, 2019
Showing: 2015:Q1 to 2018:Q4

- 2018 Q4
  - 2.2%

- 2018 Q4
  - 2.1%

- 2018 Q4
  - 1.6%

Notes: Shaded areas indicate NBER recessions. The data measure the quarter-over-quarter growth rate in continuously compounded annualized percentage points.

Sources: Bureau of Economic Analysis (BEA) and NBER via Haver Analytics. Federal Reserve Bank of Philadelphia.
The Federal Reserve Bank of Philadelphia
First Quarter 2019 Survey of Professional Forecasters

Lower Near-Term Output Growth

“The U.S. economy looks weaker now in the next few quarters than it did four months ago, according to 38 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters predict real GDP will grow at an annual rate of 1.5 percent this quarter and 2.4 percent next quarter, down from the previous estimates of 2.4 percent and 2.7 percent, respectively. On an annual-average over annual-average basis, the forecasters predict real GDP to grow 2.4 percent in 2019, 2.0 percent in 2020, and 1.8 percent in 2021. The projection for 2019 is 0.3 percentage point lower than the estimate of four months ago, while the projections for 2020 and 2021 are roughly unchanged.

A slightly weaker outlook for the unemployment rate for the next few quarters accompanies the weaker outlook for near-term output growth. The forecasters predict the unemployment rate will average 3.7 percent in 2019 and 2020, 4.0 percent in 2021, and 4.2 percent in 2022.

The panelists, however, see somewhat stronger growth in employment this year than they predicted previously. The projections for the annual-average level of nonfarm payroll employment suggest job gains at a monthly rate of 191,800 in 2019, up from the previous estimate of 181,900. (These annual-average estimates are computed as the year-to-year change in the annual-average level of nonfarm payroll employment, converted to a monthly rate.).” – Tom Stark, Research Department, The Federal Reserve Bank of Philadelphia

## Median Forecasts for Selected Variables in the Current and Previous Surveys

<table>
<thead>
<tr>
<th>Quarterly data:</th>
<th>Real GDP (%)</th>
<th>Unemployment Rate (%)</th>
<th>Payrolls (000s/month)</th>
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<tr>
<td></td>
<td>Previous</td>
<td>New</td>
<td>Previous</td>
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<tr>
<td>2019:Q1</td>
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<td>2019:Q4</td>
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</tr>
<tr>
<td>2020:Q1</td>
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<td>2.1</td>
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### Annual data (projections are based on annual-average levels):

<table>
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<tr>
<th>Annual data</th>
<th>Real GDP (%)</th>
<th>Unemployment Rate (%)</th>
<th>Payrolls (000s/month)</th>
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“The Federal Reserve Bank of Philadelphia has released the leading indexes for the 50 states for February 2019. 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, and six 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 1.1 percent over the next six months.” – Daniel Mazone, Research Department, The Federal Reserve Bank of Philadelphia
Fifth District Manufacturing Activity Grew Moderately in March

“Fifth District manufacturing activity grew moderately in March, according to the latest survey from the Richmond Fed. The composite index fell from 16 in February to 10 in March but remained in expansionary territory. The fall came from drops in both the shipments and new orders indexes, but the third component, employment, increased. Firms were optimistic, expecting conditions to improve in the coming months.

Survey results indicated growth in both employment and wages in March. However, firms continued to struggle to find workers with the skills they needed. Respondents expected this struggle to persist in the near future but also anticipate continued growth in employment and wages.

The growth rate of prices paid by survey participants fell slightly in March, while growth of prices received remained fairly stable. While this reduced the gap between the two, growth of prices paid continued to outpace growth of prices received. Firms expected growth of both to slow in the next six months.” – Jeannette Plamp, Economic Analyst, The Federal Reserve Bank of Richmond

U.S. Economic Indicators

U.S. Economic Indicators

**New Orders**

Index, SA

- Monthly
- 3-month moving average

**Vendor Lead Time**

Index, SA

- Monthly
- 3-month moving average

U.S. Economic Indicators

### Employment

- Index, SA
- Monthly
- 3-month moving average

### Wages

- Index, SA
- Monthly
- 3-month moving average

The Federal Reserve Bank of San Francisco

• “The economy grew at a well-above-trend pace of 3.1% from Q4 2017 to Q4 2018. Since late last year, however, the data have been more mixed, suggesting that the economy has lost some momentum. Nevertheless, the labor market remains solid, financial conditions have improved since December, and consumer sentiment and business surveys, while easing from last year’s highs, suggest continuing growth.

• A prominent example of a soft data release was retail sales, which fell sharply in December and only partially rebounded in January. The level of retail sales is well short of its pre-December trend. This series tells us something about the trajectory for consumer spending as we come into this year. Another example is orders for non-defense capital goods excluding aircraft — an indicator of upcoming capital spending on equipment by businesses — which eased at the end of last year and early this year. Orders have retreated a bit from their levels from last summer and fall, which suggests reduced growth in shipments of capital goods early this year.

• Despite these signs of a slowing economy, economic conditions remain supportive of continued growth. For example, the labor market remains, on balance, fairly solid. The unemployment rate is very low — 3.8% in February — and wage gains are gradually picking up, with average hourly earnings rising 3.4% in the past 12 months. Job gains have been choppy from month to month but, on average they have been solid. With a strong labor market, it is no surprise that surveys of consumer sentiment remain strong.”

– John Fernald, Senior Research Advisor, The Federal Reserve Bank of San Francisco
In addition, another positive development is that financial conditions have eased considerably in 2019. For example, the stock market has rebounded from its December swoon — even if stock prices remain below their peaks from last fall. The stabilization in financial conditions was helped by the Federal Reserve’s announcement in January that it would be “patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate.” A solid labor market, favorable consumer sentiment, and improved financial conditions should help support consumer spending.

Surveys of businesses also remain positive. This is particularly true outside of manufacturing, where surveys of purchasing managers remain close to the post-recession peaks from last fall. Manufacturing surveys have softened somewhat, but continue to signal expansion.

Headline inflation of the personal consumer expenditures (PCE) price index over the past 12 months came in at 1.9% in December, slightly below the Federal Open Market Committee’s (FOMC) symmetric target of 2%. Core inflation, which excludes volatile food and energy prices, rose 1.8%. Given the tight labor market and ongoing monetary accommodation, we expect inflation to consistently achieve the 2% objective over the next few years.

Putting it all together, real GDP is poised to continue to grow this year, but at a pace closer to its sustainable trend, which we put at 1.7%. This view about trend reflects assessments of the labor force (which determines potential hours worked) and productivity (most broadly, real GDP per hour worked).” – John Fernald, Senior Research Advisor, The Federal Reserve Bank of San Francisco
“Demographics are the most important reason to expect slow future growth relative to its historical pace. By the middle of the next decade, the working age population (16-to-64 year olds) will be growing at a historically low pace, reflecting the aging of the baby boom generation. Of course, the working-age population does not translate one-for-one into employment; for example, many people over 64 do work, and participation trends are changing for other groups. Going forward, the Congressional Budget Office projects that the potential U.S. labor force will grow at about a 0.5% pace. This is almost a percentage point below its average pace over the past half century.

GDP per hour has grown at varying rates over time. From 1973 to 1995, GDP per hour grew at an average pace of 1¼% per year. From 1995 to 2004, productivity accelerated to a 2½% pace, reflecting the broad-based and transformative role of IT, including the Internet. During this later period, IT-producing firms rapidly improved their equipment and software, and the use of IT allowed other firms throughout the economy to reorganize and improve their operations. After 2004, however, this exceptional pace disappeared. GDP per hour grew at only a 1.1% pace from 2004 to 2018 and has grown at an even lower pace since 2010.” – John Fernald, Senior Research Advisor, The Federal Reserve Bank of San Francisco

“The slowdown in productivity growth after 2004 does not simply reflect the effects of the Great Recession since productivity growth slowed prior to 2007. Nor does it reflect a rising problem in the mismeasurement of growth. Mismeasurement is not new; it has always been a challenge to accurately capture the benefits of new goods and the improving quality of existing goods. Recent research finds little evidence that measurement problems have gotten worse. Rather, the post-2004 slowdown appears to reflect a return to normal after an exceptional period of IT-related business innovations and reorganizations.

In 2018, GDP per hour grew 1.2%, well above its 2010-18 average but in line with the typical pace observed since the 1970s (with the notable exception of the 1995–2004 period). Though productivity might surprise and accelerate beyond this pace, history suggests that such accelerations occur infrequently and are hard to predict. We expect that GDP per hour will continue to grow at a similar pace of 1.2%, and that the trend labor force (and employment) grows at around 0.5% per year. Together, these imply that the new normal of real GDP growth is a little below 1⅜%.” – John Fernald, Senior Research Advisor, The Federal Reserve Bank of San Francisco
Markit Canada
Manufacturing PMI™

“At 50.5 in March, the headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers’ Index® (PMI®) was down from 52.6 in February and only slightly above the neutral 50.0 mark. The latest reading signalled the slowest upturn in operating conditions across the manufacturing sector since September 2016. .

Slowest improvement in manufacturing conditions for two-and-a-half years

Canadian manufacturers signalled another slowdown during March, with overall business conditions improving at the weakest rate for two-and-a-half years. The latest survey revealed softer rises in manufacturing output and employment levels in response to subdued demand conditions. Export sales were a particular drag on the sector in March, with new work from abroad falling to the greatest extent since February 2015.

Weaker production growth was a key factor behind the fall in the headline PMI during March. Output volumes increased at the slowest pace for almost two-and-a-half years. Survey respondents cited fragile customer demand, especially from export markets. Some manufacturers also noted efforts to streamline their inventories of finished goods by cutting back on production schedules.

The latest survey provides a clear signal that the recent global manufacturing slowdown has impacted on Canadian goods producers, with export sales falling to the greatest extent for just over four years in March. Subdued demand conditions placed a brake on both production growth and staff hiring across the manufacturing sector, which led to the slowest overall improvement in business conditions since September 2016. …

A gradual slowdown in input cost inflation from the peaks seen last summer is a welcome development. However, manufacturers' operating margins remain under pressure amid weaker order flows and intense competition in key export markets” – Christian Buhagiar, President and CEO, SCMA

Source: https://www.markiteconomics.com/Public/Home/PressRelease/a6e34d32853346e290a470a9db7ca2c3; 4/1/19
Caixin China General Manufacturing PMI™

“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 50.8 in March, up from 49.9 in February, to signal the first improvement in the health of China’s manufacturing sector for four months. Although consistent with only a marginal pace of improvement, the index reading was the highest seen since July 2018.

Operating conditions improve for first time in four months

China’s manufacturing sector finished the opening quarter of 2019 on a positive note, with operating conditions improving for the first time since last November. Firms signalled slightly quicker rises in output and overall new work, while employment increased for the first time in over five years. Firmer demand conditions led to a softer fall in purchasing activity, while inventories of inputs rose slightly for the first time since last November. Average input costs rose slightly, though companies generally passed this on to clients in the form of higher selling prices. Sentiment regarding the 12-month business outlook improved to a ten-month high, amid hopes of further improvements in market conditions.

Manufacturing production in China rose for the second month in a row in March. Though modest, the rate of increase was the quickest seen since last August. The upturn was supported by a stronger, albeit still relatively muted, rise in total new work. Furthermore, new export orders rose slightly after a fall in February. … Although purchasing activity continued to decline at the end of the first quarter, the rate of reduction was only slight. Inventories of finished goods also fell at a softer pace in March, contracting only marginally. Stocks of purchases meanwhile expanded slightly for the first time in four months. …

“Overall, with a more relaxed financing environment, government efforts to bail out the private sector and positive progress in Sino-U.S. trade talks, the situation across the manufacturing sector recovered in March. The employment situation improved greatly.” – Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis, CEBM Group

Source: https://www.markiteconomics.com/Public/Home/PressRelease/e84d001aabb0487a8c0649852c821bc8; 4/1/19
“Manufacturing operating conditions in the eurozone deteriorated in March to the greatest degree for nearly six years, according to the latest PMI® data from IHS Markit. After accounting for seasonal factors, the IHS Markit Eurozone Manufacturing PMI posted a level of 47.5, down from 49.3 in February and its lowest level since April 2013. March marked a second successive month that the PMI has posted below the 50.0 no-change mark.

Greatest contraction of manufacturing sector for nearly six years in March

The PMI has been on a broadly downward trajectory since reaching a series record high at the end of 2017 and, in March, weakness was primarily centred on the intermediate and investment goods sectors. Both categories registered notable deteriorations in operating conditions which was in stark contrast to consumer goods, where further growth (albeit modest) was recorded.

The March PMI data indicate that the eurozone’s manufacturing sector is in its steepest downturn since the height of the region’s debt crisis in 2012. The survey is indicative of output falling at a quarterly rate of approximately 1% in March, suggesting that the January rebound from one-off factors late last year seen in the latest official data is likely to prove short lived. Looking at the forward-looking indicators, downside risks have intensified, and the trend could clearly deteriorate further in the second quarter. New orders are falling at a rate not seen since 2012, and disappointing sales mean warehouses are filling with unsold stock. The orders-to-inventory ratio – a key indicator of the future production trend – is at its lowest for almost seven years. Expectations of output for the coming year are also the gloomiest since 2012.

Concerns over trade wars, tariffs, rising political uncertainty, Brexit and – perhaps most importantly – deteriorating forecasts for the economic environment both at home and in export markets, were widely reported to have dampened business activity and confidence. Cost cutting has become more evident as firms grow more risk averse, notably with respect to hiring. Job losses were reported in both Germany and Italy, where the downturn in demand is doing the most damage. However, France’s manufacturing sector is also now back in decline, Austria’s goods-producing sector has stalled, Spain is close to stagnation and growth has lost considerable momentum in the Netherlands, highlighting the increasingly broad-based nature of the current deterioration” – Chris Williamson, Chief Business Economist, Markit®
March’s headline PMI Output index belied notably divergent trends in activity across the region’s manufacturing and service sectors. Whereas services activity rose in March at the strongest rate since last November, goods producers recorded the greatest monthly fall in output since April 2013. The weakness in manufacturing production was closely linked to deteriorating demand conditions, both at home and abroad. New work placed at manufacturing firms fell at the greatest rate since late-2012, which broadly offset solid growth in services. Overall private sector new work was subsequently only slightly higher than in February.

The final eurozone PMI for March confirms the sluggish end to the first quarter, with business growth ebbing to one of the most lethargic rates seen since 2014. Only at the turn of the year, when business was hit by headwinds such as widespread ‘yellow vest’ protests in France and an auto sector struggling with new emissions regulations, has growth been slower over the past four years. The rebound from these temporary headwinds has clearly been disappointing and is already losing momentum, led by a deepening downturn in manufacturing. The goods producing sector reports that global growth worries have intensified, meaning customers continue to pull back on spending. …

At current levels, the PMI remains consistent with GDP rising by 0.2% in the first quarter, but unless manufacturing pulls out of its downturn the overall pace of economic growth will likely weaken in the second quarter as the malaise spreads to the service sector. In this respect, with forward-looking indicators from the manufacturing sector suggesting goods production will fall further in the coming months, downside risk to the outlook have intensified.” – Chris Williamson, Chief Business Economist, Markit®
The headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – dropped sharply in March to 44.1 from 47.6 in February. This was the lowest reading since July 2012 in the midst of the eurozone sovereign debt crisis, and also below the preliminary 'flash' figure of 44.7.

Manufacturing PMI falls to lowest since July 2012 as decline in order books gathers pace

Germany's manufacturing sector sank deeper into contraction at the end of the opening quarter, with latest PMI® survey data from IHS Markit and BME signalling faster decreases in output, new orders and export sales. There were signs of sluggish demand and an uncertain outlook affecting firms' employment decisions, as payroll numbers fell for the first time in three years. The deterioration in performance was underpinned by a sharp and accelerated decrease in new orders, which was in turn partly driven a further slump in export sales. Both total order books and new business from abroad fell at the fastest rate since April 2009. Uncertainty surrounding Brexit and trade tensions, a weak automotive sector and generally softer global demand were all identified as factors leading to lower sales.

The final print of March's manufacturing PMI numbers makes for uncomfortable reading, with the downturn in the sector even worse than initially suggested by the ‘flash’ data. Both total new orders and export sales are now falling at rates not seen since the global financial crisis, with more and more firms reporting lower demand linked to Brexit and trade uncertainty, troubles in the automotive industry and generally softer global demand. Manufacturing output fell markedly and at the fastest rate since 2012, with the consumer goods sector joining intermediate and capital goods producers in contraction. The sustained solid growth in employment prior to March had been the sector's one remaining bright spot, but the latest survey indicated a fall in jobs for the first time in three years amid reports from a number of firms that some temporary contracts weren't being renewed."

– Phil Smith, Principal Economist, IHS Markit®

Source: https://www.markiteconomics.com/Public/Home/PressRelease/6fe0fb6d2c07407cbd35e8632cf1e0da; 4/1/19
Global Manufacturing growth remains weak in March

Growth was signalled in the consumer and investment goods sectors. The sharper rate of increase was registered in the former, despite it easing to a six-month low. Intermediate goods producers saw business conditions deteriorate for the second month running. Growth of manufacturing production remained weak in March, as new order inflows stagnated and international trade flows declined. Output and new orders contracted in both the intermediate and investment goods industries. In contrast, growth of production and new business was sustained in the consumer goods sector, albeit at slower rates of expansion than during the prior survey month.

March saw a modest improvement in business optimism. Positivity increased in both the consumer and intermediate goods sectors, but dipped to its lowest in over six years at investment goods producers. Emerging markets maintained (on average) higher confidence than developed nations. Stocks of finished goods were unchanged in March, halting a three-month sequence of decline. Meanwhile, inventories of purchases increased for the first time in three months, despite a further contraction in input buying volumes.

The performance of the global manufacturing sector remained weak in March, as output edged higher, new orders stagnated and new export business contracted. Expansions in output and new work at consumer goods producers were the main bright spots, offsetting the ongoing downturns in the intermediate and investment goods sectors. Growth will need to be restored to these industries if global manufacturing is to provide less of a drag on global GDP in the months ahead.” – David Hensley, Global Economist, J.P. Morgan

Source: https://www.markiteconomics.com/Public/Home/PressRelease/e5b8f6c5e26445ff8ed7a50fa4b62b10; 4/1/19
JP Morgan Global Services PMI™

“The rate of expansion in global service sector activity accelerated for the second successive month in March. At 53.7, up from 53.3 in February, the J.P. Morgan Global Services Business Activity Index – a composite index produced by J.P. Morgan and IHS Markit in association with ISM and IFPSM – posted its highest reading since November last year.

Global service sector gains further growth momentum in March

The strongest increase in output was registered in the financial services sector, despite this being the only category to see slower growth than in the prior survey month. Rates of expansion accelerated to four- and seven-month highs at business services and consumer services firms respectively.

The majority of the nations covered saw activity increase during March, the exceptions being the UK, France and Australia. The strongest growth was seen in Spain (13-month high), followed by Germany (six-month high). Ireland and the US together ranked third, although rates of expansion softened in both cases. Growth improved to a four-month high in the euro area, 14-month record in China, joint-fastest in over six years in Brazil, but slowed slightly in Japan. Underlying the improved growth of global services activity was a faster expansion in new order intakes.

New business rose at the fastest pace in five months, aided by stronger domestic market conditions in several nations and a modest gain in new export work.

The global PMI indicates that the upturn in the global service sector gathered pace in March, with rates of expansion in output and new business both accelerating. Output and new order growth are also broad-based by sub-sector, with solid increases seen across the business, consumer and financial services categories. This breadth should hopefully aid efforts to build on the improving performance during the months ahead.” – David Hensley, Global Economist, J.P. Morgan

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/63c20add7f9b4adb9b27d38f5f768106; 3/3/19

Source: IHS Markit
Global output growth strengthens to four-month high in March

The rate of global economic expansion accelerated in March. Output rose in response to improved intakes of new work and was assisted by a further modest increase in employment. The outlook for future activity remained positive on average, despite the degree of confidence dipping to a three-month low. Output rose in four out of the six sub-industries covered by the survey, with contractions registered at intermediate and investment goods manufacturers. The strongest rate of expansion was seen in the financial services category, followed closely by the business services sector. Business services and consumer services were the only categories to see growth accelerate. …

March saw a further increase in global employment. Although the rate of increase eased to its second-weakest in almost two years, job creation was sustained in both the manufacturing and service sectors. ‘All-industry’ employment rose in all of the nations for which composite PMI data are calculated, including the US, the euro area China and Japan. Business confidence fell to a three-month low in March, as improved sentiment at manufacturers was offset by a reduced degree of optimism at service providers. Price inflationary pressures eased slightly, with rates of increase in both input costs and output charges decelerating.

According to the global PMI, the rate of global economic growth picked up to a four-month high in March, as the stronger performance of service providers offset the ongoing lacklustre conditions in manufacturing. With new order intakes and employment also continuing to rise, the PMI suggests the global economy will expand at a solid yet steady pace in the months ahead.” – David Hensley, Global Economist, J.P. Morgan
The headline seasonally adjusted IHS Markit/CIPS Purchasing Managers’ Index® (PMI®) rose to a 13-month high of 55.1 in March, up from a revised reading of 52 in February (originally reported as 52.0). The PMI has remained above the 50.0 benchmark for 32 months in a row.

The impact of Brexit preparations remained a prominent feature at manufacturers in March. Efforts to build safety stocks led to survey-record increases in inventories of both purchases and finished products. Trends in output and employment also strengthened as stockpiling operations at clients led to improved inflows of new work. The trend in manufacturing output improved in March. Companies stepped up production to build-up inventories in advance of Brexit and also meet rising inflows of new work (mainly reflecting stockpiling at clients). New business improved from both domestic and export markets. This had a positive impact on staff hiring, with jobs growth recorded following back-to-back reductions at the start of the year.

Manufacturers reported a surge of business activity in March as companies stepped up their preparations for potential Brexit-related disruptions. Output, employment and new orders all rose at increased rates as manufacturers and their clients raced to build safety stocks. Stocking of finished goods and input inventories surged to new survey-record highs. The stock-building boost introduces a major headwind for demand, output and jobs growth moving forward. Manufacturers are already reporting concerns that future trends could be constrained as inventory positions across the economy are unwound. The survey is also picking up signs that EU companies are switching away from sourcing inputs from UK firms as Brexit approaches. It looks as if the impact of Brexit preparations, and any missed opportunities and investments during this sustained period of uncertainty, will reverberate through the manufacturing sector for some time to come.” – Rob Dobson, Director & Senior Economist, IHS Markit
“After a surprisingly strong showing in January, business conditions at architecture firms showed little improvement in February. With a national ABI score of just 50.3 (any score above 50 signifies growth) firms basically held steady from last month’s growth levels. However, scores for both inquiries coming into architecture firms and new design contracts continued to reflect healthy growth rates. With sustained improvement in inquiries for future projects as well as new project activity, billings are expected to improve in the coming months. While generally healthy, the February results were divergent from recent design trends in that this month produced the highest ABI score for commercial/industrial firms in over a year, as it also was the lowest score for institutional firms in over a year.” – The American Institute of Architects
Private Indicators: AIA

**Regional**
Firms in South report strong growth in billings; other regions seeing modest gains

Graphs represent data from February 2018–February 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.

- **West:** 51.6
- **Midwest:** 51.3
- **South:** 58.3
- **Northeast:** 51.5

“Firms in all of the major regions of the country reported at least limited growth for the month. Firms in the Northeast, Midwest, and West reported very similar average scores of around 51.5, signifying modest improvement in billings. Firms in the South continued to report very strong business conditions, just as they have for each of the past three months.” – The American Institute of Architects

Firms shared that they track a broad range of business indicators, with firm-specific measures generally considered the most useful.

“Firms specializing in each of the major construction sectors also reported growth in billings. Mixed practice firms (those with less than 50 percent of their billings in any major construction sector) reported the highest average ABI scores. Among firms concentrating in a single major construction sector, commercial/industrial firms reported the highest average ABI scores at 53.9, followed by multifamily residential (51.6) and institutional firms (50.9).” – The American Institute of Architects
Private Indicators

Dodge Data & Analytics

February Construction Starts Descend 3 Percent

*Public Works and Housing Retreat,*
*While Nonresidential Building Stabilizes*

“At a seasonally adjusted annual rate of $697.4 billion, new construction starts in February dropped 3% from the previous month, according to Dodge Data & Analytics. The February decline returned construction starts to the downward path that emerged during the closing months of 2018. Two of the three main construction sectors registered weaker activity in February – nonbuilding construction fell 8%, due to a pullback by its public works segment, while residential building slipped 3%. Meanwhile, nonresidential building in February was able to hold steady with its January pace. During the first two months of 2019, total construction starts on an unadjusted basis were $99.3 billion, down 12% from the same period a year ago which had been lifted by the start of the $2.0 billion NEXUS natural gas pipeline in Ohio and Michigan and the $1.3 billion domed NFL stadium in Las Vegas NV. On a twelve-month moving total basis, total construction starts for the twelve months ending February 2019 were able to remain essentially even with the corresponding amount for the twelve months ending February 2018.

The February statistics produced a reading of 148 for the Dodge Index (2000=100), compared to 153 for January. The 150 average for the Dodge Index during the first two months of 2019 was the same as the 150 reading in December, which was at the low end of last year’s range of activity.” – Nicole Sullivan, AFFECT Public Relations & Social Media
“The pace of construction starts has been lackluster in early 2019. The public works sector has retreated, likely affected by harsh winter weather conditions and the fact that fiscal 2019 federal appropriations for several programs were not finalized until mid-February. With funding levels now set, including a 2% increase for the federal-aid highway program, it’s expected that public works will show improvement in coming months. For residential building, single family housing remains sluggish, as affordability constraints continue to dampen demand even as mortgage rates have settled back, while a more cautious lending stance by banks may now be starting to restrain multifamily development. Nonresidential building so far in 2019 has not yet seen the same magnitude of very large projects that reached groundbreaking during 2018. At the same time, market fundamentals for warehouses and office buildings remain supportive for construction, and the large amount of funding coming from state bond measures passed in recent years should contribute to healthy levels of construction activity for such institutional project types as school construction.

The 12% shortfall for total construction starts on an unadjusted basis during the first two months of 2019 compared to last year was the result of lower activity for each of the three main sectors. Residential building fell 15% year-to-date, with single family housing down 13% and multifamily housing down 17%. Nonresidential building dropped 13% year-to-date, with commercial building down 5%, institutional building down 18%, and manufacturing building down 29%. Nonbuilding construction retreated 6% year-to-date, as a 17% decline for public works was partially offset by a 116% surge for the electric utility/gas plant category after a very weak first two months of 2018. By geography, total construction starts for the first two months of 2019 versus the same period a year ago performed as follows – the Midwest, down 24%; the Northeast, down 15%; the South Central, down 10%; the South Atlantic, down 9%; and the West, down 8%” –Robert A. Murray, Chief Economist, Dodge Data & Analytics

“Residential building in February was $299.3 billion (annual rate), down 3% as both sides of the housing market showed decreased activity. Multifamily housing fell 7%, retreating after its 17% rebound in January. Despite the decline, there were still six multifamily projects valued at $100 million of more that reached groundbreaking in February. These were led by two projects in the Long Island City area of the New York NY metropolitan area – the $500 million North Tower and the $200 million South Tower at the Hunters Point South apartment complex. The next largest multifamily projects were the $154 million multifamily portion of the $170 million Archer Green mixed-use complex in the Jamaica Queens area of New York NY and the $144 million multifamily portion of the $240 million Hoffman Town Center project (blocks 4 and 5) in Alexandria VA.

The top five metropolitan areas ranked by the dollar amount of multifamily starts in February were – New York NY, Washington DC, Dallas-Ft. Worth TX, Miami FL, and San Francisco CA. During the first two months of 2019, the New York NY metropolitan area comprised 18% of the multifamily dollar amount for the U.S., up from the 16% share for the full year 2018, although not as high as the 24% share that was reported for the full year 2015. Single family housing in February receded 2% from January, continuing the modest slippage that emerged during last year’s fourth quarter. By geography, single family housing performed as follows in February relative to January – the West, down 5%; the South Central, down 2%; the South Atlantic, down 1%; the Midwest, unchanged; and the Northeast, up 7.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics

“Nonresidential building” in February was $244.5 billion (annual rate), basically the same as January’s volume. The commercial building categories as a group rose 2%, which followed a 4% gain in January. Warehouse construction surged 33% in February, led by a $200 million Amazon distribution facility in Oak Creek WI, an $85 million Costco distribution center in Katy TX, and a $70 million Goodyear Tire distribution center in Forney TX. Hotel construction climbed 22%, reflecting the start of the $372 million hotel portion of the $500 million Circa Resort and Casino in Las Vegas NV. Store construction improved 11%, helped by the start of the $64 million Macy’s Men’s Store redevelopment in San Francisco CA, and the commercial garage category grew 3%. Office construction was the one commercial project type to report a February decline, falling 21% after its 18% hike in January that featured such projects as the $550 million Reston Gateway office complex in Reston VA and the $350 million Hines office tower in Houston TX. Even with the decline, there were still noteworthy office projects that were entered as February starts, such as the $375 million Block 185 redevelopment in Austin TX and the $100 million Cannon House office renovation in Washington DC. There were also several large data center projects (included in the office category) that reached groundbreaking in February, led by a $175 million Google data center expansion in Moncks Corner SC and two data centers in Ashburn VA valued at $120 million each.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics
“The institutional side of nonresidential building was unchanged in February after the 2% decline reported in January. The healthcare facilities category had a strong February, increasing 26% with the lift coming from such projects as the $265 million expansion to the Children’s Hospital of Wisconsin in Wauwatosa WI and the $176 million Colorado Center for Personalized Medicine in Aurora CO. Educational facilities in February advanced 6%, led by the $200 million renovation of a healthcare research facility at the University of Pittsburgh in Pittsburgh PA, a $96 million engineering building at the University of Texas in Austin TX, plus large high school projects in Millersville PA ($87 million), Hammond IN ($78 million), Wentzville MO ($76 million), and Wimauma FL ($76 million).

On the negative side, the public buildings category plunged 45% after its 59% jump in January that included the $525 million Utah State Prison relocation in Salt Lake City UT. Decreased construction starts were also reported in February for transportation terminal projects, down 35%; church construction, down 23%; and amusement-related work, down 7%. The manufacturing plant category dropped 14% in February after a 13% January gain, although the latest month did include the start of a $135 million lumber production facility in Albany GA and a $105 million window manufacturing plant in Goodyear AZ.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics
February Construction Starts Descend 3 Percent

Public Works and Housing Retreat, While Nonresidential Building Stabilizes

“Additional insight is provided by looking at twelve-month moving totals, in this case the twelve months ending February 2019 versus the twelve months ending February 2018, which offers less volatility than is present with year-to-date comparisons of just two months. On this basis, total construction starts for the most recent twelve months essentially matched the amount of the previous period. By major sector, residential building grew 2%, with 2% gains for both single family and multifamily housing. Nonresidential building was unchanged from the previous period, with manufacturing building up 21%, commercial building up 2%, and institutional building down 5%. Nonbuilding construction dropped 4%, with public works down 2% and electric utilities/gas plants down 16%.

By geography, total construction starts showed this pattern for the most recent twelve months compared to the previous period – the South Central, up 9%; the West, up 3%; the Midwest and South Atlantic, each unchanged; and the Northeast, down 15%.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics

Private Indicators

February 2019 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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<tr>
<td></td>
<td>February 2019</td>
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<tr>
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<tr>
<td>Residential Building</td>
<td>299,350</td>
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<tr>
<td>Nonbuilding Construction</td>
<td>163,583</td>
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<tr>
<td>Total Construction</td>
<td>$697,414</td>
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The Dodge Index
Year 2000=100, Seasonally Adjusted

- February 2019: 148
- January 2019: 153

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

<table>
<thead>
<tr>
<th></th>
<th>2 Mos. 2019</th>
<th>2 Mos. 2018</th>
<th>% Change</th>
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<tr>
<td>Nonresidential Building</td>
<td>$33,474</td>
<td>$38,579</td>
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<tr>
<td>Residential Building</td>
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<tr>
<td>Nonbuilding Construction</td>
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<td>24,723</td>
<td>-6%</td>
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<tr>
<td>Total Construction</td>
<td>$99,252</td>
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Private Indicators

MNI Chicago
Q1 Barometer Average Lowest in Two Years

“The MNI Chicago Business Barometer fell 6 points to 58.7 in March from 64.7, partially offsetting last month’s gain. Looking at the three-month average provides a better guide this month to the underlying trend in the economy with activity a touch lower in Q1 than in Q4. The Barometer averaged 60.0 in Q1, down 3.5% on Q4 2018 and 3.3% on Q1 2018.

Chicago Business Barometer Retreats in March to 58.7

The March fall was led by three of the five Barometer components, with Employment and Supplier Deliveries both increasing, albeit marginally. Production and New Orders pulled back from last month but were appreciably above their respective January levels. New Orders continued to lag Production in Q1, a quarterly trend seen nine times since 2009, with 2014 and 2016 being exceptions. Order Backlogs shrunk the most, with the indicator falling into contraction territory for the first time since January 2017. Supplier delivery times remained broadly stable on the month, although the quarterly average was at the lowest level since Q2 2017.

Companies ran down their inventories at the fastest pace since July 2018. The indicator was below the 50-mark for the second time in eight months. The indicator was down 12% in Q1 compared with Q4 2018, hitting the lowest level since Q4 2016. Despite volatility in demand and production in recent months, the need for labor has remained stable. The Employment Indicator was a touch above both the three-month and 12-month averages. The Employment Indicator has consistently improved in Q1 from Q4 in each of the last four years; it being up 2.4% this year.

Although the barometer has comfortably remained above the 50-neutral level for more than two years now, survey evidence points to a slight slowdown since last year. The Fed’s break from monetary tightening amid global uncertainty and softer inflation is seen underpinning optimism in the business environment.” – Shaily Mittal, Senior Economist, MNI Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. Increased

Economy to Continue Expanding in Near-Term

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.2 percent in February to 111.5 (2016 = 100), following no change in January, and a 0.1 percent decline in December.

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in February to 105.9 (2016 = 100), following a 0.1 percent increase in January, and a 0.4 percent increase in December.

The Conference Board Lagging Economic Index® (LAG) for the U.S. was unchanged in February at 107.0 (2016 = 100), following a 0.6 percent increase in January and a 0.4 percent increase in December.

“The US LEI increased in February for the first time in five months. February’s improvement was driven by accommodative financial conditions and a rebound in stock prices, which more than offset weaknesses in the labor market components. Despite the latest results, the US LEI’s growth rate has slowed over the past six months, suggesting that while the economy will continue to expand in the near-term, its pace of growth could decelerate by year end.” – Ataman Ozyildirim, Director of Economic Research, The Conference Board

Source: https://www.conference-board.org/data/bcicountry.cfm; 3/21/19
The Conference Board Help Wanted OnLine® (HWOL)
Online Labor Demand Declined in March
But Solid Employment Growth Expected to Continue

• “In March, most states and MSAs experienced a decrease in the number of online job ads
• The East North Central region experienced the slowest growth in online job ads over the past year, partly due to the slowdown in manufacturing activity.

The Conference Board Help Wanted OnLine® (HWOL) Index declined in March. The experimental HWOL Index now stands at 102.3 (July 2018=100), down from 104.0 in February. The HWOL Index declined in March but remains at a level consistent with solid hiring activity. Despite the one-month decline, it is too early to conclude that hiring activity is slowing. We still expect economic growth to remain above the two percent rate throughout 2019. While job growth is likely to slow, we expect it will remain strong enough to tighten the labor market and draw more people into the labor force.” – Gad Levanon, Chief Economist, North America, at The Conference Board

Source: https://www.conference-board.org/data/helpwantedonline.cfm; 4/3/19
Equipment Leasing and Finance Association:  
Industry Confidence Increases Again in March

“The **Equipment Leasing & Finance Foundation** (the Foundation) releases the March 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 $1 trillion equipment finance sector. Overall, confidence in the equipment finance market increased in March for the second consecutive month to 60.4, up from the February index of 56.7.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

“This year will continue to be prosperous as economic indicators are predicting. Business growth is spurred by low interest rates, favorable tax rates and expansion oriented investment.” – Frank Campagna, Business Line Manager, M&T Commercial Equipment Finance

“Consolidation in the industry will continue to create opportunity. The overall application volume has remained stable.” – David Normandin, CLFP, President and CEO, Wintrust Specialty Finance

“I'm optimistic that companies in general have ample cash and access to capital to withstand any softening of demand. I'm concerned about the softening housing market and the negative impact it may have on small business sentiment.” – Quentin Cote, CLFP, President, Mintaka Financial, LLC

“Federal government concerns cast a shadow over economic optimism.” – Adam Warner, President, Key Equipment Finance

March 2019 Survey Results:

“The overall MCI-EFI is 60.4, an increase from 56.7 in February.

• When asked to assess their business conditions over the next four months, 20% of executives responding said they believe business conditions will improve over the next four months, up from 10% in February. 70% of respondents believe business conditions will remain the same over the next four months, a decrease from 83.3% the previous month. 10% believe business conditions will worsen, up from 6.7% who believed so the previous month.

• 23.3% of survey respondents believe demand for leases and loans to fund capital expenditures (capex) will increase over the next four months, an increase from 13.3% in February. 70% believe demand will “remain the same” during the same four-month time period, a decrease from 83.3% the previous month. 6.7% believe demand will decline, up from 3.3% who believed so in February.

• 13.3% of the respondents expect more access to capital to fund equipment acquisitions over the next four months, down from 20.7% in February. 86.7% of executives indicate they expect the “same” access to capital to fund business, an increase from 79.3% last month. None expect “less” access to capital, unchanged from last month.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

March 2019 Survey Results:

- “When asked, 46.7% of the executives report they expect to hire more employees over the next four months, an increase from 26.7% in February. 46.7% expect no change in headcount over the next four months, a decrease from 56.7% last month. 6.7% expect to hire fewer employees, down from 16.7% last month.

- 36.7% of the leadership evaluate the current U.S. economy as “excellent,” 63.3% of the leadership evaluate the current U.S. economy as “fair,” and none evaluate it as “poor,” all unchanged for the second consecutive month.

- 6.7% of the survey respondents believe that U.S. economic conditions will get “better” over the next six months, down from 13.3% in February. 80% of survey respondents indicate they believe the U.S. economy will “stay the same” over the next six months, an increase from 70% the previous month. 13.3% believe economic conditions in the U.S. will worsen over the next six months, a decrease from 16.7% in February.

- In March, 33.3% of respondents indicate they believe their company will increase spending on business development activities during the next six months, an increase from 20% last month. 66.7% believe there will be “no change” in business development spending, a decrease from 80% in February. None believe there will be a decrease in spending, unchanged from last month.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association
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24-Month Monthly Confidence Index - Equipment Finance Industry (MCI-EFI)

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 $1 trillion equipment finance sector, showed their overall new business volume for February was $5.9 billion, down 24 percent year-over-year from new business volume in February 2018. Volume was down 18 percent month-to-month from $7.2 billion in January. Year to date, cumulative new business volume was down 10 percent compared to 2018.

Receivables over 30 days were 1.80 percent, up from 1.70 the previous month and up from 1.60 percent the same period in 2018. Charge-offs were 0.35 percent, unchanged from the previous month, and up from 0.28 percent in the year-earlier period.

Credit approvals totaled 76.0, virtually unchanged from January. Total headcount for equipment finance companies was down 0.2 percent year-over-year.

Separately, the Equipment Leasing & Finance Foundation’s Monthly Confidence Index (MCI-EFI) in March is 60.4, up from the February index of 56.7.” – Amy Vogt, Vice President, Communications and Marketing; Equipment Leasing & Finance Association
“Monthly new business volume declined for the first time in almost two years. Total cumulative year-to-date volume is in red numbers as well. Credit quality continues mixed. Fundamentals in the U.S. economy appear to be holding up, although February jobs data were far below what most observers expected. With the Fed holding interest rates unchanged, these and other economic data bear monitoring in the coming months to better understand the dip in equipment financing volume for February.” – Ralph Petta, CEO, Equipment Leasing & Finance Association

“We remain optimistic about 2019 being a growth year for the equipment leasing industry despite the decline in business volume for the first two months of the year. Onset Financial has had a record-breaking first quarter and continues to see a surge in future business. The need for capital and good partners exists in any economy and Onset has benefitted from a strong multi-media presence, diverse funding relationships and advances in our internal systems.” – Melinda Haynes, President of Lease Operations, Onset Financial, Inc.
Private Indicators

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

MLFI Cumulative YTD* Comparison:
2018*: $14.6 ($B)
2019*: $13.1 ($B)
% chg*: -10.2%

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

Private Indicators

Credit Approvals As % of All Decisions Submitted

Private Indicators

Total Number of Employees % CHG YOY

Note: During 2017, headcount was elevated due to acquisition activity at several MLFI reporting company

## Private Indicators

### THIS WEEK'S FORECAST
**APRIL 15-20**

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<tr>
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March 2019 Manufacturing ISM® Report On Business®

March 2019 PMI® at 55.3%

New Orders, Production, and Employment Growing
Supplier Deliveries Slowing at Slower Rate; Backlog Growing
Raw Materials Inventories Growing; Customers’ Inventories Too Low
Prices Decreasing; Exports and Imports Growing

“Economic activity in the manufacturing sector expanded in March, and the overall economy grew for the 119th consecutive month, say the nation’s supply executives in the latest Manufacturing ISM® Report On Business®. The March PMI® registered 55.3 percent, an increase of 1.1 percentage points from the February reading of 54.2 percent.

The New Orders Index registered 57.4 percent, an increase of 1.9 percentage points from the February reading of 55.5 percent.

The Production Index registered 55.8 percent, a 1-percentage point increase compared to the February reading of 54.8 percent.

The Employment Index registered 57.5 percent, an increase of 5.2 percentage points from the February reading of 52.3 percent.

The Supplier Deliveries Index registered 54.2 percent, a 0.7 percentage point decrease from the February reading of 54.9 percent.

The Inventories Index registered 51.8 percent, a decrease of 1.6 percentage points from the February reading of 53.4 percent.

The Prices Index registered 54.3 percent, a 4.9-percentage point increase from the February reading of 49.4 percent, indicating a return of increasing raw materials prices after a two-month respite.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

Source: https://www.instituteforsupplymanagement.org/ismreport/mfgrob.cfm; 4/1/19
March 2019 Manufacturing ISM® Report On Business®

March 2019 PMI® at 55.3%

“Comments from the panel reflect continued expanding business strength, supported by gains in new orders and employment. Demand expansion continued, with the New Orders Index returning to the high 50s, the Customers’ Inventories Index improving but remaining too low, and the Backlog of Orders Index softening to marginal expansion levels. Consumption (production and employment) continued to expand and regained its footing with a combined 6.2-percentage point gain from the previous month’s levels, recovering most of February’s loss. Inputs — expressed as supplier deliveries, inventories and imports — were lower this month, primarily due to inventory consumption exceeding inputs, resulting in a combined 2.3-point decline in the Supplier Deliveries and Inventories indexes that contributed negatively to the PMI®. Imports expansion declined to near-zero expansion levels. Overall, inputs continue to reflect an easing business environment, but to a lesser extent than in February, confirmed by the Prices Index returning to expansion.

Exports orders continue to expand, but at marginal levels. Prices reversed two months of contraction by returning to a robust mid-50s level. The manufacturing sector continues to expand, demonstrated by improvements in the PMI® three-month rolling average, which is consistent with overall manufacturing growth projections.

Of the 18 manufacturing industries, 16 reported growth in March, in the following order: Printing and Related Support Activities; Textile Mills; Food, Beverage and Tobacco Products; Petroleum and Coal Products; Computer and Electronic Products; Electrical Equipment, Appliances and Components; Furniture and Related Products; Chemical Products; Plastics and Rubber Products; Wood Products; Nonmetallic Mineral Products; Transportation Equipment; Miscellaneous Manufacturing; Fabricated Metal Products; Primary Metals; and Machinery. The two industries reporting contraction in March are: Apparel, Leather and Allied Products; and Paper Products.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

Source: https://www.instituteforsupplymanagement.org/ismreport/mfgrob.cfm; 4/1/19
March 2019 Non-Manufacturing ISM®
Report On Business®

March PMI® at 56.1%

Business Activity Index at 57.4%; New Orders Index at 59.0%;
Employment Index at 55.9%

“Economic activity in the non-manufacturing sector grew in March for the 110th consecutive month, say the nation’s purchasing and supply executives in the latest Non-Manufacturing ISM® Report On Business®.

The NMI® registered 56.1 percent, which is 3.6 percentage points lower than the February reading of 59.7 percent. This represents continued growth in the non-manufacturing sector, at a slower rate.

The Non-Manufacturing Business Activity Index decreased to 57.4 percent, 7.3 percentage points lower than the February reading of 64.7 percent, reflecting growth for the 116th consecutive month, at a slower rate in March.

The New Orders Index registered 59 percent, 6.2 percentage points lower than the reading of 65.2 percent in February.

The Employment Index increased 0.7 percentage point in March to 55.9 percent from the February reading of 55.2 percent.

The Prices Index increased 4.3 percentage points from the February reading of 54.4 percent to 58.7 percent, indicating that prices increased in March for the 22nd consecutive month. According to the NMI®, 16 non-manufacturing industries reported growth.

The non-manufacturing sector’s growth cooled off in March after strong growth in February. Respondents remain mostly optimistic about overall business conditions and the economy. They still have underlying concerns about employment resources and capacity constraints.”  – Anthony Nieves, CPSM, C.P.M., A.P.P., CFPM, Chair of the Institute for Supply Management® (ISM®) Non-Manufacturing Business Survey Committee

Source: https://www.instituteforsupplymanagement.org/ISMReport/NonMfgROB.cfm; 4/3/19
PMI dips to lowest since June 2017 and price pressures moderate

The latest PMI signalled a moderate improvement in operating conditions across the U.S manufacturing sector in March, dropping to its lowest level since mid-2017 amid softer increases in output and new orders. Nonetheless, the rate of job creation remained solid despite broadly unchanged levels of outstanding business. Meanwhile, cost pressures eased further as the rate of input price inflation softened for the fifth successive month. Output charges also rose at a slower pace. A key factor behind the lower headline figure was a slower rise in output. The rate of expansion eased to a marginal pace that was the weakest since June 2016 and below the series trend. Panellists stated that the slower increase in production was due to softer underlying client demand.

A further deterioration in the manufacturing PMI suggests the factory sector is acting as an increasing drag on the US economy. The March survey is consistent with production falling at a quarterly rate of 0.6% according to historical comparisons with official data. Encouragingly, companies report that at least some of the slowdown is due to capacity constraints, notably in terms of skill shortages. One-in-three companies reporting a drop in headcounts cited an inability to fill vacancies. Those looking for positive signals will therefore note that hiring remained encouragingly solid during the month and expectations of future output perked up, albeit still running below levels seen this time last year. However, things may well get worse before they get better, as the forward-looking indicators are a cause for concern. New order growth has fallen close to the lows seen in the 2016 slowdown, often linked to disappointing exports, tariffs and signs of increasing caution among customers. The ratio of new orders to existing inventory has meanwhile fallen to its lowest since June 2017, suggesting the production trend may weaken further in April.” – Chris Williamson, Chief Economist, Markit®

Source: https://www.markiteconomics.com/Public/Home/PressRelease/e29bf8926ec4431bdf1019bfaf5fb69; 4/1/19
Solid upturn in services activity, but business expectations drop to lowest since December 2017

March data signalled a further strong expansion in business activity across the U.S service sector. The rise was slightly softer than that seen in February, but was nonetheless supported by a solid increase in new orders and a further upturn in new business from abroad. On the prices front, inflationary pressures eased in March. The rate of increase in charges was the slowest since October 2017 and input cost inflation posted below the series trend. Despite strong output growth and client demand, business confidence dipped to the lowest level since December 2017.

Another solid service sector performance helped offset a deteriorating trend in manufacturing to leave the PMI surveys indicative of robust economic growth in March. For the first quarter as a whole, the surveys are consistent with the economy growing at an annualized rate of approximately 2.5%, painting a relatively rosy picture compared to official data, which so far suggest GDP could come in slightly weaker.

Dig deeper and the picture darkens. Inflows of new work have moderated markedly compared to this time last year as manufacturing weakness and growing concerns about the economic outlook have increasingly spread to the service sector. Business optimism about the year ahead is now the lowest for two and a half years, posing downside risks to growth in coming months. … the surveys also provide evidence that hiring is in part being constrained by labor shortages, which is limiting capacity in both manufacturing and services, causing backlogs of work to build up again in March and suggesting that businesses – especially in the service sector – will remain busy in the near term at least.” – Chris Williamson, Chief Business Economist, Markit®

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/9acab8b430ff4c1c980bc0d6c54d8a53; 4/3/19
Small Business Expectations Down, But Fundamentals Remain Strong

“This quarter, the MetLife & U.S. Chamber of Commerce Small Business Index recorded the first significant drop since the survey began in 2017. Conducted in the midst of the longest federal government shutdown in history, the survey score dropped from 69.3 in Q4 of 2018 to 65.6 in Q1 2019.

The change is largely due to a decline in economic outlook and expectations (both national and local), but small business owners report their fundamental business operations remain strong:

• More than half of small business owners (56%) expect increased revenue in 2019, down only slightly from last quarter (60%).
• More than one in four small business owners (27%) plan to increase investment over the next year, almost unchanged from Q4 (29%).
• A similar number of small businesses report plans to increase staff over the next year (29%), compared to last quarter (30%).” – J.D. Harrison, U.S. Chamber of Commerce and David Hammarstrom, MetLife
Private Indicators

SMALL BUSINESS INDEX

2019 Q1 - 65.6

Source: https://www.uschamber.com; 3/28/19
Private Indicators

MetLife & U.S. Chamber of Commerce Small Business Index

“Expectations for national economy decline.
Optimism about the health of the U.S. economy declined this quarter. While a majority of small businesses (53%) report a belief that the national economy is in good health, this number dropped five percentage points from last quarter (58%).

View of local economy dips, too.
Small business owners’ views on their local economy are on par with the national economic outlook (53% rate it in good health). This reflects a slight downward shift from the Q4 2018 rating of 56%.

Small businesses anticipate steady staff levels, investment.
Twenty seven percent of business owners plan to increase investment over the next year, almost unchanged from Q4 (29%). Similarly, (29%) report plans to increase staff, unchanged from last quarter (30%).

Veteran, minority, Gen X, and Millennial- owned businesses look to hire.
Plans to increase headcount over the next year are primarily driven by businesses with 20 or more employees (44%), veteran-owned businesses (44%), minority-owned businesses (42%), and Millennial or Gen X-owned businesses (39%).” – J.D. Harrison, U.S. Chamber of Commerce and David Hammarstrom, MetLife
Private Indicators

MetLife & U.S. Chamber of Commerce Small Business Index

“Views of national economy decline across most of country.
Views on the national economy have consistently softened across the Northeast, Midwest, and West regions.

Northeast most pessimistic on local economy.
Businesses in the Northeast marked the biggest decline in optimism: just 38% say their local economy is in good health, down 10 percentage points from Q4 2018.

Revenue expectations down slightly.
Fewer small businesses expect revenue to increase (56%), compared to the end of 2018 (60%).

Potential shutdown effect?
The survey was conducted from Jan. 3-Jan. 31, mostly overlapping with the federal government shutdown from Dec. 22, 2018-Jan. 25, 2019. While it’s not clear if this affected small businesses’ views, a number of respondents mentioned the shutdown, without prompting.”– J.D. Harrison, U.S. Chamber of Commerce and David Hammarstrom, MetLife

Source: https://www.uschamber.com; 3/28/19
Private Indicators

SMALL BUSINESS INDEX: IN HISTORICAL CONTEXT

Source: https://www.uschamber.com; 3/28/19
Private Indicators

National Association of Credit Management – Credit Managers’ Index

NACM’s March CMI Shows ‘Unnerving’ Results

“Month after month, we seek the ever-elusive trend of the Credit Managers’ Index (CMI) going further into positive territory. One month our hopes are up and the next month they are dashed. “This was one of those months where the scores reversed again,” said NACM Economist Chris Kuehl, Ph.D. “It is not a crisis situation by any stretch as the numbers are still firmly in the expansion zone (a score above 50), but we all would like to see improvement. The challenge is that much of the other economic data is telling the same story as there is a low expectation for first quarter GDP and reductions in the readings that are coming from the Purchasing Managers’ Index as well as data from industrial output to capacity utilization.” Maybe credit managers should be glad this month wasn’t worse. The combined CMI score was 53.6 in March; it was at 54.9 the month prior. In January it was 53.4, so perhaps February was the little anomaly and now the numbers are back to where they should have been.

The combined score for the favorable factors slipped back out of the 60s again at 59, the lowest point reached in the last 12 months (even going back to 2017). The combined score for the unfavorable factors fell as well and is back in the contraction zone under 50. It was at 49.4 in January and is now at 49.9 — very close to the 50 line, but still below the level of contraction.” – Andrew Michaels, Editorial Associate, NACM

Source: http://web.nacm.org/CMI/PDF/CMIcurrent.pdf; 3/29/19
“The details are interesting as far as identifying trends. The sales numbers fell out of the 60s with a reading of 58.2, the lowest score in the past two years. These numbers have been in the 60s consistently until this year. There was also a decline in new credit applications, but they have been this low before (58.2 in January and 57.5 in December). The reading is now sitting at 57.8 after reaching 58.9 last month. The dollar collections reading slipped as well (59.1 to 56.6). That marks the lowest point since April 2018. The amount of credit extended stayed in the 60s and actually improved as it went from 62.3 to 63.5. “This may be the most interesting piece of data of all. In spite of all the down performance there was more credit extended,” Kuehl said. “That suggests good customers are asking for and likely getting more credit.” It is also important to note that even with these reversals, the favorable factors remain comfortably in the 50s.

The changes were also noticeable in the nonfavorable categories. The rejections of credit applications trended down a bit but not as much as would be expected given the drop in new applications for credit. The reading last month was 52.1 and this month it was 51.2. Kuehl noted that those applying for credit seem to be worthy enough to get much of what they are asking for. One of the major concerns is the sharp drop in the reading for accounts placed for collection. Last month it was at 49, close to the high point for the last 12 months. This category has not escaped the contraction zone since September of last year when it hit 50.2. There was actually a little improvement as far as the disputes category was concerned as it rose to 49.5 after a reading of 48.5 in February; still not in the expansion zone, but getting a little closer. The reading for dollar amount beyond terms fell, but managed to remain in the expansion zone (barely) with a reading of 50 compared to the 51.3 the month prior. The dollar amount of customer deductions fell out of the expansion zone with a reading of 48.8 from last month’s 50. There was also a dip in filings for bankruptcies — meaning there were slightly more this month than last. The reading was at 53.7 after a 54.9 mark set in February. “There is no wholesale collapse under way, but the data trended down generally, and in some sectors the decline was significant — the worst reading in the last 12 months,” Kuehl said. “The hope is that next month trends back up, but with all the other generally down data coming out of late, that doesn’t seem likely.””

– Andrew Michaels, Editorial Associate, NACM

Source: http://web.nacm.org/CMI/PDF/CMIcurrent.pdf; 3/29/19
Manufacturing Sector

“In many respects, the manufacturing sector has been pretty healthy the last few years — its share of GDP has grown and the sector now accounts for about $2.7 trillion dollars of the total U.S. GDP. If manufacturing was an independent country, its GDP would be larger than that of India — it would be the ninth-largest country in the world,” Kuehl said. “There have been some weaker signals of late — everything from a reduced Purchasing Managers’ Index to slips in capacity utilization and capital investment. The shift is seen in the CMI data as well.”

The combined score for the manufacturing sector is 54.6, only slightly less than the reading the month before at 54.8. The combined score for the favorable factors was 60.3, very close to the reading in February when it hit 60. The combined score for the nonfavorable factors slipped slightly from 51.4 to 50.7, but it still managed to escape the contraction zone. As usual, the details tell a more complete story. “” – Andrew Michaels, Editorial Associate, NACM

March 2019 versus March 2018

“This month the index fell a little. But it seems to be mostly due to weak service sector activity as manufacturing more or less held its own.” – Dr. Chris Kuehl, Economist, NACM

Source: http://web.nacm.org/CMI/PDF/CMIcurrent.pdf; 3/29/19
Private Indicators

National Association of Credit Management – Credit Managers’ Index

Service Sector

“The service sector did not fare as well as manufacturing. The numbers are still in the low-50s, but have slipped a bit from what they had been the month before. “The service sector as a whole has suffered some reversals in the past several months as measured by the Purchasing Managers’ Index as well as some of the other measures of spending and consumer confidence. The consumer is spending far less on things like entertainment and restaurant meals. There have been declines in many areas, but health care has been holding steady as usual. This marks the first time in over a year there have been so many categories stuck in the contraction zone,” Kuehl said.

The combined score for the service sector was 52.6, down from the 55 notched last month. This remains a respectable number, but it’s slipping closer to the contraction zone. The combined score for the favorable factors slipped out of the 60s and is now sitting at 57.7, as compared to the 61.5 in February. This is the lowest point this index has reached in over a year. The combined score for the nonfavorable factors dropped into the contraction zone with a reading of 49.1 compared to 50.6 the month before.” – Andrew Michaels, Editorial Associate, NACM

Source: http://web.nacm.org/CMI/PDF/CMIcurrent.pdf; 3/29/19
# Private Indicators

## Combined Index Monthly Change

### (seasonally adjusted)

<table>
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<tr>
<th>Month</th>
<th>Index</th>
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<tbody>
<tr>
<td>Mar '18</td>
<td>0.3</td>
</tr>
<tr>
<td>Apr '18</td>
<td>0.6</td>
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<tr>
<td>May '18</td>
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<tr>
<td>Jun '18</td>
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<tr>
<td>Jul '18</td>
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<tr>
<td>Aug '18</td>
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<tr>
<td>Sep '18</td>
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<td>1.3</td>
</tr>
<tr>
<td>Nov '18</td>
<td>-1.6</td>
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<tr>
<td>Dec '18</td>
<td>-0.8</td>
</tr>
<tr>
<td>Jan '19</td>
<td>1.5</td>
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<tr>
<td>Feb '19</td>
<td>-1.3</td>
</tr>
<tr>
<td>Mar '19</td>
<td>-0.9</td>
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## Combined Manufacturing and Service Sectors (seasonally adjusted)

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<thead>
<tr>
<th>Metric</th>
<th>Mar '18</th>
<th>Apr '18</th>
<th>May '18</th>
<th>Jun '18</th>
<th>Jul '18</th>
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<td>New credit applications</td>
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<td>62.5</td>
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<td>Dollar collections</td>
<td>59.6</td>
<td>46.7</td>
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<td>62.6</td>
<td>62.8</td>
<td>57.5</td>
<td>60.9</td>
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<td>Amount of credit extended</td>
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<td>65.7</td>
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<td>63.1</td>
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<tr>
<td>Rejections of credit applications</td>
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<td>51.4</td>
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<td>Accounts placed for collection</td>
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<td>Disputes</td>
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<td>47.1</td>
<td>48.5</td>
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<tr>
<td>Dollar amount beyond terms</td>
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<td>46.4</td>
<td>49.4</td>
<td>49.2</td>
<td>47.4</td>
<td>48.5</td>
<td>49.9</td>
<td>47.7</td>
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<td>49.3</td>
<td>47.4</td>
<td>51.3</td>
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<td>Dollar amount of customer deductions</td>
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<td>48.1</td>
<td>47.9</td>
<td>48.7</td>
<td>48.6</td>
<td>49.5</td>
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<td>49.7</td>
<td>48.0</td>
<td>50.0</td>
<td>48.8</td>
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<tr>
<td>Filings for bankruptcies</td>
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<td>53.8</td>
<td>56.4</td>
<td>55.7</td>
<td>57.4</td>
<td>55.9</td>
<td>55.6</td>
<td>52.1</td>
<td>53.6</td>
<td>55.0</td>
<td>53.8</td>
<td>54.9</td>
<td>53.7</td>
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<tr>
<td>Index of unfavorable factors</td>
<td>50.6</td>
<td>49.4</td>
<td>50.6</td>
<td>50.6</td>
<td>50.5</td>
<td>50.1</td>
<td>50.6</td>
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<td>50.8</td>
<td>49.4</td>
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<td>49.9</td>
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<td>NACM Combined CMI</td>
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<td>53.4</td>
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<td>53.6</td>
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Source: [http://web.nacm.org/CMI/PDF/CMIcurrent.pdf](http://web.nacm.org/CMI/PDF/CMIcurrent.pdf); 3/29/19
March 2019 Report:
“The NFIB Small Business Optimism Index increased 0.1 points to 101.8 in March, a historically strong level and an indication that small businesses continue to power the economy after being briefly shaken by January’s government shutdown. Overall, the Index anticipates solid growth, keeping the economy at “full employment” with no signs of a recession in the near term. The Uncertainty Index dropped six points to 79, returning to a more normal level for recent years.

**Small Business Optimism Stays Strong, Posting a Modest Increase**

“Five Index components improved, two were unchanged, and three fell. Labor market indicators improved, the outlook for expansion, real sales and reports of rising earnings gained ground, and capital spending plans held steady. The major soft spot was in inventories with stocks viewed as too large and plans to invest in inventories turning slightly negative – more firms planning reductions than additions.

Sixty percent of small business owners reported capital outlays, up two points and 27 percent plan capital outlays in the next few months, unchanged. Plans to invest were most frequent in wholesale trades (36 percent), manufacturing (34 percent), retail (33 percent), and transportation (32 percent). A net five percent of all owners (seasonally adjusted) reported higher nominal sales in the past three months, a six-point improvement, rebounding back from the “shut down, slow down” in sales. The net percent of owners expecting higher real sales volumes rose three points to a net 19 percent of owners, a solid reading.” – Holly Wade, NFIB

Private Indicators

Optimism Stabilizes Among Small Business Owners

““Small business owners continue to create jobs, expand their operations, and are enjoying strong sales. Since Congress resolved the shutdown, uncertainty has declined as small business owners add jobs, increase sales, and invest in their businesses and employees.” – Juanita D. Duggan, President and CEO, NFIB

“Owners are growing their businesses and expect that they can sell more if they can produce more with additional employees. Investment spending has been solid for the past two years and owners are choosing to invest in their workforce as well by creating new jobs and raising wages.” – Bill Dunkelberg, Chief Economist, NFIB

“The net percent of owners viewing current inventory stocks as “too low” lost four points to a net negative six percent, suggesting that inventories are still viewed as excessive. Imbalances were very large in the wholesale trades (-24 percent) and retail (-14), while in agriculture, 11 percent reported stocks too low compared to eight percent too high. The net percent of owners planning to expand inventory holdings fell from one percent to a negative one percent, a two-point decline.

Three percent of owners reported that all their borrowing needs were not satisfied, unchanged and historically very low. Thirty-three percent reported all credit needs met (down one point) and 51 percent said they were not interested in a loan, unchanged. Six percent reported their last loan was harder to get than the previous one, unchanged and historically low.” – Holly Wade, NFIB

Optimism Stabilizes Among Small Business Owners

“As reported in the March NFIB Jobs Report, owners have added a record high number of new employees for the past two months, only one percent (down two points) of small business owners reported reducing employment an average of 2.4 workers per firm (seasonally adjusted) in March, the lowest percentage of owners reporting reductions in survey history. Twelve percent (unchanged) reported increasing employment an average of 2.7 workers per firm. Sixty percent reported hiring or trying to hire (up three points), but 54 percent (90 percent of those hiring or trying to hire) reported few or no qualified applicants for the positions they were trying to fill (up five points). Twenty-one percent of owners cited the difficulty of finding qualified workers as their Single Most Important Business Problem, only four points below the record high. Thirty-nine percent of all owners reported job openings they could not fill in the current period, up two points from February and equal to the record high set in December. A net 33 percent reported higher compensation in March, up two points.” – Holly Wade, NFIB

United States Economic Forecast
1st Quarter 2019

Introduction: Two out of three ain’t bad

“Risks of economic disruption — in particular, interest rate hikes and major trade disputes — are receding, a positive sign for growth. But fiscal risk, including potential clashes over the federal budget and debt ceiling, remains.

To many economists, it seems as though US policymakers have designed economic policy to deliver weakness in 2020. But recent events may have blunted two of the three main policy initiatives that created that weakness. Deloitte’s economics team remains concerned about policy already in the pipeline, and we are not altering our scenario probabilities. But there may be some positive signs for the economy in the near term.

First, in just a few months, the Federal Reserve changed the emphasis and likely near-term path of policy. The September Federal Open Market Committee (FOMC) projections showed that Fed officials were assuming that the long-run Fed funds rate would be at least 3.0 percent. That fell to 2.8 percent in the December meeting. At the January 31–February 1 meeting, the Open Market Committee did not raise rates, as expected. But members did change the committee’s statement to say that they would be “patient” in making policy — and removed a clause indicating that the Fed was likely to continue raising rates. On top of that, Fed Chairman Jerome Powell said at his press conference that the next rate move could be either up or down.

This is a significant change in the interest rate outlook. The Deloitte forecast now has only one interest rate increase in 2019, and long-term rates are half a percentage point lower in the current forecast than in the previous forecast released in December.” – Dr. Daniel Bachman and Dr. Rumki Majumdar, Deloitte Services LP
“Second, talks with China appear to be proceeding to a conclusion that will not alter the status quo too much. The Deloitte baseline always assumed that this would be the case. But it is beginning to look more likely than it did a few months ago. The prospects of further tariff increases seem to be receding as both Chinese and US negotiators seem relatively optimistic. The most likely outcome (one that has been reflected in the baseline) is a set of relatively small, cosmetic changes to the US–China trade regime.

That’s good news for short-term economic growth. We would not be surprised to see some additional investment spending if the prospect of a trade war became more remote. That would help underpin growth when and if US federal government spending drops off in the new fiscal year.

This means that two of the three significant risks for a slowing economy in 2020 have at least moderated. Unfortunately, one risk has not. That’s the fiscal risk. While the recent government shutdown is now history, the president's FY 2020 budget, like all recent presidential budgets, will probably be declared dead on arrival. But submitting one at least allows the House and Senate to begin the process of negotiating the appropriations bills. They likely won’t have much time — and the prospects of brinkmanship remain strong.

And then, of course, there is the debt ceiling. Officially, the temporary lifting of the ceiling goes away in March. US Treasury accountants then rely on “extraordinary measures” to allow full funding of government operations. By August — or perhaps September — unless the government once again lifts the ceiling, “extraordinary measures” disappear, and Treasury will need to begin defaulting on some payments.” – Dr. Daniel Bachman and Dr. Rumki Majumdar, Deloitte Services LP
United States Economic Forecast - 1st Quarter 2019

“In the background is the slowdown in China and Europe. Chinese growth seems to be slowing, and Europe may well be on the verge of a recession already — even before the possibility of a disruptive hard Brexit. The loss of sales abroad now joins the set of reasons why US growth is likely to slow, and why the US economy remains highly vulnerable to a recession.” – Dr. Daniel Bachman and Dr. Rumki Majumdar, Deloitte Services LP

United States Economic Forecast - 1st Quarter 2019

Scenarios

“The baseline (55.0 percent probability): Consumer spending continues to grow. A pickup in foreign growth helps to tamp down the dollar and increase demand for US exports, adding to demand. Fiscal stimulus from the tax bill and the budget agreement pushes growth up in 2019 but is somewhat offset by the impact of US tariffs and foreign response. However, the US government comes to an arrangement with trading partners, and the tariffs are removed fairly quickly. A small increase in trade restrictions adds to business costs in the medium term, but this is offset by lower regulatory costs. Budget debates continue to add to uncertainty as Congress slowly decides to lift the debt ceiling and pass appropriations for FY 2020, but no further shutdowns occur. As the impact of stimulus fades and the economy feels the effect of higher interest rates, growth slows below potential in 2020.

Recession (25.0 percent): The economy weakens in late 2019 and early 2020 from the impact of tariffs and the withdrawal of stimulus as the additional spending from this year’s budget agreement goes away. With the economy already weak, a relatively small 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 second half of 2019 and the first quarter of 2020, and then recovers.” – Dr. Daniel Bachman and Dr. Rumki Majumdar, Deloitte Services LP
United States Economic Forecast - 1st Quarter 2019

Housing

“The housing market has weakened. In fact, we might have 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 the best we can get. A simple model of the market based on demographics and reasonable assumptions about the depreciation of the housing stock suggests that housing starts are likely to stay in the 1.1–1.2 million range. Starts are likely to fall as the economy weakens in the next year or two, and then gradually increase over the five-year horizon. Even the most optimistic view, however, does not allow for housing starts to return to anything like the 2 million-plus level registered in the mid-2000s.

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 realize that the sector has returned 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 are pointing to the slowing housing market with alarm, remembering something about how the last recession was connected to a housing problem. 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 (in 2005, it accounted for about 6.0 percent). 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 and Dr. Rumki Majumdar, Deloitte Services LP

FIGURE 3
Housing

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

## Economics

### TABLE 2

#### Housing

<table>
<thead>
<tr>
<th></th>
<th>History</th>
<th>Forecast</th>
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</thead>
<tbody>
<tr>
<td>Real investment in private housing</td>
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<td>12.4</td>
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<tr>
<td>Housing starts (millions)</td>
<td>0.78</td>
<td>0.93</td>
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<tr>
<td>Stock of houses (millions)</td>
<td>132.8</td>
<td>133.5</td>
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<td>30-year fixed mortgage rate (percent)</td>
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<td>3.98</td>
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Economics

United States Economic Forecast - 1st Quarter 2019

Scenarios

“Slower growth (10.0 percent):” Business tax cuts induce little investment spending. Productivity growth becomes even more sluggish. Tariffs remain in place as the United States and its trading partners fail to agree on new global trade arrangements. The tariffs raise costs and disrupt supply chains. Businesses hold back on investments to restructure their supply chains because of uncertainty about future policy. The higher spending authorization from the budget bill translates only slowly into additional federal outlays, reducing the budget bill’s impact on the economy. GDP growth falls to less than 1.5 percent over the forecast period, while the unemployment rate rises.

Productivity bonanza (10.0 percent):” Technological advances begin to lower corporate costs, as deregulation improves business confidence. Improved infrastructure boosts short-run demand and, in the long run, capacity and the productivity of private capital. Tariffs are short-lived and turn out to have a smaller impact than many economists expected. The economy grows 2.5 percent in 2019, with growth at 2.3 percent after 2021 while inflation remains subdued.” – Dr. Daniel Bachman and Dr. Rumki Majumdar, Deloitte Services LP
Deloitte CFO Signals™: Q1 2019

Anticipating a slowdown (but not a recession)

CFOs' assessments of the economy in Q1

Despite strong assessments of the current North American economy, CFOs’ expectations for the North American, European, and Chinese economies remain among their lowest levels in the last two years.

“Going into 2018, our 4Q17 survey showed that CFO sentiment was riding high, buoyed by strong economic performance and prospects for lower taxes, lower health care costs, and less regulation. Since then, taxes and regulations have been reduced, and the United States has seen two years of strong economic growth, record-low unemployment, and strong stock markets (notwithstanding a tough December 2018).

But something changed starting in early 2018, and by our 4Q18 survey (following the US midterm elections), CFOs’ sentiment and expectations were becoming less optimistic. Citing worries about geopolitics, US political turmoil, and trade policy, the proportion of CFOs expecting the North American economy to be better in a year fell to just 28 percent — half the level going into 2018.

This quarter’s findings continue the downward trend. Assessments of the North American, European, and Chinese economies all declined. Own-company optimism rebounded from last quarter’s very low reading, but still sits at its third-lowest level in three years. Expectations for revenue, earnings, domestic hiring, and wages declined (only capex rose), and all metrics sit below their two-year averages.” – Greg Dickinson, Sanford A. Cockrell III, and Ajit Kambil, Deloitte LLP’s CFO Signals™

Anticipating a slowdown (but not a recession)

CFOs’ assessments of the economy in Q1

“To get a better handle on CFOs’ concerns, this quarter we asked about their expectations for a possible US downturn. Nearly three-fourths said they expect a deceleration of economic activity by the end of 2020, but only 15 percent expect an extended decline. Those expecting a downturn cited three main factors: US trade policy, the length of business and credit cycles, and slowing growth in China and Europe.

Although 15 percent of CFOs said they already see signs of a downturn in their company’s operations, less than 40 percent said their company has a detailed defensive plan. The most common downturn responses focused on reducing discretionary spending and controlling headcount, but less than 30 percent say they have already started taking defensive steps.” – Greg Dickinson, Sanford A. Cockrell III, and Ajit Kambil, Deloitte LLP’s CFO Signals™
Economics

Anticipating a slowdown (but not a recession)

By the end of 2018, CFOs' sentiment and expectations were becoming less optimistic. This quarter's findings continue the downward trend. Nearly three-fourths of respondents said they expect a deceleration of economic activity by the end of 2020, but only 15% expect an extended decline. Those expecting a downturn cited three main factors: US trade policy, length of business and credit cycles, and slowing growth in China and Europe.

- 80% of surveyed CFOs regard North American conditions as good (down from 88%), and 28% expect better conditions in a year (same as 4Q18)
- 16% regard Europe's economy as good (down from 23%), and 8% expect better conditions in a year (up from 7%)
- 20% regard China's economy as good (down from 24%), and 16% expect better conditions in a year (up from 12%)

- Revenue growth expectations declined from 5.5% last quarter to 4.8%
- Earnings growth expectations declined from last quarter's 7.3% to 7.1%
- Capital spending expectations rose from 5.0% last quarter to 5.9%
- Domestic hiring growth expectations fell from 3.2% last quarter to 2.1%
- Dividend expectations declined from last quarter's 4.5% to 3.9%

Net optimism index of +16.0, above last quarter's +3.0

32% of surveyed CFOs express rising optimism, up from last quarter's 26%

16% now cite declining optimism, down from last quarter's 23%

Demographics

Demo Memo Blog

2.3 Million Fewer Households with Children

Number of households with children under age 18

2018: 34,452,000
2007: 36,757,000

Change: –2.3 million

“The number of households with children under age 18 has fallen by more than 2 million since 2007 (the year births peaked in the U.S.), according to the Census Bureau. As of 2018, only 27 percent of households included children under age 18, a record low. The share of households with children was as high as 49 percent in the late 1950s and early 1960s.” – Cheryl Russell, Demographer, Demo Memo Blog
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