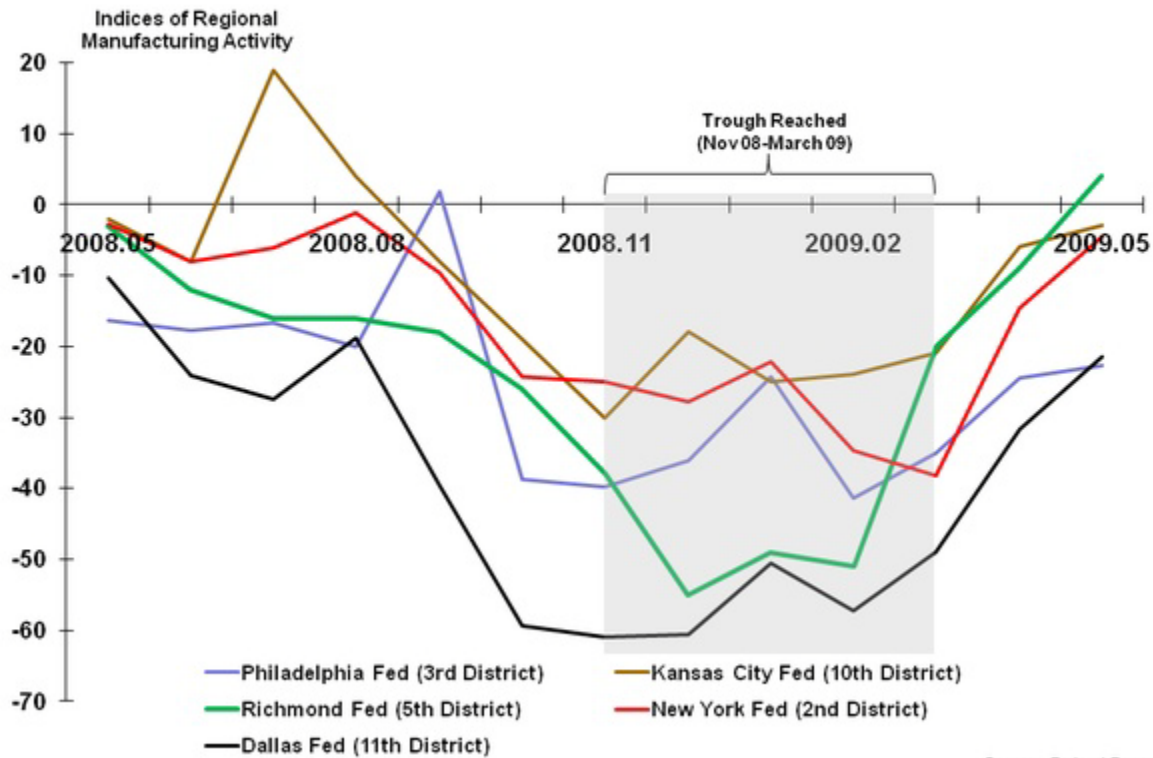




The Manufacturing Situation



Source: Federal Reserve

June 1, 2009

While it is not "case closed", the evidence that the state of the economy is poised to improve has moved from anecdotal to direct.

Of the eleven indicators that came out last week, only one worsened: home prices continued to decline. Outside of that, it appears that a smoother ride is shaping up for manufacturers and the rest of the economy going forward. And looking in the rear view mirror, the road just traveled turned out to be a little less bumpy than we initially thought: the Commerce Department's revised estimate of first quarter GDP growth, which came out last Friday, showed that economic growth fell at an annual rate of 5.7 percent, slightly milder than the advanced report of a 6.1 percent decline.

While signs of improving economic conditions have only started to materialize within the past several months, the breadth of the improving indicators is noteworthy (*see Latest Economic Reports section below*). Last week's improvements in the housing market, consumer

confidence, initial unemployment claims and new orders for durable goods all point to a milder decline in GDP shaping up in the second quarter.

Also last week, three of the Federal Reserve Regional Banks' (Dallas, Richmond, Kansas City) May manufacturing reports showed that conditions within manufacturing continue to improve (see chart above). As the chart shows, the trough in the various regional manufacturing surveys was reached between November and March, and since then, the state of manufacturing has improved everywhere. In the Fifth District (Richmond Fed), there was an actual increase in manufacturing activity in May. While most of manufacturing continues to decline, conditions are clearly better than they were three to six months ago.

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Latest Economic Reports

Last Week's Economic Indicators:

Color Code

Positive (improving)

Positive (slowing)

Unchanged

Negative (improving)

Negative (declining)

GDP (Q1 Prelim)

There was a slight upward revision to GDP in the first quarter of 2009. Based on the preliminary report, real GDP fell at an annualized rate of 5.7 percent in the first quarter. This is modestly better than last month's advanced report of a 6.1 percent decline.

The upward revision was due to improvements to exports and inventories that were partly offset by a downward revision to consumer spending on nondurable goods.

In addition, corporate profits rose for the first time in seven quarters.

Chicago Fed National Activity Index (April)

The Chicago Fed's national activity index rose to -2.06 in April from a downwardly revised -3.36 in March. The index has reached its highest level since October. April's improvement is consistent with the Conference Board's leading economic indicator, which suggests the pace of economic decline is moderating.

This Week's Indicators:

Monday

Personal Income (April)

Construction Spending (April)

ISM Manufacturing Index (May)

Tuesday

Vehicle Sales (May)

Pending Home Sales (April)

Wednesday

Factory Orders (April)

ISM Nonmanufacturing Index (May)

Thursday

Weekly Jobless Claims

Chain Store Sales (May)

Productivity (Q1)

Friday

The Employment Situation (May)

Questions or Comments?
Please contact Dave Huether at

Durable Orders (April)

New orders for manufactured durable goods bounced back in April, rising 1.9 percent, the second rise in the past three months.

Orders for primary and fabricated metals, machinery, and electrical equipment were up over the month. Computer orders fell, as did civilian aircraft orders. Motor vehicle orders and shipments rose for the first time in six months.

Though capital goods orders fell in April, it is encouraging that orders in just about every other category besides computers rose.

Richmond Fed Manufacturing Survey (May)

Manufacturing activity in the Federal Reserve's Fifth District (covering MD, WV, VA, NC and SC) increased for the first time since March 2008. The composite index rose to 4 in May from -9 in April.

The May report provides solid evidence that manufacturing has stabilized in the fifth district. The shipments and new orders indices are both in positive territory, indicating that production likely reached a trough in the first quarter.

Of the major Federal Reserve regional reports, the Fifth District's May survey of manufacturing is the first that showed actual growth in industrial output since last September.

Dallas Fed Manufacturing Survey (May)

Texas factory activity, while still weak, improved in May for a third consecutive month. After bottoming out at -61 in November of 2008, the current general business activity index rose to -21.5 in May from -31.6 in April.

Meanwhile the future business activity index (forecasting activity six months forward) moved into positive territory (10.3) for the first time since September 2007.

Kansas City Fed Manufacturing Survey (May)

Manufacturing activity in the Federal Reserve's Tenth District (WY, CO, NE, KS, OK, Western MO and Northern NM) contracted at the most modest pace in nine months.

After bottoming out at -30 last November, the production index has improved five out of the

past six months and rose to -3 in May.

S&P /Case-Shiller Home Price Index (March)

Existing-house prices fell faster in March than had been expected. The 20-city index declined 18.7 percent from a year ago during the three months ending in March, unchanged from the rate reported during the three-month period ending in February.

On a month-ago basis, the rate of decline in home prices was similar with those of prior months.

Home prices fell at a slightly faster pace in March (-2.2 percent) than in February (-2 percent).

Existing Home Sales (April)

Existing-home sales increased 2.9 percent in April, bringing the pace of resales up to an annualized 4.68 million. Sales have oscillated within the 4.5 million to 4.9 million range since last October, suggesting that existing-home sales have bottomed out.

New Home Sales (April)

Sales of new homes increased by a scant 0.3 percent to 352,000 annualized units in April, the third increase in the past four months. The recent rise in new home sales has begun to reduce excess supply of houses on the market. Housing inventory (months of supply on market) declined to 10.1 months in April, the lowest level since last July.

Consumer Confidence (May)

The Conference Board index of consumer confidence surged again in May. The index jumped to 54.9 from April's 40.8 (upwardly revised from 39.2). The expectations component again led the rise, increasing to 72.3 from 51 (previously 49.5).

The May rise in consumer confidence was the third consecutive monthly increase, bringing confidence close to the level of September 2008.

Initial Jobless Claims (Weekly)

Initial jobless claims fell 13,000 to a level of 623,000 for the week ending May 23.

Troubles remain severe, but there are signals that the rate of deterioration is beginning to ease. Since hitting their peak in March, initial claims have been on a gradual yet discernible downward trend. This signals that businesses

are beginning to slow the pace of layoffs.

However, further near-term improvement will be choppy, considering the weight of domestic auto troubles. GM's early and extended idling of factories will place upward pressure on initial claims as the effect of the shutdowns ripples through the supply chain.

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