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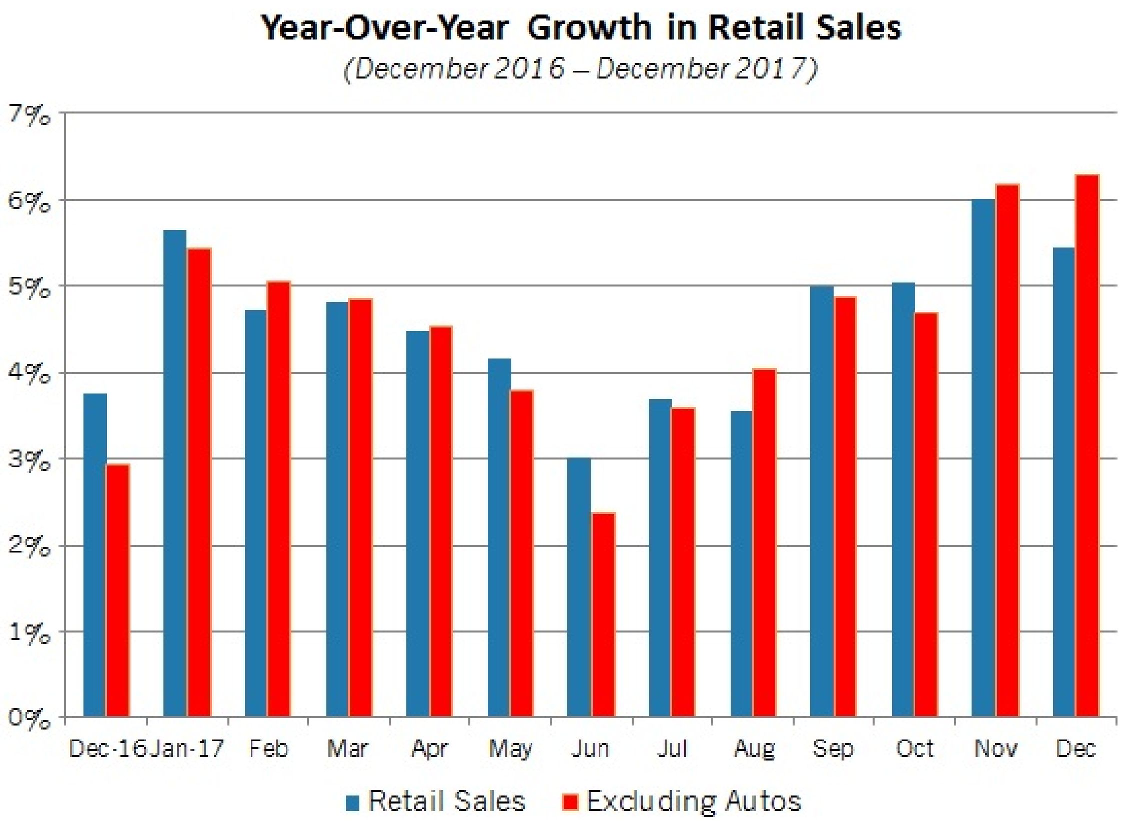

Incoming data suggest that Americans opened their pocketbooks more at year's end, boding well for holiday spending and for the overall U.S. economy. Indeed, [retail sales]() rose 0.4 percent in December, extending the robust gains from the prior three months. After slowing over the summer months, consumer spending has increased of late. Along those lines, retail sales have risen a healthy 5.4 percent year-over-year in December—a strong figure, even with some easing from the 6.0 percent pace in November. For comparison purposes, the year-over-year rate registered 3.8 percent in December 2016. Excluding automobiles, the pace was even stronger, with retail sales up 6.3 percent over the past 12 months, the best year-over-year rate in five years.

This was consistent with new data on [U.S. consumer credit outstanding](), which rose 8.8 percent at the annual rate in November. The monthly increase was the largest in 16 years, which no doubt helped to boost consumer spending for the month. Across the past 12 months, consumer credit has increased 5.3 percent. Moreover, revolving credit, which includes credit cards and other credit lines, jumped 13.3 percent in November, extending the healthy 9.9 percent increase in October. This suggests Americans are less cautious in their spending and more willing to use their credit cards for purchases than they were just a few months ago. Meanwhile, nonrevolving credit, which includes auto and student loans, accelerated from 5.3 percent growth in October to 7.2 percent in November. On a year-over-year basis, revolving credit outstanding levels have risen 5.7 percent, while nonrevolving credit outstanding levels have increased 5.2 percent.

Turning to manufacturing, net hiring in the sector remained robust in November, according to the latest Job Openings and Labor Turnover Survey report. Manufacturers hired 355,000 workers in November, up from 344,000 in October and not far from August's level of 359,000, which was nearly a 10-year high. Hiring increased for durable goods firms in November, up from 198,000 to 209,000, but was unchanged for nondurable goods manufacturers at 146,000. At the same time, total separations—including layoffs, quits and retirements—rose from 309,000 to 327,000. As a result, net hiring (or hires minus separations) declined from 35,000 in October to 28,000 in November. More importantly, however, net hiring has averaged a very healthy 33,600 over the past five months, or 20,100 year to date. Meanwhile, manufacturing job openings decelerated, down from 409,000 in October to 378,000 in November. It was the first reading for job postings below 400,000 since May. Nonetheless, the pace of job openings has picked up overall.

The tight labor market has also been noted by small business owners as a challenge. In the latest survey from the National Federation of Independent Business, the percentage with positions unable to be filled right now inched up from 30 percent to 31 percent in this report. Similarly, capital expenditures activity remained promising, with those investing in capital up from 59 percent to 61 percent, the highest level since May. Those planning to make a capital expenditure over the next three to six months increased from 26 percent to 27 percent. Overall, the Small Business Optimism Index declined from 107.5 in November to 104.9 in December. November's reading was not far from the record high in July 1983 (108.0). The percentage of respondents suggesting the next three months should be a "good time to expand" remained at 27 percent, and it averaged 23.4 percent in 2017, which was well above the 9.7 percent average in 2016.

Finally, reduced energy costs in December kept inflationary pressures in check. Consumer prices edged up 0.1 percent in December, slowing from the 0.4 percent gain in November, largely on a 1.2 percent decline in energy costs. In a similar way, producer prices for final demand goods and services fell 0.1 percent in December, declining for the first time since August 2016. In December, excluding food and energy, core consumer and producer prices were up 0.3 percent and 0.2 percent, respectively. Pricing pressures accelerated across 2017, in general, but core inflation remains modest overall, at least for now. Over the past 12 months, core consumer and producer costs have risen by 1.8 percent and 2.2 percent, respectively.

This week, the Federal Reserve will release industrial production figures for December. Output in the manufacturing sector rose for the third straight month in November, up 0.2 percent. More importantly, production has increased by 2.4 percent over the past 12 months, matching the rate seen in October, with both being the best year-over-year paces since the best year-over-year rate in July 2014. Likewise, manufacturing capacity utilized inched up from 76.3 percent in October to 76.4 percent in November, a reading not seen since May 2008. We will be looking for continued strength at year's end for the sector, extending the gains seen in the prior release, and the New York and Philadelphia Federal Reserve Banks will highlight the first readings of activity in their districts for January. Other highlights this week include updates on consumer confidence, GDP by industry and housing starts and permits.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, January 8
Consumer Credit

Tuesday, January 9
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, January 10
None

Thursday, January 11
Producer Price Index

Friday, January 12
Consumer Price Index
Retail Sales

This Week's Indicators:

Monday, January 15
MARTIN LUTHER KING JR. DAY HOLIDAY

Tuesday, January 16
New York Fed Manufacturing Survey

Wednesday, January 17
Industrial Production
NAHB Housing Market Index

Thursday, January 18
Housing Starts and Permits
Philadelphia Fed Manufacturing Survey

Friday, January 19
GDP by Industry Report
University of Michigan Consumer Sentiment

Summaries for Last Week`s Economic Indicators

Consumer Credit

The Federal Reserve Board reported that U.S. consumer credit outstanding rose 8.8 percent at the annual rate in November, up from a 6.5 percent gain in October. Total consumer credit was $3.827 trillion in November, with $1.023 trillion in revolving credit and $2.805 trillion in nonrevolving credit. The monthly increase in November was the largest in 16 years, which no doubt helped to boost consumer spending for the month. Across the past 12 months, consumer credit has increased 5.3 percent.

Revolving credit, which includes credit cards and other credit lines, jumped 13.3 percent in November, extending the healthy 9.9 percent increase in October. This suggests Americans are less cautious in their spending and more willing to use their credit cards for purchases than just a few months ago. Meanwhile, nonrevolving credit, which includes auto and student loans, accelerated from 5.3 percent growth in October to 7.2 percent in November. On a year-over-year basis, revolving credit outstanding has risen 5.7 percent, while nonrevolving credit outstanding has increased 5.2 percent.

Consumer Price Index

The Bureau of Labor Statistics reported that consumer prices edged up 0.1 percent in December, slowing from the 0.4 percent gain in November. Reduced energy costs, which declined 1.2 percent for the month, helped to keep consumer inflation in check in December, with gasoline prices off 2.7 percent. This is largely consistent with data from the Energy Information Administration, which pegged the average price for regular conventional gasoline at $2.47 per gallon on November 6, falling to $2.36 a gallon on December 25. (Note that costs have risen since then, averaging $2.43 per gallon on January 8.) In contrast, food prices rose 0.2 percent in December. Since December 2016, food and energy costs have increased 1.6 percent and 6.9 percent, respectively.

Excluding food and energy, core consumer inflation increased 0.3 percent in December, its fastest monthly pace since January. Prices rose in every major category except apparel (down 0.5 percent), including significant gains for used cars and trucks (up 1.4 percent), medical care commodities (up 1.0 percent) and new vehicles (up 0.6 percent).

Overall, the consumer price index increased 2.1 percent year-over-year in December, easing from 2.2 percent in November. Pricing pressures have accelerated since June’s 1.6 percent year-over-year reading, but the current pace remains well below the 2.8 percent pace in February. In addition, core consumer prices, which exclude food and energy costs, have risen 1.8 percent over the past 12 months, up slightly from 1.7 percent in the prior release.

Job Openings and Labor Turnover Survey

The Bureau of Labor Statistics reported that net hiring among manufacturers remained robust in November, according to the latest Job Openings and Labor Turnover Survey report. The manufacturing sector hired 355,000 workers in November, up from 344,000 in October and not far from August's level of 359,000, which was nearly a 10-year high. Hiring increased for durable goods firms in November, up from 198,000 to 209,000, but was unchanged for nondurable goods manufacturers at 146,000. At the same time, total separations—including layoffs, quits and retirements—rose from 309,000 to 327,000. As a result, net hiring (or hires minus separations) declined from 35,000 in October to 28,000 in November. More importantly, however, net hiring has averaged a very healthy 33,600 over the past five months, or 20,100 year to date.

Meanwhile, manufacturing job openings decelerated, down from 409,000 in October to 378,000 in November. It was the first reading for job postings below 400,000 since May. Nonetheless, the pace of job openings has picked up overall. Monthly job openings in the sector have averaged 394,000 through the first 11 months of 2017, up from 341,750 for all of 2016. Indeed, as the manufacturing outlook has improved, job openings have turned higher—another sign that the labor market has tightened significantly. One year ago, for instance, there were 319,000 job openings in the manufacturing sector. The underlying job openings data in November decreased for both durable (down from 247,000 to 231,000) and nondurable (down from 162,000 to 147,000) goods businesses.

Turning to the larger economy, job openings for nonfarm payroll businesses edged down from 5,925,000 in October to 5,879,000 in November. It was the second consecutive month with job postings below 6 million, with total job openings pulling back from the all-time high recorded in July (6,140,000). In the latest data, the largest monthly increases in postings included construction, finance and insurance, information and retail and wholesale trade. Meanwhile, net hiring among nonfarm businesses continued to be strong, at 341,000 and 286,000 in October and November, respectively.

NFIB Small Business Survey

The National Federation of Independent Business reported that the Small Business Optimism Index declined from 107.5 in November to 104.9 in December. November's reading was not far from the record high in July 1983 (108.0). Note that readings above 100 are consistent with strong growth among small business owners, and the robust data seen for much of the past year would suggest a healthy economic outlook overall. Indeed, the headline index, which averaged 95.3 in 2016, jumped to an average of 104.9 in 2017, consistent with the December figure.

The percentage of respondents suggesting the next three months should be a "good time to expand" remained at 27 percent. It averaged 23.4 percent in 2017, which was well above the 9.7 percent average in 2016. In addition, the net percentage reporting increased sales over the past three months rose from -5 percent in November to 9 percent in December. Nonetheless, the net percentage feeling that sales should be higher over the next three months dropped from 34 percent to 28 percent. Despite the easing in that measure, the net percentage expecting higher sales has soared from 4.6 percent in 2016 to 23.3 percent in 2017.

The labor market also remains strong. The net percentage planning to add workers in the next three months edged down from 24 percent to 20 percent, with the average rising from 11.3 percent in 2016 to 18.0 percent in 2017. Moreover, the percentage with positions unable to be filled right now inched up from 30 percent to 31 percent in this report. Similarly, capital expenditures activity remained promising, with those investing in capital up from 59 percent to 61 percent, the highest level since May. Those planning to make a capital expenditure over the next three to six months increased from 26 percent to 27 percent.

Respondents cited taxes as the "single most important problem" (21 percent), highlighting the need for comprehensive business tax reform, which was enacted in December. The quality of labor (19 percent) and government regulations and red tape (16 percent) also topped the list.

Producer Price Index

The Bureau of Labor Statistics reported that producer prices for final demand goods and services fell 0.1 percent in December, declining for the first time since August 2016. For manufacturers, producer prices for final demand goods were unchanged in December, pausing after jumping 1.0 percent in November. More than anything, this reflected flatness in energy prices, which had increased 4.6 percent in the prior report. This was largely consistent with recent observations in the spot price for West Texas Intermediate (WTI) crude oil, which increased from an average of $51.58 per barrel in October, to $56.64 in November, to $57.88 in December. (Note that WTI prices have increased significantly since then, with a closing spot price of $64.41 on January 12.)

Meanwhile, food prices declined 0.7 percent in December. On a year-over-year basis, final demand food and energy costs have risen 1.9 percent and 10.3 percent, respectively. Excluding food and energy, producer prices for final demand goods rose 0.2 percent in December, increasing for the fifth consecutive month.

Overall, producer prices for final demand goods and services have increased 2.7 percent since December 2016, down from a 3.0 percent year-over-year pace in November. This reflects an acceleration in pricing pressures across 2017, up from a 1.6 percent year-over-year rate 12 months ago. Nonetheless, core producer prices, which exclude food, energy and trade services, continue to be modest at 2.2 percent, off from 2.4 percent in the prior release. For comparison purposes, core producer prices registered 1.9 percent year-over-year in December 2016, with that rate averaging 2.0 percent for 2017 overall.

Retail Sales

Retail spending rose 0.4 percent in December, extending the robust gains in the prior three months and ending the year on a strong note. The data show that consumers have increased their spending of late, especially relative to the slower growth in the summer months, with robust holiday spending overall. Indeed, retail sales have risen a healthy 5.4 percent year-over-year in December—a strong figure, even with some easing from the 6.0 percent pace in November. For comparison purposes, the year-over-year rate registered 3.8 percent in December 2016. Excluding automobiles, the pace was even stronger, with retail sales up 6.3 percent over the past 12 months, the best year-over-year rate in five years.

Retail spending data were mixed but mostly higher in December. The largest increases included building material and garden supply stores (up 1.2 percent), nonstore retailers (up 1.2 percent), food services and drinking places (up 0.7 percent), furniture and home furnishings stores (up 0.6 percent), food and beverage stores (up 0.5 percent) and health and personal care stores (up 0.4 percent). In contrast, monthly sales fell for miscellaneous store retailers (down 2.9 percent), sporting goods and hobby stores (down 1.6 percent), department stores (down 1.1 percent), clothing and accessories stores (down 0.3 percent) and electronics and appliance stores (down 0.2 percent). It is perhaps notable that while nonstore retailers experienced strong growth in December, department stores suffered sizable declines in sales. This further illustrates the tension between brick-and-mortar and online sales operations.

Over the past 12 months, the fastest growth in retail sales occurred in the following segments: nonstore retailers (up 12.7 percent), building material and garden supply stores (up 9.9 percent), furniture and home furnishings stores (up 9.9 percent), gasoline stations (up 9.1 percent) and electronics and appliance stores (up 6.5 percent). Regarding the structural shifts mentioned in the previous paragraph, department store sales edged up just 0.5 percent year-over-year. Gasoline stations benefited from higher prices, with recent hurricanes buoying home improvement and motor vehicles activity.

Connect with the Manufacturers

Questions or comments?

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