Housing Commentary: Section II

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Atlanta Fed GDPNow™

Latest forecast: 3.1 percent — March 6, 2020

“The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the first quarter of 2020 is 3.1 percent on March 6, up from 2.7 percent on March 2. Following data releases by the Institute for Supply Management, the U.S. Bureau of Economic Analysis, the U.S. Bureau of Labor Statistics, and the U.S. Census Bureau, the nowcasts of first-quarter real gross private domestic investment growth and first-quarter real personal consumption expenditures growth increased from 5.2 percent and 2.2 percent, respectively, to 6.1 percent and 2.4 percent, respectively, while the nowcast of first-quarter real government spending growth increased from 1.7 percent to 2.1 percent.” – Pat Higgins, Economist, Federal Reserve Bank of Atlanta
U.S. Economic Indicators

The Atlanta Fed-Chicago Booth-Stanford
Survey of Business Uncertainty

Business Expectations

We compute these topic-specific expectations indexes by averaging across firms’ expectations about their own sales growth rate over the next four quarters, employment growth rate over the next twelve months, and capital investment rates four quarters ahead. Each index captures both the direction and magnitude of expectations for sales growth, employment growth, or investment to turn out in the future. Each index is standardized to have a mean of 100 from January 2015 to December 2018. A 10-point movement in an index represents a 1 standard deviation change.

Source: Atlanta Fed/Chicago Booth/Stanford Survey of Business Uncertainty

FEDERAL RESERVE BANK of ATLANTA

Exported on: Thursday, February 27, 2020

Source: https://www.frbatlanta.org/research/surveys/business-uncertainty; 2/26/20
We compute these topic-specific uncertainty indexes by averaging across firms' uncertainty about their own sales growth rates over the next four quarters, employment growth rates over the next twelve months, and capital investment rates four quarters ahead. Higher levels of our uncertainty indexes occur when firms express uncertainty about where they expect sales growth, employment growth, or investment to go in the future. For example, our sales growth uncertainty index rises when the gap between firms' 'lowest' and 'highest' sales growth scenarios widens, or when they assign a higher probability to their 'lowest' and 'highest' case scenarios. Our uncertainty index is standardized to have a mean of 100 from January 2015 to December 2018. A 10-point movement in an index represents a 1 standard deviation change in the series.

Source: Atlanta Fed/Chicago Booth/Stanford Survey of Business Uncertainty

Source: https://www.frbatlanta.org/research/surveys/business-uncertainty; 2/26/20
The Business Expectations Index reflects firms' expectations about the growth of their own sales, employment, and capital expenditures over the next 12 months and how they respond to news about the overall economy, changes in business sentiment, policy developments, stock market moves, interest rate changes, and credit conditions in the outlook of firms in the sample.

The Business Uncertainty Index reflects firms' uncertainty about the growth of their own sales, employment, and capital expenditures over the next 12 months and how they respond to the same forces that move the Business Expectations Index.

The Business Uncertainty Index captures uncertainty about the outlook for sample firms, while the Business Expectations Index captures the expected direction and magnitude of change. Each index is standardized to have mean and variance of 100 during the period from January 2015 to December 2018.

Source: Atlanta Fed-Chicago Booth/Stanford Survey of Business Uncertainty
Survey Shows Growth Increased in January and Early February

“The Chicago Fed Survey of Business Conditions (CFSBC) Activity Index moved up to −1 from −7, suggesting that growth in economic activity remained at a modest pace in January and early February. The CFSBC Manufacturing Activity Index increased to −10 from −16, and the CFSBC Nonmanufacturing Activity Index moved up to +4 from −2.

• Respondents’ outlooks for the U.S. economy for the next 12 months deteriorated, but remained optimistic on balance. Respondents with optimistic outlooks highlighted good economic data and growing demand for their firms’ products. Respondents with pessimistic outlooks highlighted the potential negative effect of the coronavirus outbreak on global economic growth and elevated policy uncertainty under the current U.S. presidential administration.

• The pace of current hiring increased, though respondents’ expectations for the pace of hiring over the next 12 months deteriorated. The hiring index remained negative, and the hiring expectations index moved into negative territory.

• Respondents’ expectations for the pace of capital spending over the next 12 months increased, but the capital spending expectations index remained negative.

• The labor cost pressures index edged down, but the nonlabor cost pressures index moved up. Both cost pressures indexes remained negative.” – Michael Adleman, Media Relations, The Federal Reserve Bank of Chicago
The Federal Reserve Bank of Chicago: Survey of Business Conditions

CFSBC Activity Index and U.S.
Real Gross Domestic Product Growth

Activity Index: 2.1

Index Points to an Uptick in Economic Growth in January

“The Chicago Fed National Activity Index (CFNAI) increased to –0.25 in January from –0.51 in December. All four broad categories of indicators that make up the index increased from December, but only one of the four categories made a positive contribution to the index in January. The index’s three-month moving average, CFNAI-MA3, moved up to –0.09 in January from –0.23 in December.

The CFNAI Diffusion Index, which is also a three-month moving average, increased to –0.16 in January from –0.25 in December. Thirty-six of the 85 individual indicators made positive contributions to the CFNAI in January, while 49 made negative contributions. Fifty-six indicators improved from December to January, while 27 indicators deteriorated and two were unchanged. Of the indicators that improved, 30 made negative contributions.” – Michael Adleman, Media Relations, The Federal Reserve Bank of Chicago

Source: https://www.chicagofed.org/publications/cfnai/; 2/24/20
Index Points to an Uptick in Economic Growth in January

“Production-related indicators contributed –0.23 to the CFNAI in January, up from –0.34 in December. Industrial production decreased 0.3 percent in January after decreasing 0.4 percent in December. The contribution of the sales, orders, and inventories category to the CFNAI moved up to –0.02 in January from –0.06 in December. The Institute for Supply Management’s Manufacturing New Orders Index increased to 52.0 in January from 47.6 in the previous month.

Employment-related indicators contributed –0.03 to the CFNAI in January, up from –0.12 in December. Nonfarm payrolls rose by 225,000 in January after increasing by 147,000 in December, but the unemployment rate ticked up to 3.6 percent in January from 3.5 percent in the previous month. The contribution of the personal consumption and housing category to the CFNAI edged up to +0.03 in January from a neutral value in December. Housing permits increased to 1,551,000 annualized units in January from 1,420,000 in the previous month.

The CFNAI was constructed using data available as of February 20, 2020. At that time, January data for 51 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index. The December monthly index value was revised to –0.51 from an initial estimate of –0.35, and the November monthly index value was revised to +0.49 from last month’s estimate of +0.41.” – Michael Adleman, Media Relations, The Federal Reserve Bank of Chicago
Texas Manufacturing Expansion Continues

“Growth in Texas factory activity accelerated further in February, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose six points to 16.4, suggesting stronger output growth than last month.

Other measures of manufacturing activity pointed to continued expansion in February, though demand growth decelerated. The new orders index fell nine points to 8.4, down from a 15-month high in January but still slightly above average. Similarly, the growth rate of orders index fell but remained above average, edging down from 6.1 to 3.6. The capacity utilization and shipments indexes held steady at 11.3 and 8.5, respectively.

Perceptions of broader business conditions were slightly more optimistic in February. The general business activity index edged up to 1.2 and the company outlook index ticked up to 3.6, though both readings remain slightly below average. The index measuring uncertainty regarding companies’ outlooks moved up eight points to 11.0 after receding in the prior two months.

Labor market measures suggested flat employment levels and slightly longer workweeks this month. The employment index stayed near zero for a second month in a row, coming in at -0.9. Fifteen percent of firms noted net hiring, while 16 percent noted net layoffs. The hours worked index moved up to 2.1.

Upward pressure on input prices and wages picked up in February, while selling prices remained flat. The raw materials prices index moved up three points to 12.8, a reading still well below average. The wages and benefits index rose from 16.3 to 22.6, reaching its highest level in six months. Meanwhile, the finished goods prices index hovered just above or below zero for the fourth month in a row, suggesting no meaningful change in selling prices.” – Emily Kerr, Business Economist, The Federal Reserve Bank of Dallas

Texas Manufacturing Expansion Continues

“Expectations regarding future business conditions were slightly more optimistic in February. The indexes of future general business activity and future company outlook moved up to 18.0 and 24.1, respectively. Most other indexes for future manufacturing activity declined slightly but remained solidly in positive territory.” – Emily Kerr, Business Economist, The Federal Reserve Bank of Dallas

Texas Service Sector Growth Moderates

“The Texas service sector expanded at a slower pace in February, 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 18.8 in January to 14.0 in February. Labor market indicators reflected continued employment growth and slightly longer workweeks this month. The employment index declined from 8.4 to 6.1, suggesting a slight deceleration in hiring, although the part-time employment index rose to 4.1 — its highest reading in over a year. The hours worked index picked up slightly from 3.3 to 4.4.

Perceptions of broader business conditions improved in February, though optimism was somewhat diminished compared with last month. The general business activity index declined from 11.1 to 7.0, while the company outlook index fell over seven points to 5.1. Nevertheless, the outlook uncertainty index fell about three points to 4.6.

Wage pressures eased slightly, while price pressures were somewhat mixed in February. The wages and benefits index dipped from 19.4 to 17.7, while the selling prices index fell nearly nine points to 8.0. The input prices index was largely unchanged at 26.6.

Respondents’ expectations regarding future business conditions remained positive on net, though optimism waned. The future company outlook index decreased about four points to 15.8, while the future general business activity index slipped from 17.6 to 12.0. Other indexes of future service sector activity, such as revenue and employment, held at a high level and continued to reflect expectations of robust growth over the next six months.” — Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

Retail Sales Decline Slightly

“Retail sales fell in February, according to business executives responding to the Texas Retail Outlook Survey. The sales index dropped from 4.8 in January to -2.5 in February. Inventories contracted sharply, with the inventories index plummeting over 19 points to -9.7.

Retail labor market indicators suggested little overall change in the level of employment and a slight shortening of workweeks in February. The employment index declined two points to -1.0, indicating very little change in net employment compared with January. The hours worked index fell from 4.7 to -1.7, suggesting a slight net decrease in average hours worked by employees.

Retailers’ perceptions of broader business conditions deteriorated significantly in February, despite a tempering in the outlook uncertainty index. The general business activity index fell further into negative territory from -2.1 to -5.0, while the company outlook index plunged over 10 points to a six-month low of -10.3.

Retail price pressures were mixed, while wages pressures inched up in February. The input prices index declined about five points to 19.9, while the selling prices index picked up from 23.2 to 27.5 — its highest reading in over a year. The wages and benefits index ticked up from 12.2 to 14.7.

Despite negative sentiment surrounding current business conditions, retailers’ perceptions of future conditions were more mixed this month. The future general business activity index dropped into negative territory at -1.3, while the future company outlook index declined over 12 points but remained positive at 2.3. Other indexes of future retail activity, such as sales and employment, were similarly mixed but, overall, pointed to continued growth over the next six months.” — Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

The Federal Reserve Bank of Dallas

Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted

The Federal Reserve Bank of Kansas City

Tenth District Manufacturing Activity Increased Modestly

Factory activity increased modestly in February.

“Tenth District manufacturing activity increased modestly in February, reaching positive territory for the first time in eight months (Chart 1). Expectations for future activity remained at solid levels, and the month-over-month price indexes increased at a moderate pace. District firms continued to expect higher prices in the next 6 months.

The month-over-month composite index was 5 in February, higher than -1 in January and -5 in December. The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The increase in district manufacturing activity was driven by both durable and non-durable goods plants, particularly food and transportation equipment producers. Most month-over-month indexes moved into positive territory in February, with many reaching their highest levels in over a year. However, the order backlog and employment indexes continued to fall. Year-over-year factory indexes rebounded strongly, with the composite index jumping from -7 to 5. The future composite index remained solid, inching slightly higher from 14 to 16.” – Chad Wilkerson, Vice President and Oklahoma City Branch Executive, Federal Reserve Bank of Kansas City

Special questions

“This month contacts were asked special questions about how several global developments were affecting their businesses. Over 40 percent of District manufacturing contacts reported negative effects from Coronavirus so far in 2020 (Chart 2). Looking ahead, over 50 percent of manufacturers expect negative effects from Coronavirus for the rest of 2020, but 46 percent of firms anticipated some positive effects from recently signed trade deals this year (Chart 3).” – Chad Wilkerson, Vice President & Oklahoma City Branch Executive, Federal Reserve Bank of Kansas City
The Federal Reserve Bank of Kansas City

Chart 2. Special Question: How have the following global developments affected your business so far in 2020?

Chart 3. Special Question: How do you expect the following global developments to affect your business for the rest of 2020?

The Federal Reserve Bank of Kansas City

Tenth District Services Activity Rose Modestly in February

"Tenth District services activity rose modestly in February and expectations for future activity also expanded (Chart 1). Input and selling price indexes continued to grow, but at slower pace compared with a month ago. Expectations for both future input and selling prices remained high.

The month-over-month services composite index was 6 in February, moderately lower than 14 in January and 15 in December. The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Nearly all month-over-month indexes remained positive in February. The index for wages and benefits increased to the highest level in the six-year survey history. On the other hand, the access to credit index turned negative for the first time in almost a year. The general revenue/sales index was positive, driven by increases in most sectors, while some consumer spending activity, specifically restaurants and auto, declined. Year-over-year services indexes were relatively similar to last month, and the year-over-year composite index remained unchanged at 20. Expectations for future services activity grew, but a slightly lower rate as the composite index edged down from 28 to 23." – Chad Wilkerson, Vice President and Oklahoma City Branch Executive, The Federal Reserve Bank of Kansas City
U.S. Economic Indicators

Composite Index vs. a Month Ago

Composite Index

“Business activity picked up in New York State, according to firms responding to the February 2020 Empire State Manufacturing Survey. The headline general business conditions index moved up eight points to 12.9. The new orders index shot up 16 points to 22.1, and the shipments index climbed to 18.9. Delivery times lengthened, and inventories increased significantly. Employment expanded only modestly, and the average workweek was little changed. Input price increases slowed somewhat, and selling price increases picked up a touch. Optimism about the six-month outlook continued to be somewhat subdued, and capital spending plans remained firm.

Manufacturing firms in New York State reported that business activity grew at a faster pace than in recent months. The general business conditions index increased eight points to 12.9, its highest level since May of last year. Thirty-four percent of respondents reported that conditions had improved over the month, while 21 percent reported that conditions had worsened. The new orders index climbed 16 points to 22.1, its highest level in well over a year, indicating that orders rose significantly. The shipments index rose ten points to 18.9. Delivery times were longer, and inventories climbed.” – Richard Deitz and Jason Bram, The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/empire/empiresurvey_overview; 2/18/20
Empire State Manufacturing Survey

Labor Market Indicators Soft

“The index for number of employees edged down to 6.6, indicating that employment grew to a small degree. The average workweek held near zero, a sign that the average workweek was little changed. The prices paid index moved down seven points to 25.0, pointing to a slower pace of input price increases this month, while the prices received index edged up two points to 16.7.

Optimism Remains Somewhat Subdued

Indexes assessing the six-month outlook suggested that optimism about future conditions was somewhat restrained. The index for future business conditions was little changed at 22.9. The indexes for future new orders and future shipments edged lower. Employment and hours worked are expected to grow modestly in the months ahead. The capital expenditures index came in at 22.0, and the technology spending index was little changed at 21.2.” – Richard Deitz and Jason Bram, The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/empire/empiresurvey_overview; 2/18/20
General Business Conditions

Diffusion index, seasonally adjusted

Source: https://www.newyorkfed.org/survey/empire/empiresurvey_overview; 1/15/20
“Activity in the region’s service sector grew at a faster pace than in recent months, according to firms responding to the Federal Reserve Bank of New York’s February 2020 Business Leaders Survey. The survey’s headline business activity index climbed six points to 9.8, its highest level in several months. The business climate index fell to slightly below zero, indicating that, on balance, firms regarded the business climate as worse than normal. Employment levels increased marginally, and wage increases were more widespread. Input prices rose at the same pace as last month, while selling price increases continued to accelerate. Firms were optimistic about future conditions and said they expected significant increases in employment in the months ahead.

Growth Picks Up Business activity in the region’s service sector grew modestly. The headline business activity index rose six points to 9.8. Thirty-one percent of respondents reported that conditions improved over the month, while 21 percent said that conditions worsened. After turning positive last month, the business climate index fell back to a level slightly below zero, indicating that, on balance, firms viewed the business climate as worse than normal.” – Jason Bram and Richard Deitz, The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/empire/empiresurvey_overview; 2/19/20
“The employment index edged down for a second consecutive month, and at 3.1, suggested only a slight increase in employment levels. The wages index increased nine points to 45.3, its highest level in nearly a year. The prices paid index was little changed at 48.4, signaling that input prices increased at about the same pace as last month. The prices received index moved up for a second consecutive month, climbing four points to 26.7, pointing to a pickup in selling price increases. The capital spending index held steady at 18.3.

Better Business Climate Expected

Firms remained optimistic about the six-month outlook. The index for future business activity advanced three points to 35.1, and the index for future business climate remained above zero, suggesting that firms expected the business climate to be better than normal in the months ahead. The index for future employment rose to 34.0, indicating that firms expected fairly significant increases in employment. The index for future capital spending came in at 20.4.” – Jason Bram and Richard Deitz, The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/empire/empiresurvey_overview; 2/19/20
March 13, 2020: Highlights

- News from this week’s data decreased the nowcast for 2020:Q1 by 0.1 percentage point and decreased the nowcast for 2020:Q2 by 0.2 percentage point.
- Negative surprises from the PPI and export prices releases accounted for most of the decline.” – The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/research/policy/nowcast; 3/13/20
Manufacturing firms reported an improvement in regional manufacturing activity, according to results from the February *Manufacturing Business Outlook Survey*. The survey’s current indicators for general activity, new orders, and shipments increased this month, suggesting more widespread growth. The firms reported expansion in employment, although at a moderated pace from January. The survey’s broad future indexes also showed improvement this month, indicating that growth is expected to continue over the next six months.

**Firms Report Increases in New Orders**

The diffusion index for current general activity rose nearly 20 points this month to 36.7, its highest reading since February 2017 (see Chart). The percentage of firms reporting increases (52 percent) this month exceeded the percentage reporting decreases (15 percent). The index for new orders increased 15 points to 33.6, its highest reading since May 2018. Over 50 percent of the firms reported an increase in new orders, up from 46 percent in January. The current shipments index increased 2 points. Both the unfilled orders and delivery times indexes moved into positive territory this month, suggesting slightly higher unfilled orders and slower delivery times.

The firms reported overall increases in manufacturing employment this month, but the current employment index decreased 10 points to 9.8. Just 18 percent of the firms reported higher employment, compared with 28 percent last month. The average workweek index, however, increased 5 points.” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia

Current and Future General Activity Indexes
January 2008 to February 2020

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.

Firms Report Slight Softening of Input Price Pressures

“The firms continued to report overall increases in prices paid for inputs and received for goods. The prices paid diffusion index decreased 6 points to 16.4. The percentage of firms reporting increases in input prices (23 percent) remained higher than the percentage reporting decreases (7 percent). The current prices received index, reflecting the manufacturers’ own prices, edged up 2 points to a reading of 17.1.

Firms Still Expect Own Prices to Rise Faster Than Inflation

In this month’s special questions, the firms were asked to forecast the changes in the prices of their own products and for U.S. consumers over the next four quarters. The firms’ median responses were identical to those in the previous quarter. Regarding their own prices, the firms’ median forecast was for an increase of 2.5 percent, unchanged from the previous forecast in November. The firms’ actual price change over the past year was 2.0 percent. The firms continued to expect their employee compensation costs (wages plus benefits on a per employee basis) to rise 3.0 percent over the next four quarters. When asked about the rate of inflation for U.S. consumers over the next year, the firms’ median forecast was unchanged at 2.0 percent. The firms’ median forecast for the long-run (10-year average) inflation rate remained at 2.5 percent.” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia
Most Future Indicators Show Improvement

“The diffusion index for future general activity rose 7 points to 45.4, its fifth consecutive month of improvement (see Chart). Nearly 56 percent of the firms expect increases in activity over the next six months, while 10 percent expect declines. The future new orders and shipments indexes also increased this month, by 12 points and 10 points, respectively. The firms’ expectations for employment over the next six months remained positive but were little changed this month: Over 31 percent of the firms expect higher employment; 7 percent expect lower employment. The future capital spending index decreased 3 points to a reading of 29.8.

Summary

Responses to the February Manufacturing Business Outlook Survey suggest a pickup in growth in manufacturing activity this month. The indicators for current activity, new orders, and shipments increased from their readings in January. The survey’s current employment index remained positive but moderated this month. The survey’s future indexes indicate that respondents continue to expect growth in manufacturing activity over the next six months.”– Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia
February 2020 Nonmanufacturing Business Outlook Survey
Firms Report Overall Growth

“Responses to the February Nonmanufacturing Business Outlook Survey suggest continued expansion in nonmanufacturing activity in the region. The indexes for general activity at the firm level, new orders, and sales/revenues all increased for the second consecutive month. Additionally, the index for full-time employment rose. The firms continued to report overall increases in prices of both their inputs and their own goods and services. The survey’s index for firm-level future activity suggests continued optimism about growth over the next six months.

The survey’s indicators for current general activity suggest continued growth in the nonmanufacturing sector of the regional economy. The diffusion index for current general activity at the firm level increased 13 points in February to 36.1 (see Chart), its highest level since November 2018. Over 52 percent of the firms reported increases in activity (up from 41 percent last month), compared with 16 percent that reported decreases (down from 18 percent last month). The new orders index rose 12 points to 28.1 in February, its highest level since August 2018. The sales/revenues index increased by double-digits for the second consecutive month, rising from 29.2 in January to 39.8 in February. Over 52 percent of the firms reported increases in sales/revenues, while 12 percent reported declines. The index measuring firms’ perception of regional activity rose 18 points to 31.0.

Employment Indexes Strengthen

Responding firms reported overall increases in both full- and part-time employment. The full-time employment index rose 9 points to 21.5 in February. The share of firms reporting increases in full-time employment (26 percent) exceeded the share reporting decreases (4 percent); the majority (61 percent) reported no change. The part-time employment index rose 3 points to 10.4, while the average workweek index ticked down 2 points to 17.1. The wages and benefits indicator fell 19 points to 30.7.” – Elif Sen, Research Department, The Federal Reserve Bank of Philadelphia

February 2019 Nonmanufacturing Business Outlook Survey

Firms Continue to Report Overall Price Increases

“The indexes for prices paid for inputs and prices received for the firms’ own products and services both edged down in February but remained in positive territory. The prices paid index fell 4 points to 21.3. Over 25 percent of the respondents reported increases in input prices, while 4 percent reported decreases. The prices received index ticked down 2 points to 14.5 in February. Nearly 23 percent of the firms reported increases in prices received, while 8 percent reported decreases. The majority of the firms (57 percent) reported no change in their own prices.

Firms’ Forecasts for Prices Remain Stable

In this month’s special questions, the firms were asked to forecast the changes in the prices of their own products and services and for U.S. consumers over the next four quarters (see Special Questions). Regarding their own prices, the firms’ median forecast was for an increase of 2.0 percent, the same as when the question was last asked in November. Regarding the firms’ historical own price change over the previous year, the median response was zero percent, down from the previous report of 1.5 percent. When asked about the rate of inflation for U.S. consumers over the next year, the firms’ median forecast was unchanged at 2.0 percent. The firms expect their employee compensation costs (wages plus benefits per employee) to rise 3.0 percent over the next four quarters, the same as the previous forecast. The firms’ forecast for the long-run (10-year) inflation rate remained at 3.0 percent.

Firms Anticipate Continued Growth

Both future activity indexes suggest that firms anticipate continued growth over the next six months, but index readings retreated from last month. The diffusion index for future activity at the firm level fell 11 points to 44.2 (see Chart). Nearly 55 percent of the firms expect an increase in activity at their firms over the next six months, compared with 10 percent that expect a decline. The future regional activity index fell 4 points to 32.9 in February.” – Elif Sen, Research Department, The Federal Reserve Bank of Philadelphia

Results from this month’s Nonmanufacturing Business Outlook Survey suggest continued expansion in regional nonmanufacturing activity. The indicators for firm-level general activity, new orders, and sales/revenues strengthened for the second consecutive month. The respondents continued to expect growth over the next six months.” – Elif Sen, Research Department, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia: GDPplus

GDPplus: An Alternative Measure of Real U.S. Output Growth
Last Updated: February 27, 2020

- 2019 Q4 • 2.1%
- 2019 Q4 • 2.1%
- 2019 Q3 • 1.2%

from 2016 Q1 to 2019 Q4

GDPplus Real GDP Real GDI

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.

Source: https://philadelphiafed.org/research-and-data/real-time-center/gdpplus/ 2/27/20
The Federal Reserve Bank of Philadelphia has released the leading indexes for the 50 states for January 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 1.4 percent over the next six months.” – Daniel Mazone, Research Department, The Federal Reserve Bank of Philadelphia
Fifth District manufacturing activity softened in February, according to the most recent survey from the Richmond Fed. The composite index fell from 20 in January to −2 in February. All three components of the composite index — shipments, new orders, and employment — moved lower from January. Firms also reported a decrease in backlog of orders. Still, the index for local business conditions remained positive, and manufacturers were optimistic that activity would improve in the coming months.

Survey results suggest that firms saw continued growth in employment and wages in February. However, firms continued to struggle to find workers with the necessary skills, as this index dropped to −35. Respondents expected this struggle to continue but employment and wages to grow in the next six months.

The average growth rates of both prices paid and prices received by survey participants rose in February, as growth of prices paid surpassed that of prices received. Manufacturers expected this gap to widen in the near future.” – Jeannette Plamp, Economic Analyst, The Federal Reserve Bank of Richmond
U.S. Economic Indicators

Fifth District Survey of Manufacturing Activity

Diffusion Index, Seasonally Adjusted 3-MMA

Source: Federal Reserve Bank of Richmond

Source: https://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions/manufacturing; 2/25/20
U.S. Economic Indicators

Manufacturing Activity

Index, SA

Feb-15  Feb-16  Feb-17  Feb-18  Feb-19  Feb-20

- Monthly  - 3-month moving average

Employment

Index, SA

Feb-15  Feb-16  Feb-17  Feb-18  Feb-19  Feb-20

- Monthly  - 3-month moving average

Source: https://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions/manufacturing; 2/25/20
U.S. Economic Indicators

Price Trends

Percent Change, SA

-2 -1 0 1 2 3 4 5 6

Feb-15 Feb-16 Feb-17 Feb-18 Feb-19 Feb-20

Prices Paid • Prices Received

Wages

Index, SA

0 10 20 30 40

Feb-15 Feb-16 Feb-17 Feb-18 Feb-19 Feb-20

Monthly • 3-month moving average

Source: https://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions/manufacturing; 2/25/20
“Until recently, the COVID-19 outbreak in China appeared to be a modest background headwind for the U.S. economy. In late February, however, the growing spread of the virus to regions outside China – including the United States – became a prominent concern for U.S. financial markets, households, and economy.

The Standard & Poor’s 500 index reached an all-time high on February 19 but subsequently plunged as the number of new cases and victims of the disease grew. Stock market volatility, as measured by the VIX index, spiked upwards, reaching its highest levels since the Great Recession.

In recent weeks, interest rates have fallen sharply as investors have sought the safety of government bonds. In early March, the Federal Open Market Committee reduced its target for the federal funds rate by 50 basis points, to a range of 1 to 1¼%. Chair Jerome Powell stated that the purpose of the rate cut was to avoid a tightening of financial conditions that might weigh on economic activity as well as to support household and business confidence.

It’s far too early to have hard data available to assess how consumer spending which has been supporting U.S. economic growth – will be affected by COVID-19. One daily measure of consumer confidence shows that, although sentiment held up well through most of February, it started slipping in the last week of the month.

Slowing foreign growth has posed a headwind to the U.S. outlook for several years for a variety of reasons, including weak domestic demand, trade tensions, and social unrest in some countries. At the end of 2019, foreign GDP (weighted by U.S. export shares) grew at its slowest pace in a decade. The effects of the spread of the coronavirus looks likely to worsen the global situation, at least in the near term.” – John Fernald, Senior Research Advisor; The Federal Reserve Bank of San Francisco
“Manufacturing surveys in China fell off a cliff in February, as the coronavirus lockdown and factory closings led Chinese production and new orders to plunge.

Outside China, the manufacturing situation has yet to fully reflect the coronavirus effect. The U.S. manufacturing survey remained expansionary with an index value of above 50. The euro-area survey was better than it has been in the past year although it was still modestly contractionary. One leading indicator of the COVID-19 effect is a rise in supplier delivery lags, consistent with the disruption of supply chains.

The 2003 SARS episode provides a comparison for projecting the possible economic effects of COVID-19. In the second quarter of 2003, when China established measures to halt SARS, its annualized quarter-to-quarter growth slowed from 12% to 3% but rebounded in the third quarter to nearly 16% after the virus waned. Thus the downturn was sharp but temporary. Growth then stabilized at around 10%. However, this comparison with COVID-19 is imperfect as SARS was less contagious, though more deadly, and was largely contained to China, Hong Kong, and Taiwan.

In the present COVID-19 case, China’s measures to contain the outbreak have substantially disrupted its economy as closed factories directly reduce production, households pull back on spending, and financial stress increases because firms, particularly small- and medium-sized enterprises, face severe cash flow challenges.” – John Fernald, Senior Research Advisor; The Federal Reserve Bank of San Francisco
The disruptions in China are spilling over to the rest of the world through supply-chain disruptions as well as reduced demand for foreign exports – and reduced travel and tourism spending abroad.

In addition, as the virus expands globally, it will weigh directly on foreign economies, including the United States, through the same kinds of supply, demand, and financial stress channels affecting China. How large these effects are outside China will depend on how well the virus is contained through monitoring and quarantines. But the economic effects elsewhere are likely to be less severe than in China.

In the near term, we expect the COVID-19 virus to slow U.S. growth in the first half of 2020 without derailing the medium- and longer-run forecast. U.S. GDP has been growing modestly above trend in recent years. For all of 2020, the COVID-19 virus is expected to slow growth to roughly its longer-run trend. U.S. GDP growth is then expected to rebound modestly above trend, before gradually returning to trend over the next couple of years. This forecast includes the stimulative effect of the additional monetary accommodation put in place this week.

Our baseline assumption underlying this forecast is that the coronavirus and its economic effects will be largely contained in the first half of the year. Of course, at this time there is no way to know how widespread or disruptive the disease will ultimately turn out to be. So the risks to the forecast appear skewed to the downside.

Inflation has been systematically running below the Federal Reserve’s 2% objective in recent years. We expect inflation to gradually rise to 2%. The recovery in inflation comes especially from the strong labor market, which will continue to put upward pressure on labor costs. The continued labor market strength is consistent with GDP growth that is at or above trend, reflecting accommodative monetary policy and fiscal tailwinds.” – John Fernald, Senior Research Advisor; The Federal Reserve Bank of San Francisco

U.S. Economic Indicators: Global

Stock market plunged, volatility spiked

Interest rates have fallen sharply

Consumer confidence slipped in late February

Foreign GDP growth was fragile before COVID-19

U.S. Economic Indicators: Global

Chinese manufacturing went off a cliff in February

Manufacturing purchasing managers' index (50+ = expansion)

- China
- Japan
- Euro area
- United States

2003 SARS episode as (imperfect) COVID-19 analogy

China output growth (seasonally adjusted annual rate)

- Quarter-to-Quarter
- Year-over-Year

U.S. output growth expected to slow towards trend

Output growth

4-quarter real GDP growth

Trend growth estimate

Inflation gradually rises to target

Personal consumption expenditures (PCE) price inflation

- Core
- Headline
- Longer-run target

Source: Bureau of Economic Analysis and FRBSF staff

Source: National Bureau of Statistics of China and Haver Analytics

Source: IHS Markit

Private Indicators: Global

Asia Pacific Special Focus

Covid-19: Assessing the economic impact on China and the Asia-Pacific region

The novel coronavirus – officially named COVID-19 by the World Health Organization (WHO) – and its rapid escalation have heightened concerns about the economic damage to the Chinese economy as well as to the rest of the Asia-Pacific region. The escalation of new Covid-19 cases in a number of other Asia-Pacific countries, including South Korea and Japan, have also increased fears that the Covid-19 epidemic may become more protracted and widespread, creating wider economic shockwaves.

Escalation of the COVID-19 epidemic

“The outbreak of the COVID-19 epidemic in Wuhan in January 2020 has developed into a major economic shock to the Chinese economy and the broader Asia-Pacific region. According to the WHO, the total number of confirmed coronavirus cases in China had reached 77,262 on 24th February 2020. This estimate includes both laboratory-confirmed and clinically diagnosed (only applicable to Hubei province) cases. The number of confirmed cases is thus now already 14 times greater than the total number of SARS cases recorded in mainland China during that epidemic in 2003 (5,327 persons according to the WHO).

Mainland China has responded to the crisis by taking strong measures to limit the spread of the new coronavirus strain, including a lockdown of many cities in Hubei province. A total lockdown has been imposed on movements in and out of the provincial capital of Wuhan, a megacity of around 11 million people, where the coronavirus is believed to have originated and where the vast majority of cases are recorded.” – Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit

Asia Pacific Special Focus
Disruption to China’s economic output

“The virus has already caused significant negative shock waves in the Chinese economy, affecting retail trade, tourism, and transport. In addition to restricting public transport movements in and out of certain badly impacted cities such as Wuhan, China has also banned all group-tourism travel sales by travel agencies in China for travel both within and outside of China, effective from 27 January. Chinese consumer spending has also been hit hard, with retail stores, restaurants, entertainment, tourism, and aviation badly affected.

Furthermore, China’s State Council extended the Lunar New Year holiday period, originally scheduled from 24 to 30 January, until 10 February 2020. Although offices and factories have been gradually reopening in most provinces starting 10 February, reopenings have been delayed even further in some of the worst-affected provinces.” – Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit

Private Indicators: Global

Asia Pacific Special Focus
Disruption to China’s economic output

“A key industrial sector that has been badly hit by the delayed restart of manufacturing production is the automotive sector. More than 80% of China’s automotive production is located in the provinces affected by the epidemic and resulting shutdowns. IHS Markit automotive experts have undertaken an initial analysis of the potential near-term impact on China’s auto production ("Coronavirus initial impact on light vehicle production", IHS Markit AutoInsight, 10 February 2020), and assess that, despite the restart of many plants on 10 February, these facilities will not reach full operational capacity until the third week after their reopening. This reflects issues relating to labour force shortages, mainly resulting from delayed return to work by migrant workers who must undergo quarantine periods when returning from their home provinces.

Supply chain disruptions due to the extended closure of Chinese plants producing auto parts have also begun to thwart auto production in other territories. Hyundai Motor Co has temporarily closed some car production lines in South Korea, and Nissan has temporarily closed its operations in Kyushu, Japan, because of supply chain disruptions of auto parts from China.

In the retail sector, several multinational firms have announced closures of some operations in mainland China because of the epidemic. Starbucks has announced that more than half of its 4,300 stores in China will be temporarily closed, while Apple has announced that all its retail stores in China have been temporarily closed. Sweden’s IKEA also announced it would close all its stores in China temporarily. With consumption spending having become the most important growth driver for the Chinese economy in recent years, a key near-term risk is from the negative impact on consumer confidence if the coronavirus epidemic is not soon brought under control.” – Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit

Private Indicators: Global

Asia Pacific Special Focus
Economic impact on the Asia-Pacific region

“In the past two decades, the rapid economic growth of China has made it a key export market for many Asia-Pacific nations. However, China’s growing importance in Asia-Pacific trade and investment flows has also created considerable vulnerability for the Asia-Pacific region to this type of unpredictable “black swan” event. With many COVID-19 cases already detected outside China, this outbreak is particularly concerning as it has occurred during the Chinese Lunar New Year season, when millions of Chinese tourists were traveling within China and to many popular Asian tourist destinations, such as Thailand, Vietnam, Japan, Singapore, and South Korea.

Globally, the number of confirmed coronavirus cases reported outside mainland China had reached 2,069 as of 24th February 2020, with cases having been identified in many parts of the world, including South Korea, Japan, Singapore, Italy, Germany, France and Iran. While temperature-screening measures are being implemented in international airports globally, their effectiveness is uncertain since the coronavirus is contagious even before significant symptoms emerge.

Governments in the APAC region are continuing to roll out new defensive measures to limit the transmission of the virus. Many nations have completely banned the entry of visitors from China, including Australia, India, Indonesia, Singapore, and New Zealand. Some APAC countries have put in place more limited restrictions on travel from China, including Malaysia and Thailand.

Besides the severe implications for travel and tourism globally, the economic implications of the coronavirus epidemic primarily relate to the key role mainland China plays in the global economy today – as an export destination for many markets/products and as a key supplier and intermediary in many global supply chains. Due to the rapid rise of exports from many Asia-Pacific economies to mainland China, any significant slowdown in Chinese economic growth will have negative transmission effects to the rest of the APAC region. Among these, Hong Kong SAR, Australia, Taiwan, South Korea and Japan have the highest share of total exports into the mainland Chinese market, and therefore are potentially the most vulnerable to a slowdown in APAC economic growth.” – Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit

Private Indicators: Global

Asia Pacific Special Focus

Economic impact on the Asia-Pacific region

“Other economies standing to lose from the economic impact of the epidemic are energy - and commodity producing markets, for whom China is a main end market.” – Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit

IHS Markit Global Link Model coronavirus scenario

“To assess the impact of a protracted and severe novel coronavirus epidemic, the IHS Markit international economics modelling team used the IHS Markit Global Link Macro-Industry Model of the World Economy to model the economic shock waves from a more protracted epidemic. The scenario assumes mainland China’s strongest measures to control the epidemic, such as the lockdown of worst-affected cities and protracted shutdown of offices and plants in these areas, persist through end-February, and that work only progressively returns to normal starting in March. Substantial disruptions to migrant workers’ return to work are also assumed to occur throughout February in this scenario. Due to the escalating epidemic, Chinese private consumption falls sharply in the first quarter of 2020 and remains depressed in the second because of continued disruptions and weak confidence levels, before recovering gradually in the second half of 2020 and into 2021.

In this severe scenario, mainland China’s economy would face a hard landing in 2020, with real GDP growth projected to slow to 4.2% in 2020, albeit it would rebound strongly in 2021 after the epidemic ends, growing at a pace of 7.1%. The 2020 annual growth figure in the scenario is 1.6 percentage points below the 2020 growth for China that was forecast by IHS Markit before the coronavirus outbreak.” – Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit
Private Indicators: Global

Asia Pacific Special Focus
IHS Markit Global Link Model
coronavirus scenario

“The negative impact on the global economy from such a severe shock to the mainland Chinese economy will be much greater today than during the SARS epidemic in 2002–03. Mainland China’s economy was the sixth largest in the world in 2002, accounting for 4.2% of world GDP; it is now the second-largest economy in the world, accounting for 16.3% of world GDP. China’s impact on the world economy is also much larger now than during the SARS outbreak, meaning the slowdown in Chinese growth would be a more significant drag on global growth. In 2002, China contributed 23% of world GDP growth, while in 2019 China contributed an estimated 38% of the world’s growth.

The negative shock waves to the rest of APAC from mainland China’s hard landing in 2020 would be severe, as many APAC territories are heavily reliant on China as a key export market for goods and services. Tourism would be one of the key transmission channels for this negative economic shock, due to the high dependency of many APAC markets on tourism visits from mainland China. Other transmission channels include supply chain linkages within APAC, and falling import demand for major commodities like coal, oil, and base metals from the world’s largest customer of those products.” – Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit

**Asia Pacific Special Focus**

**IHS Markit Global Link Model coronavirus scenario**

“In the IHS Markit severe coronavirus scenario, real GDP growth in the APAC region would be lowered 0.8 percentage point in 2020. However, APAC regional growth would also rebound in 2021 after the epidemic ends, growing at a pace of 0.8 percentage point above the baseline forecast in 2021 as real GDP returns to “normal” in the first quarter.

While the worst-hit market would be China, which is the epicentre of the epidemic, large negative economic impacts would be felt in many other APAC economies, with Singapore, Thailand, Australia, and Malaysia being among the worst-hit nations.” – Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit
Private Indicators: Global

Asia Pacific Special Focus

IHS Markit Global Link Model coronavirus scenario

“The economy of Hong Kong SAR would also be particularly badly hit in 2020 because of its close economic integration with mainland China through trade and tourism flows. Australia would suffer from lower coal and other basic commodity exports, as well by weaker exports of manufactured goods to mainland China and other markets in the region. The falling commodity and energy prices magnify the shocks for the producers of these commodities.

At the other end of the spectrum, Asia’s other emerging markets giant, India, would be relatively little affected, as the Indian economy is still heavily reliant on the domestic rural sector, and exports to China still account for a relatively low share of overall GDP.

At the global level, real GDP growth in the severe COVID-19 epidemic scenario is 0.8 percentage point lower than baseline in the first quarter of 2020 and 0.3 percentage point below the baseline for 2020. The economies most impacted after APAC are those in the Middle East and North Africa region, primarily because of the lower volumes of energy exports to China and lower energy prices. Another region hurt is Latin America; China is its main customer of key commodity exports. Real GDP growth is not significantly impacted in the US or Europe, as the reduction in exports to mainland China and the rest of APAC in the first half of 2020 is offset by lower imports from mainland China, and by the slight positive effect of lower energy prices on purchasing power. …” – Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit

Private Indicators: Global

Asia Pacific Special Focus

Impact on global commodities

“The slump in economic activity in China in early 2020 has become a significant negative shock to commodities demand in the near term, because of the importance of Chinese imports in overall international trade for many commodities, including oil, iron ore, and base metals.

The impact of the coronavirus is also an instant demand shock for oil markets. Latest estimates by IHS Markit show China’s oil demand down 2.9 million barrels per day (MMb/d) in February compared with a year earlier. For the entire first quarter of 2020, global demand is estimated to be 1.7 MMb/d less than a year earlier – the first quarterly demand decline since 2009. This result is also more than double the 600,000 b/d additional production cut proposed by the Vienna Alliance’s advisory.

With China having become the world’s largest importer of crude oil, the softening of oil demand in China has resulted in Brent crude oil prices falling to USD55 per barrel by 14 February 2020. This decline follows the spike in Brent crude oil prices above USD70 per barrel in early January. Then, prices spiked due to concerns about geopolitical risks to oil supply after the US drone strike that killed Iran’s Major General Qasem Soleimani on 3 January 2020 and the Iranian counterstrike with the launch of more than a dozen ballistic missiles on 8 January against US military and coalition forces in Iraq. The IHS Markit February energy market outlook foresees Brent oil prices dipping for a time below USD50/barrel in March and April, before recovering.

Iron ore prices have also fallen sharply because of the extended shutdown of industrial production in China, declining from USD94 per ton in late January to USD81 per ton by 10 February. The IHS Markit Materials Price Index (MPI) dropped a sharp 6.2% in the week to 7 February and is down by around 10% since the end of 2019.” – Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit
Asia Pacific Special Focus

Near-term outlook

“The rapidly escalating COVID-19 epidemic poses a significant downside risk to the near-term Asia-Pacific economic outlook in 2020, particularly if the epidemic continues to spread across mainland China and if cases in other Asia-Pacific economies escalate further in coming weeks. A key risk to regional trade is from the transmission effects to the Asia-Pacific supply chain as Chinese economic growth momentum softens in the first half of 2020, since mainland China is by far the largest economy in the Asia-Pacific region.

Several service sector industries in the Asia-Pacific region, notably tourism and travel, are expected to be severely hit, as Chinese outbound tourism slumps sharply in coming months. The retail trade, restaurants, and entertainment sectors are also highly vulnerable to a downturn in consumer confidence, as consumers become more apprehensive about coronavirus contagion risks. However, online sales, which have already been growing very rapidly in many Asian economies during recent years, notably in China, are expected to be strongly boosted while the epidemic persists.

For many global multinationals, the severe disruption of China’s industrial output during February has highlighted the vulnerability of their global supply chains to excessive reliance on China. The experience of the coronavirus epidemic will likely further accelerate efforts over the medium-term by global firms to diversify their supply chains to other manufacturing hubs in Southeast and South Asia, including Vietnam, Thailand, Indonesia and India, as well as to other major emerging markets manufacturing hubs, notably Brazil and Mexico. As occurred during the US-China trade war when high US tariffs on Chinese goods triggered trade diversion, the protracted shutdown of Chinese factories will also encourage global manufacturers to increase production from their plants in other manufacturing hubs worldwide while Chinese output is disrupted.” – Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit
“At 51.8 in February, up from 50.6 in January, the seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers’ Index® (PMI®) registered above the 50.0 no change value for the sixth consecutive month and pointed to the strongest overall improvement in business conditions since February 2019.

Modest rebound in manufacturing output during February

The gradual recovery in business conditions across the manufacturing sector continued in February, according to the latest data compiled by IHS Markit. Production volumes increased for the sixth month running, supported by the fastest rise in new orders since October 2019. Moreover, export sales returned to growth in February, with Canadian manufacturers noting that greater demand from US clients had helped to offset weaker spending in the Asia-Pacific region.

The rise in the headline PMI mostly reflected faster rates of output and new order growth, alongside a modest rebound in employment numbers during the latest survey period. Production volumes expanded at the strongest pace since last November, despite a small number of reports that supply chain delays had disrupted business operations. …

February data suggested a modest improvement in new order growth across the Canadian manufacturing sector, helped by a rise in export sales for the first time in five months. The gradual rebound in workloads boosted production volumes and underpinned a slight rebound in job creation. Consumer goods remained the best-performing area of manufacturing, with robust output growth contrasting with sluggish trends in the intermediate and investment goods categories. Manufacturers had to contend with more widespread supply chain disruptions in February, with lead times for manufacturing inputs lengthening to the greatest extent for 12 months. Survey respondents cited a combination of rail transport delays and reduced availability of items sourced from suppliers in China, but there were only a small number of reports that supply chain difficulties had acted as a constraint on production schedules.” – Tim Moore, Economics Associate Director, IHS Markit

Source: IHS Markit; StatCan.
Private Indicators: Global

Caixin China General Manufacturing PMI™
Production declines at record pace as factories shutdown due to coronavirus

“At 40.3 in February, 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 – fell from 51.1 at the start of the year to signal a renewed decline in the health of the sector. Furthermore, it was the lowest PMI reading since the survey began in April 2004.

Efforts to contain the recent outbreak of the coronavirus in mainland China weighed heavily on manufacturing sector performance in February. Production, new work and staffing levels all fell at the quickest rates since the survey began nearly 16 years ago as companies extended their usual Lunar New Year shutdowns to help stem the spread of the virus. Supply chains were also hit heavily, with average delivery times increasing at the quickest pace on record, leading firms to increase their use of current stocks.

However, firms anticipate a recovery in production over the next year due to expectations that production will be ramped up once any coronavirus-related restrictions are lifted. Notably, the degree of positive sentiment was the strongest seen for five years.

Production fell sharply during February as many firms shutdown or were operating below capacity due to restrictions put in place in response to the coronavirus outbreak. The rate of contraction was the quickest on record, and ended a six-month period of rising output.” – Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis, CEBM Group
“The total amount of new work received by Chinese manufacturers also declined at the steepest rate since the survey began in early 2004. The drop in sales was the first seen since June 2019, with companies widely linking the fall to the coronavirus and subsequent factory closures. Meanwhile, the level of new export work fell at one of the fastest rates in the series history, which was in turn attributed to shipping restrictions and order cancellations.

Lower production requirements drove the steepest decline in buying activity since the survey began nearly 16 years ago. At the same time, firms struggled to get hold of inputs, as travel restrictions and company shutdowns led to the quickest deterioration in vendor performance on record. Difficulties in sourcing inputs contributed to the steepest decline in inventories of purchased items for just over 11 years. Concurrently, stocks of finished goods fell for the second month in a row, albeit only slightly. Travel restrictions also impacted the supply of labour, with firms struggling to fill roles in February. Notably, employment across the manufacturing sector fell at the quickest rate in the series history. As a result, firms registered greater pressure on capacity, with backlogs rising sharply. Cost pressures were meanwhile subdued, with average input prices rising only modestly in February. However, factory gate prices fell for the first time in three months due to efforts to boost sales.

Encouragingly, manufacturers were confident that output would rise over the next year, with the degree of optimism reaching a five-year high. Firms widely expect production to rebound once restrictions related to the virus are lifted.

The Caixin China General Manufacturing PMI slid to 40.3 in February, weaker than 40.9 in November 2008 amid the global financial crisis. This month’s gauge hit the lowest level since the survey launched in early 2004. The sharp decline was due to stagnant economic activity across the country disrupted by the pneumonia epidemic caused by a novel coronavirus.” – Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis, CEBM Group.
“The supply and demand sides of the manufacturing sector were both weak.

1) Both the subindexes for output and total new orders plummeted into contractionary territory and hit their lowest levels on record. Supply chains came to a standstill as businesses extended the Lunar New Year holiday and multiple local governments implemented restrictions on transportation and the movement of people in efforts to control the epidemic. The gauge for new export orders remained in negative territory and slumped to the lowest point since January 2009.” – Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis, CEBM Group.

Source: https://www.markiteconomics.com/Public/Home/PressRelease/172013abe4324197af4f7a76b9311f1c; 2/3/20
2) There was a large backlog of previously accumulated orders due to stagnant supply chains. While both the subindexes for employment and suppliers’ delivery times remained in negative territory and dropped to record lows, the gauge for backlogs of work remained in positive territory, to highlight the strongest rise since April 2005. Manufacturers were faced with great pressure to deliver orders with insufficient operational capacity amid the impact of the epidemic. While the gauge for stocks of purchased items fell to its lowest point since January 2009, the one for inventories of finished goods rebounded slightly, indicating that both the supply and demand sides were stagnant. Both gauges remained in contractionary territory.

3) Industrial product prices dropped slightly. While the measure for output prices fell into negative territory, the one for input costs remained in positive territory despite a small drop. Companies have been under pressure to cut prices in the face of declining demand. Pressure on costs of raw materials remained large, but it was no longer a major problem.

4) That said, business confidence continued to improve, with the gauge for future output expectations hitting a five-year high. This was due chiefly to more-proactive macroeconomic policies and policymakers’ support for small and midsized enterprises.

China’s manufacturing economy was impacted by the epidemic last month. The supply and demand sides both weakened, supply chains became stagnant, and there was a big backlog of previous orders. However, manufacturers were more confident. The economy will be able to see a significant rebound when the epidemic is gradually contained and companies accelerate the resumption of business amid more proactive fiscal and monetary policies” – Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis, CEBM Group.

Source: https://www.markiteconomics.com/Public/Home/PressRelease/172013abe4324197af4f7a76b9311f1c; 2/3/20
Operating conditions in the eurozone’s manufacturing sector continued to worsen during February, but only marginally and at the weakest rate for the past year. The IHS Markit Eurozone Manufacturing PMI®, which is adjusted for seasonal factors, recorded 49.2 in February, up from January’s 47.9 and slightly above the earlier flash reading.

PMI rises to one-year high, but supply-side constraints emerge

Although the PMI has now recorded below the 50.0 no-change mark for 13 months in succession, February’s reading marked not only a one-year high, but also a second successive monthly rise in the index. Latest data indicated that two market groups registered a deterioration in operating conditions in February. Investment goods producers registered the weakest performance, followed by intermediate. Consumer goods registered modest growth.

Despite widespread reports from companies that the coronavirus outbreak disrupted supply chains and hit foreign sales, resulting in considerably longer lead times and a steepening drop in export orders, February saw encouraging signs that the eurozone’s manufacturing downturn is easing. Production contracted at the slowest rate for nearly a year and, despite lost export sales, new orders fell at the weakest rate for 15 months amid signs of rising internal demand, notably from consumers.

The concern is that coronavirus-related delays in shipments threaten to constrain production in the coming months, prolonging a downturn that already extends to over a year. Supply chains are lengthening to an extent not seen since 2018 and inventories are being depleted at a rate rarely seen over the past decade as companies struggle to produce enough to satisfy order books.

Furthermore, while a return to work for many Chinese factories after the extended New Year holiday could help ease global supply constraints, any further spreading of the COVID-19 epidemic risks driving increased risk aversion and a reduction of spending by both businesses and consumers.” – Chris Williamson, Chief Business Economist, Markit®

Source: https://www.markiteconomics.com/Public/Home/PressRelease/3fd4432cd0ed411bb968b643f66d5f76b; 3/2/20
The IHS Markit Eurozone PMI® Composite Output Index was unchanged on the earlier flash reading in February, recording a level of 51.6. That was an improvement on January’s 51.3 and signalled the strongest expansion of the euro area’s private sector economy in six months.

Eurozone growth reaches six-month high in February

Slightly stronger growth was supported by a solid and firmer gain in service sector activity, alongside a weaker contraction of manufacturing production. Although goods producers recorded a fall in output for a thirteenth successive month, the degree to which production fell was the weakest since May 2019. …

Levels of new business received by euro area private sector companies increased for a third month in succession. Growth, however, remained modest, undermined by an ongoing contraction in exports. Indeed, latest data showed a seventeenth successive monthly fall in new work from abroad.

The eurozone economy showed resilience to disruptions arising from the coronavirus outbreak in February, but dig deeper into the data and there are signs that problems lie ahead. The overall rate of expansion picked up slightly, largely on the back of rising domestic demand fuelling increased service sector activity, accompanied by signs of the manufacturing downturn easing. However, exports of both goods and services are now falling at an increased rate due to virus-related downturns in demand, and increasingly widespread delivery delays threaten future production. In the service sector, growing numbers of companies are reporting lost business due to the virus spread, notably in sectors such as hotels, travel, transport and tourism but also even in areas such as financial services.

Growth of both output and demand consequently remains weak, and caution in relation to hiring means jobs growth likewise remained among the lowest recorded over the past five years. Business expectations have also dropped lower, largely in response to the growing virus threat. While the PMI data so far for the first quarter are signalling a 0.1-0.2% increase in GDP, there are clear downside risks and a likely weakening of the economy in March.” – 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—rose to a 13-month high of 48.0 in February, up from January's reading of 45.3. Underlying data showed upward pressure on the headline PMI from all of its component, with output, new orders, employment and stocks of purchases each falling at slower rates. That said, the biggest contributing factor behind the rise was a deterioration in supplier delivery times, with longer lead times having a positive influence on the PMI.

Slower fall in new orders lifts PMI to 11-month high in January

The downturn in Germany's manufacturing sector continued to ease in February, with latest PMI® data from IHS Markit and BME showing slower falls in output, new orders and employment. The results came despite an accelerated drop in new export orders and disruption to supply chains, both linked to the outbreak of Covid-19 in China. There was also evidence of coronavirus-related concerns weighing on firms' expectations towards future output. After improving in each of the past 12 months on the back of easing supply chain pressures, average input lead times faced by German manufacturers lengthened markedly in February. The majority of firms linked delivery delays to the shutdowns in China caused by the outbreak of Covid-19.

Notwithstanding the impact of the coronavirus outbreak in China on exports and supply chains, the manufacturing sector in Germany managed to creep closer to stabilisation in February as declines in output and total new orders eased, helped by signs of firmer domestic demand. Though there was evidence of supply chain disruptions affecting some businesses' purchasing activity, the impact on production was limited as it came at a time when manufacturers in general were already looking to trim stock levels in line with lower output requirements. But should disruptions continue in China and even spread to other economies, as is looking increasingly likely given the recent news flow, then we could see supply- and demand-side constraints come into effect and the decline in production accelerate anew. As such, there's a sense that February's slightly more positive results could merely be a false dawn.” – Phil Smith, Principal Economist, IHS Markit®

Source: https://www.markiteconomics.com/Public/Home/PressRelease/7758d7cfed29489ec903193058da003e; 2/3/20
Global manufacturing suffers steepest contraction in over a decade as COVID-19 outbreak hits supply chains and demand

The global manufacturing sector suffered its steepest contraction since 2009 as demand, international trade and supply chains were severely disrupted by the COVID-19 outbreak. Output fell across the consumer, intermediate and investment goods industries, with the steepest drop at investment goods producers. Manufacturing production and new orders registered their sharpest declines since April 2009. The downturns in both were quickest in China, where output and new business fell at survey-record rates. Of the 31 nations for which February data were available, 15 registered a contraction of output, including China, Japan, Germany, France, Italy, Taiwan, South Korea and Australia. The US, the UK, Canada, Mexico, India and Brazil were some of the larger countries to experience output growth.

The trend in international trade flows weakened noticeably during February. The rate of contraction was the steepest since 2009, as the outbreak of COVID-19 directly impacted supply from larger exporting nations such as China and South Korea and also had knock-on effects for demand in a number of nations. Declines were also registered in the US, the euro area, Japan, the UK, Taiwan, Australia and Brazil. …

The global manufacturing output PMI collapsed over seven points in February to 43.5, the second-largest monthly decline recorded going back to 1998. At this level, the PMI implies a contraction in global IP around a 5% ar pace. However much of the February output PMI drop owes to a 23-points tumble in China where the outbreak of the COVID-19 severely disrupted activity. Detail of the PMI report were negative across many components. However, the future output PMI stood out with its resilience. In other details, the trend in international trade was hit hard, with new export business falling to the greatest extent in a decade.” – Olya Borichevska, Global Economist, J.P. Morgan

Source: https://www.markiteconomics.com/Public/Home/PressRelease/31caada248f04b7ca2568a16f7ce7e4; 3/2/20
J.P. Morgan Global Composite PMI™

“The J.P. Morgan Global Manufacturing PMI— a composite index produced by J.P. Morgan and IHS Markit in association with ISM and IFPSM— fell to 46.1 in February, down sharply from 52.2 in January and its lowest level since May 2009. The more than six-point drop in the headline index was the second sharpest in the survey history, the current record being set in October 2001 (the month directly following the 9/11 attacks).

Global economic output contracts at fastest pace since 2009

Disruption to demand, supply chains and international trade flows resulting from the COVID-19 outbreak led to the steepest drops in global economic activity and new business since mid-2009 in February. The downturn was especially marked in China, where output and new business contracted at survey-record rates at manufacturers and service providers alike.

Global manufacturing output and service sector business activity both contracted during February, halting the recent recovery in the former and ending a 126-month sequence of expansion in the latter. Rates of decline in output were the sharpest since mid-2009 in both cases, with the pace of contraction steeper at manufacturers. …

The outbreak of COVID-19 disrupted global economic activity in February, with output and new business falling to the greatest extents since mid-2009. However, a lot of this owes to China where the composite PMI fell 24-pt as rates of decline in activity and new orders accelerated to survey records at manufacturers and service providers alike. The rest of the world fell a bit more than two points to near stagnation though we expect further declines as long as the disruptions continue. Business sentiment held up better, staying close to January's nine-month high.” — Olya Borichevska, Global Economic Research, J.P. Morgan
UK manufacturing expands at fastest pace since April 2019, but supply-chain disruptions grow

Growth of manufacturing output accelerated to a ten-month high in February, as domestic demand continued to recover on the back of reduced political uncertainty. Supply chain disruptions were rapidly emerging, however, as the outbreak of COVID-19 led to sizeable raw material delivery delays, rising input costs and increased pressure on stocks of purchases. Manufacturing output increased at the fastest pace since April 2019, as growth strengthened in both the consumer and intermediate goods sectors. In contrast, the downturn at investment goods producers continued. The main factor underlying output growth was improved intakes of new work. Business optimism also strengthened, hitting a nine month high, reflecting planned new investment, product launches, improved market conditions and a more settled political outlook. …

The UK manufacturing sector remained in recovery mode in February, as reduced levels of political uncertainty following last year's general election translated into further growth of output and new orders. Supply-chain disruptions were emerging rapidly, however, as the COVID-19 outbreak led to a substantial lengthening of supplier lead times, raw material shortages, reduced inventories of inputs, rising input costs and reduced export orders from Asia and China in particular. The expansion of output was nonetheless the fastest since April 2019, as stronger demand from the domestic market led to the steepest increase in new work in 11 months. Business optimism also improved to a nine month high. However, the upturn remains confined to the consumer and intermediate goods sectors, as the downturn at investment goods producers continued. This suggests that business confidence levels have yet to recover sufficiently to support a sustained rise in capital spending. With supply-chain headwinds rising, and trade negotiations with the EU starting, it remains to be seen whether the recovery can stay on course during the coming months.” – Rob Dobson, Director, IHS Markit
“Associated Builders and Contractors reported today that its Construction Backlog Indicator fell to 8.4 months in December 2019, a 4.2% decline from November’s reading. This appears to be due primarily to seasonal factors.

December’s nonresidential construction backlog fell to the reading’s lowest level since January 2019. This can almost certainly be attributed to seasonal factors, which disproportionately affect smaller contractors. Backlog for firms with less than $30 million in annual revenue fell to 7.1 months in January 2019 yet rebounded for the majority of the year above the eight-month threshold. While backlog among this group once again declined to 7.1 months in December, there is every reason to believe that it will bounce back over the course of 2020.

Primarily as a result of these dynamics, backlog declined in three of four CBI regions in December. The Northeast and West regions both experienced a 1.5-month decline, while backlog in the south expanded by 1.2 months. Backlog for all three CBI industry segments contracted in December. While the commercial and institutional and heavy industrial segments experienced modest declines, backlog in the infrastructure category shrank by 1.2 months. Once again, seasonal factors are likely responsible.

Even seasonal factors don’t seem capable of softening construction activity in the southern United States. Much of the region’s increase in backlog can be traced to rapidly expanding metropolitan areas such as Atlanta; Charlotte, North Carolina; Austin, Texas; Dallas; Orlando, Florida; and Nashville, Tennessee. It is often said that commercial development follows residential, and this appears to be the case. In an environment characterized by the lowest unemployment rates in 50 years, it is not surprising that expanding businesses are increasingly focused on Southern markets registering significant in-migration.” – Anirban Basu, Chief Economist, ABC

## Private Indicators
Associated Builders and Contractors

<table>
<thead>
<tr>
<th>Construction Backlog Indicator</th>
<th>December 2019</th>
<th>November 2019</th>
<th>Net Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>8.4</td>
<td>8.8</td>
<td>-0.4</td>
<td>-4.2%</td>
</tr>
<tr>
<td><strong>Industry</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial &amp; Institutional</td>
<td>8.5</td>
<td>8.9</td>
<td>-0.4</td>
<td>-3.8%</td>
</tr>
<tr>
<td>Heavy Industrial</td>
<td>6.9</td>
<td>7.1</td>
<td>-0.2</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>8.4</td>
<td>9.6</td>
<td>-1.2</td>
<td>-11.9%</td>
</tr>
<tr>
<td><strong>Region</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle States</td>
<td>7.0</td>
<td>7.5</td>
<td>-0.5</td>
<td>-6.2%</td>
</tr>
<tr>
<td>Northeast</td>
<td>7.0</td>
<td>8.5</td>
<td>-1.5</td>
<td>-18.2%</td>
</tr>
<tr>
<td>South</td>
<td>11.4</td>
<td>10.2</td>
<td>1.2</td>
<td>11.8%</td>
</tr>
<tr>
<td>West</td>
<td>7.3</td>
<td>8.8</td>
<td>-1.5</td>
<td>-16.6%</td>
</tr>
<tr>
<td><strong>Company Size</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;$30 Million</td>
<td>7.1</td>
<td>8.1</td>
<td>-1.0</td>
<td>-12.1%</td>
</tr>
<tr>
<td>$30-$50 Million</td>
<td>9.2</td>
<td>8.3</td>
<td>0.9</td>
<td>11.6%</td>
</tr>
<tr>
<td>$50-$100 Million</td>
<td>12.1</td>
<td>9.8</td>
<td>2.3</td>
<td>24.1%</td>
</tr>
<tr>
<td>&gt;$100 Million</td>
<td>14.3</td>
<td>13.0</td>
<td>1.3</td>
<td>10.2%</td>
</tr>
</tbody>
</table>

©Associated Builders and Contractors, Construction Backlog Indicator

ABC’s Construction Backlog Indicator

“Backlog for firms in the infrastructure category has historically been more volatile than for other industry segments. In general, the outlook for infrastructure outlays remains positive, especially as state and local governments continue to collect plentiful revenues and many states having recently increased their gas tax. Policymakers in Washington continue to float plans to invest in infrastructure, though concrete proposals regarding how they would be funded generally remain elusive.” – Anirban Basu, Chief Economist, ABC

Private Indicators
American Institute of Architects (AIA)

Architecture Billings Index January 2020

Firm billings continue to expand in the new year

Despite staffing challenges, few firms are outsourcing domestic design work offshore

“Architecture firm billings increased for the fifth consecutive month in January, with about the same share of firms reporting an increase in billings as in December. Business conditions continue to recover from the soft patch they experienced in the spring and summer of 2019, and firms are becoming more optimistic about future work. In addition, the value of new design contracts was particularly strong in January, as clients began to kick off new projects for the year.” – Katharine Keane, Senior Associate Editor, The American Institute of Architects

Private Indicators
American Institute of Architects (AIA)

National
Business conditions at architecture firms remain positive in January


Design Contracts • Inquiries • Billings

Private Indicators: AIA

Region

Three out of four regions see growth

“Business conditions improved in all regions of the country in January except for the Northeast. Architecture firms in the Northeast are experiencing another protracted period of declining firm billings, as they have off and on for the last several years, and they have not seen any growth in billings in a year. On the other hand, business conditions remain particularly robust at firms located in the South, and are strengthening in the West and Midwest as well.” – Katharine Keane, Senior Associate Editor, The American Institute of Architects

"In addition, firms of all specializations reported billings growth for the second month in a row in January." – Katharine Keane, Senior Associate Editor, The American Institute of Architects

“Total construction starts slipped 6% from December to January to a seasonally adjusted annual rate of $759.2 billion. All three major categories moved lower in January — residential building starts fell 8%, nonresidential building lost 6%, and nonbuilding starts moved 2% lower.

With only one, limited month of data available for 2020, it is difficult to ascribe a 2020 trend. Some perspective can be gleaned, however, by examining a 12-month moving total. For the 12 months ending January 2020, total construction starts were 1% higher than during the previous 12-month period. By major category, residential building starts were 1% lower and nonresidential building starts were down by less than a percentage point, but nonbuilding construction was 8% higher during the 12 months that ended in January 2020.

In January, the Dodge Index moved downward to 161 (2000=100) compared to the 171 posted in December 2019 and was 8% lower than its most recent 12-month average.” – Nicole Sullivan, Public Relations & Social Media, AFFECT

“Coming in slightly weaker than the previous month, January’s starts did little to change our view that construction starts will remain near their recent highs in 2020 even though they are likely to fall as the economy slows.” – Richard Branch, Chief Economist, Dodge Data & Analytics
Residential building dropped 8% in January to a seasonally adjusted rate of $325.4 billion. During the month single family starts fell 5%, while multifamily starts lost 15%.

The largest multifamily structure to break ground during in January was the $300 million Liberty on the River Apartment Tower in Philadelphia PA. Also starting in January was a $260 million mixed-used building on 10th Avenue in New York NY as well as the $249 million Downtown Fifth Luxury Apartments in Miami FL.

For the 12 months ending in January, total residential starts were 1% lower than the previous 12 months. Single family starts gained 1%, but multifamily building starts were 5% lower.

Nonresidential building fell 6% in January to a seasonally adjusted annual rate of $266.6 billion. However, if not for the start of a large manufacturing project nonresidential building starts would have declined 11%. In January, manufacturing starts more than doubled, while commercial building starts slipped 16%, and institutional starts fell 6%.

The largest nonresidential building project to break ground in January was the $475 million Cree Semiconductor plant in Marcy NY. Also starting was the $476 million BMO Office Tower in Chicago IL and the $400 million Husky Superior refinery in Superior WI.

On a twelve-month total basis, total nonresidential building starts were less than one percentage point lower than they were in the twelve months ending in January 2019. Commercial starts were 5% higher, while institutional starts fell 3% and manufacturing starts were down 10%.” – Richard Branch, Chief Economist, Dodge Data & Analytics
Private Indicators

MONTHLY CONSTRUCTION STARTS
(Millions of Dollars, Seasonally Adjusted Annual Rate)

<table>
<thead>
<tr>
<th>Category</th>
<th>January 2020</th>
<th>December 2019</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonresidential Building</td>
<td>$2,666,631</td>
<td>$2,833,981</td>
<td>-6</td>
</tr>
<tr>
<td>Residential Building</td>
<td>325,370</td>
<td>353,459</td>
<td>-8</td>
</tr>
<tr>
<td>Nonbuilding Construction</td>
<td>167,238</td>
<td>170,801</td>
<td>-2</td>
</tr>
<tr>
<td>Total Construction</td>
<td>$7,592,440</td>
<td>$8,808,241</td>
<td>-6</td>
</tr>
</tbody>
</table>

YEAR-TO-DATE CONSTRUCTION STARTS
Unadjusted Totals, in Millions of Dollars

<table>
<thead>
<tr>
<th>Category</th>
<th>1 Mos. 2020</th>
<th>1 Mos. 2019</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonresidential Building</td>
<td>$19,736</td>
<td>$19,729</td>
<td>0</td>
</tr>
<tr>
<td>Residential Building</td>
<td>24,163</td>
<td>23,763</td>
<td>2</td>
</tr>
<tr>
<td>Nonbuilding Construction</td>
<td>12,598</td>
<td>12,905</td>
<td>-2</td>
</tr>
<tr>
<td>Total Construction</td>
<td>$56,495</td>
<td>$56,398</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Dodge Data & Analytics

The Chicago Business Barometer™, produced with MNI, edged up 6.1 points in February to 49.0, the highest level since August 2019. Among the main five indicators, Production and Supplier Deliveries showed the greatest gains, while Employment was the only one to decline.

Production gained 8.3 points to 51.0, hitting an eight month high. The index shifted back into expansion following seven straight months below 50. Demand for New Orders strengthened in February, rising by 7.6 points to 49.1, the highest level since August 2019. After dropping to a four-year low in January, Order Backlogs rose slightly to 38.2 in February. However, the index remained in contraction since September 2019.

Inventories rose 7.8 points, reaching a six-month high of 48.1 in February, although recording the seventh sub-50 reading. Employment slipped to 44.5, slipping 2.4 points to the lowest level since July 2019. Supplier Deliveries surged up to its highest level since November 2018, rising by 7.9 points to 61.3, with anecdotal evidence that the coronavirus is already leading to supply chain disruptions. Prices at the factory gate cooled for the second successive month, dipping by 3.2 points to 52.9.

February’s special question asked “Will the signing of the Phase 1 deal with China/Epidemic have any impact on your business?” The majority 45.7% reported little impact, while 30.4% noted no impact at all and 23.9% mentioned a large impact. The second question asked “Have Boeing's ongoing issues had an impact on your business?” The majority, at 91.3%, said they are not affected by Boeing’s ongoing issues, while 8.7% are.” – Les Commons, Senior Economist and Irene Prihoda, Economist, MNI Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.8 percent in January to 112.1 (2016 = 100), following a 0.3 percent decrease in December, and a 0.1 percent decline in November.

“The strong pickup in the January US LEI was driven by a sharp drop in initial unemployment insurance claims, increasing housing permits, consumers’ outlook on the economy and financial indicators. The LEI’s six-month growth rate has returned to positive territory, suggesting that the current economic expansion – at about 2 percent – will continue through early 2020. While weakness in manufacturing appears to show signs of softening, the COVID-19 outbreak may impact manufacturing supply chains in the US in the coming months.” – Ataman Ozyildirim, Senior Director of Economic Research, The Conference Board

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1 percent in January to 107.3 (2016 = 100), following no change in December, and a 0.4 percent increase in November.

The Conference Board Lagging Economic Index® (LAG) for the U.S. was unchanged in January at 108.7 (2016 = 100), following a 0.1 percent decline in December, and a 0.3 percent increase in November.”

Source: https://www.conference-board.org/data/bcicountry.cfm; 2/20/20
Equipment Leasing and Finance Industry Confidence Remains Steady in February

“The Equipment Leasing & Finance Foundation (the Foundation) releases the February 2020 Monthly Confidence Index for the Equipment Finance Industry (MCI-EFI). Designed to collect leadership data, the index reports a qualitative assessment of both the prevailing business conditions and expectations for the future as reported by key executives from the $900 billion equipment finance sector. Overall, confidence in the equipment finance market in February is 58.7, easing but steady with the January index of 59.9.” – Anneliese DeDiemar, Vice President, Communications and Marketing; Equipment Leasing & Finance Association

“Continued strong origination volume, approval rates and portfolio performance all support an optimistic view of near-term strong performance.” – David Normandin, CLFP, President and CEO, Wintrust Specialty Finance

“I'm optimistic because the overall economy is doing well. I'm concerned about decreases in capital expenditures, the shipping recession, and the uncertainty caused by the upcoming election.” – Quentin Cote, CLFP, President, Mintaka Financial, LLC

“Low commodity and trade tariff headwinds continue to mute large capital investment. We are seeing activity with replacement assets and solar, which we expect to continue throughout the year.” – Michael Romanowski, President, Farm Credit Leasing

Equipment Leasing and Finance Industry Confidence Remains Steady in February

“February 2020 Survey Results:

The overall MCI-EFI is 58.7, a decrease from 59.9 in January.

• When asked to assess their business conditions over the next four months, 11.5% of executives responding said they believe business conditions will improve over the next four months, down from 14.8% in January. 84.6% of respondents believe business conditions will remain the same over the next four months, an increase from 81.5% the previous month. 3.9% believe business conditions will worsen, unchanged in January.

• 7.7% of the survey respondents believe demand for leases and loans to fund capital expenditures (capex) will increase over the next four months, a decrease from 11.1% in January. 88.5% believe demand will “remain the same” during the same four-month time period, an increase from 85.2% the previous month. 3.9% believe demand will decline, unchanged from January.

• 19.2% of the respondents expect more access to capital to fund equipment acquisitions over the next four months, an increase from 11.1% in January. 76.9% of executives indicate they expect the “same” access to capital to fund business, a decrease from 85.2% last month. 3.9% expect “less” access to capital, unchanged from the previous month.

• When asked, 30.8% of the executives report they expect to hire more employees over the next four months, a decrease from 33.3% in January. 61.5% expect no change in headcount over the next four months, a decrease from 63% last month. 7.7% expect to hire fewer employees, up from 3.7% the previous month.” – Anneliese DeDiemar, Vice President, Communications and Marketing; Equipment Leasing & Finance Association

Equipment Leasing and Finance Industry Confidence Remains Steady in February

“February 2020 Survey Results:

• 38.5% of the leadership evaluate the current U.S. economy as “excellent,” up from 37% the previous month. 61.5% of the leadership evaluate the current U.S. economy as “fair,” down from 63% in January. None evaluate it as “poor,” unchanged from last month.

• 4% of the survey respondents believe that U.S. economic conditions will get “better” over the next six months, a decrease from 13.3 in January. 88% indicate they believe the U.S. economy will “stay the same” over the next six months, an increase from 80% last month. 8% believe economic conditions in the U.S. will worsen over the next six months, up from 6.7% the previous month.

• In February, 50% of respondents indicate they believe their company will increase spending on business development activities during the next six months, an increase from 48.2% last month. 42.3% believe there will be “no change” in business development spending, a decrease from 48.2% in January. 7.7% believe there will be a decrease in spending, an increase from 3.7% last month.” – Anneliese DeDiemar, Vice President, Communications and Marketing; Equipment Leasing & Finance Association

Equipment Leasing and Finance Association: Confidence Up for Third Consecutive Month in January

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

Equipment Leasing and Finance Association:
January New Business Volume Up 28 Percent Year-over-year

“The **Equipment Leasing and Finance Association’s** (ELFA) **Monthly Leasing and Finance Index (MLFI-25)**, which reports economic activity from 25 companies representing a cross section of the $900 billion equipment finance sector, showed their overall new business volume for January was $9.2 billion, up 28 percent year-over-year from new business volume in January 2019. Volume was down 29 percent month-to-month from $12.9 billion in December following the typical end-of-quarter, end-of-year spike in new business activity.” – Amy Vogt, Vice President, Communications and Marketing; Equipment Leasing & Finance Association

Receivables over 30 days were 2.00 percent, down from 2.20 percent the previous month and unchanged from the same period in 2019. Charge-offs were 0.47 percent, down from 0.51 percent the previous month, and up from 0.35 percent in the year-earlier period. Credit approvals totaled 76.3 percent, down from 77.1 percent in December. Total headcount for equipment finance companies was down 3.0 percent year-over-year. Separately, the Equipment Leasing & Finance Foundation’s Monthly Confidence Index (MCI-EFI) in February is 58.7, easing from the January index of 59.9.

“The year starts off with a bang as January new business volume increases dramatically on a year-over-year basis. Underlying fundamentals in the U.S. economy — strong job growth, low inflation, low interest rates, continuation of a bull equities market and solid business confidence — all add up to a growing demand for productive equipment necessary to keep businesses expanding and profitable.” - Ralph Petta, President and CEO, ELFA

“2019 was another record year for CSI, with lease originations up 15 percent worldwide to over $1.4 billion, led by a strong increase of 23 percent in our U.S. business. Back office efficiencies and use of technology have allowed this to occur with no increase in our U.S. leasing headcount. Our traditional focus on successful middle-market to large corporate customers has resulted in continued strong credit performance with minimal write-offs. Optimism is high for 2020, with a solid start in January and a record pipeline of first quarter business on tap, although we expect uncertainty regarding the impacts of the coronavirus and the November elections could slow customer decision-making in coming months.” – Steve Hamilton, Chairman and CEO, CSI Leasing, Inc.
February 2020 Manufacturing ISM® Report On Business®
PMI® at 50.1%

Production Growing; New Orders and Employment Contracting
Supplier Deliveries Slowing at Faster Rate; Backlog Growing
Raw Materials Inventories Contracting; Customers’ Inventories Too Low
Prices Increasing; Exports Growing; and Imports Contracting

“Economic activity in the manufacturing sector contracted in February, and the overall economy grew for the 130th consecutive month, say the nation’s supply executives in the latest Manufacturing ISM® Report On Business®. The February PMI® registered 50.1 percent, down 0.8 percentage point from January reading of 50.9 percent.

The New Orders Index registered 49.8 percent, a decrease of 2.2 percentage points from the January reading of 52 percent.
The Production Index registered 50.3 percent, down 4 percentage points compared to the January reading of 54.3 percent.
The Backlog of Orders Index registered 50.3 percent, an increase of 4.6 percentage points compared to the January reading of 45.7 percent.
The Employment Index registered 46.9 percent, an increase of 0.3 percentage point from the January reading of 46.6 percent.
The Supplier Deliveries Index registered 57.3 percent, up 4.4 percentage points from the January reading of 52.9 percent.
The Inventories Index registered 46.5 percent, 2.3 percentage points lower than the January reading of 48.8 percent.
The Prices Index registered 45.9 percent, down 7.4 percentage points as compared to the January reading of 53.3 percent.
The New Export Orders Index registered 51.2 percent, a decrease of 2.1 percentage points as compared to the January reading of 53.3 percent.
The Imports Index registered 42.6 percent, an 8.7-percentage point decrease from the January reading of 51.3 percent.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

Source: https://www.markiteconomics.com/Public/Home/PressRelease/0bb08ad3827249cb9e3c6ea27e40a617; 3/2/20
“Comments from the panel were generally positive, with sentiment cautious compared to January. The PMI® remained in expansion territory, but at a weak level. Demand slumped, with (1) the New Orders Index contracting at a weak level, despite new export order expansion, (2) the Customers’ Inventories Index remaining at ‘too low’ status and (3) the Backlog of Orders Index expanding for the first time in several months, but at a slow rate. Consumption (measured by the Production and Employment indexes) contributed negatively (a combined 3.7-percentage point decrease) to the PMI® calculation. Inputs — expressed as supplier deliveries, inventories and imports — strengthened in February, due primarily to supplier deliveries expanding, offset partially by inventories declining. Despite imports contraction returning at a strong rate, inputs contributed positively to the PMI® calculation, a reversal from the previous month. (The Supplier Deliveries and Inventories indexes directly factor into the PMI®; the Imports Index does not.) Prices returned to contraction, at moderately strong levels.

Global supply chains are impacting most, if not all, of the manufacturing industry sectors. Among the six big industry sectors, Food, Beverage & Tobacco Products remains the strongest, followed by Computer & Electronic Products. Petroleum & Coal Products is the weakest. Overall, sentiment this month is marginally positive regarding near-term growth.

Of the 18 manufacturing industries, the 14 that reported growth in February — listed in order — are: Wood Products; Furniture & Related Products; Plastics & Rubber Products; Printing & Related Support Activities; Paper Products; Textile Mills; Primary Metals; Food, Beverage & Tobacco Products; Computer & Electronic Products; Miscellaneous Manufacturing; Electrical Equipment, Appliances & Components; Fabricated Metal Products; Machinery; and Chemical Products. The three industries reporting contraction in February are: Petroleum & Coal Products; Transportation Equipment; and Nonmetallic Mineral Products.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

Source: https://www.markiteconomics.com/Public/Home/PressRelease/0bb08ad3827249cb9e3c6ea27e40a617; 3/2/20
Private Indicators

February 2020 Non-Manufacturing ISM® Report On Business®

NMI® at 57.3%; GDP Growing at 3.0%

Business Activity Index at 57.8%, New Orders Index at 63.1%
Employment Index at 55.6%

“Economic activity in the non-manufacturing sector grew in February for the 121st consecutive month, say the nation’s purchasing and supply executives in the latest Non-Manufacturing ISM® Report On Business®.

The NMI® registered 57.3 percent, which is 1.8 percentage points higher than the January reading of 55.5 percent. This represents continued growth in the non-manufacturing sector, at a faster rate. The Non-Manufacturing Business Activity Index decreased to 57.8 percent, 3.1 percentage points lower than the January reading of 60.9 percent, reflecting growth for the 127th consecutive month. The New Orders Index registered 63.1 percent; 6.9 percentage points higher than the reading of 56.2 percent in January.

The Employment Index increased 2.5 percentage points in February to 55.6 percent from the January reading of 53.1 percent.

The Prices Index reading of 50.8 is 4.7 percentage points lower than the January’s 55.5 percent, indicating that prices increased in February for the 33rd consecutive month. According to the NMI®, 16 non-manufacturing industries reported growth.

The non-manufacturing sector reflected continued growth in February. Most respondents are concerned about the coronavirus and its supply chain impact. They also continue to have difficulty with labor resources. They do remain positive about business conditions and the overall economy.”

– 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?&navItemNumber=12943&SSO=1; 3/5/20
February 2020 Non-Manufacturing ISM® Report On Business®
NMI® at 57.3%; GDP Growing at 3.0%

“The 16 non-manufacturing industries reporting growth in February — listed in order — are: Accommodation & Food Services; Management of Companies & Support Services; Mining; Finance & Insurance; Real Estate, Rental & Leasing; Other Services; Construction; Health Care & Social Assistance; Public Administration; Wholesale Trade; Transportation & Warehousing; Educational Services; Professional, Scientific & Technical Services; Utilities; Information; and Retail Trade.

The two industries reporting a decrease in February are: Arts, Entertainment & Recreation; and Agriculture, Forestry, Fishing & Hunting.” – 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?&navItemNumber=12943&SSO=1 ; 3/5/20
Markit U.S. Manufacturing PMI™
Manufacturing output growth weakens amid slower upturn in new orders

“The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers’ Index™ (PMI™) posted 50.7 in February, little-changed from the 'flash' figure of 50.8, and down from 51.9 seen at the start of the year. The improvement in the health of the manufacturing sector was the weakest since last August and only marginal overall.

U.S. manufacturing firms signalled a loss of growth momentum in February as operating conditions improved at only a marginal pace. Overall growth was the slowest for six months amid historically subdued expansions in output and new orders. Nonetheless, firms registered the strongest degree of optimism for ten months. Greater confidence in higher future output did not translate into faster job creation, as employment growth slowed despite a renewed rise in backlogs. At the same time, subdued inflationary pressures continued to be reported midway through the first quarter, with slower growth of costs helping keep selling price inflation muted.

A key contributing factor behind slower manufacturing growth was a weaker upturn in output. The marginal expansion was the softest since July 2019, and although some firms reported higher new order volumes, supply chain issues following the outbreak of coronavirus in China were reported to have affected production and constrained output in some cases. The pace of expansion of new orders meanwhile eased to the slowest since orders began rising in June 2019 and was only fractional overall. Some companies linked softer demand growth to hesitancy among clients to place orders. Meanwhile, new business from abroad fell at a slightly faster pace.

Despite softer demand conditions, manufacturers registered a stronger level of optimism regarding future production in February as expectations were buoyed by greater marketing efforts and investment in new products and factories. Positive sentiment reached a ten-month high but remained below the long-run series average. Concerns included supply chain issues, weaker demand in the lead up to the presidential election and a general slowing of the economy.” – Chris Williamson, Chief Economist, Markit®

Source: https://www.markiteconomics.com/Public/Home/PressRelease/0bb08ad3827249cb9e3c6ea27e40a617; 3/2/20
“Manufacturing production and order book trends deteriorated markedly in February as producers struggled against the double headwinds of falling export sales and supply chain delays, both in turn often linked to the coronavirus outbreak. Any growth in sales was once again largely driven by domestic consumers, though even here the rate of growth was weakened considerably compared to late last year.

Historical comparisons against official data indicate that the survey is consistent with factory production and orders both falling at annualised rates of around 3%, with manufacturing jobs being lost at a monthly rate of roughly 20,000. While trade war fears have eased, helping push firms’ expectations for future growth to the highest since last April, coronavirus-related supply chain issues threaten to constrain production in coming months. At the same time, companies have become increasingly concerned that the COVID-19 outbreak will also hit demand, which is reportedly already cooling amid uncertainly leading up to the presidential election. Recent stock market volatility could also further dampen consumer spending and deter business investment.”” – Chris Williamson, Chief Economist, Markit®

Source: https://www.markiteconomics.com/Public/Home/PressRelease/4142ce46c8db4639b996828fb6c37000; 2/3/20
“The seasonally adjusted final IHS Markit US Services Business Activity Index registered 49.4 in February, unchanged from the 'flash' figure, but notably down from 53.4 seen at the start of the year. The contraction in output was only marginal overall, but was nonetheless the fastest in over six years. Firms attributed the decline to less robust domestic demand conditions and a further fall in export sales.

February data signalled the first contraction of U.S. service sector business activity for four years. The decrease in output stemmed from only a fractional rise in client demand and a further contraction in new business from abroad as customers held back from placing orders amid global economic uncertainty and the coronavirus outbreak. As a result, business confidence remained historically subdued and employment growth slipped to the weakest since last November. Efforts to attract and retain clients and a softer pace of input price inflation meanwhile led to a slower increase in output charges. The rate of selling price inflation eased to a three-month low.

In line with a slower expansion in client demand, new business rose at only a fractional rate that was the softest in the current four month sequence of growth. Reflecting the international impact of increased uncertainty was a further drop in foreign client demand, which led to the largest drop in new business from abroad since last November.

Subsequently, service providers expanded their workforce numbers at the slowest rate for three months. The marginal rate of job creation was below the series trend, with growth weighed down by subdued demand and reduced pressure on capacity following a contraction in backlogs of work. … ” – Chris Williamson, Chief Economist, Markit®
“The US service sector took a knock from the coronavirus outbreak and growing uncertainty about the economic and political outlooks in February. The fall in the headline index measuring business activity levels was the second largest seen since the global financial crisis over a decade ago, exceeded only by the brief slump in activity during the 2013 government shutdown. Combined with a weak manufacturing survey in February, the data are consistent with annualised GDP growth slipping from around 2% at the start of the year to just 0.7% midway through the first quarter. … Companies have meanwhile grown increasingly concerned about client spending and investment being curbed ahead of the presidential election. Political and economic uncertainty, the coronavirus outbreak and financial market turmoil all risk building into a cocktail of risk aversion that has severely heightened downside risks to the economy in coming months. Much will depend of course on the speed with which the virus can be contained and how quickly business can return to normal.” – Chris Williamson, Chief Economist, Markit®
“NACM Economist Chris Kuehl, Ph.D., commented that at the start of 2020, there were essentially two schools of thought as far as the progress of the year’s economy. The more optimistic looked at the situation at the start of the year and noted there were some very positive indicators — low levels of unemployment, a robust stock market, a loose money position by the Fed, high rates of consumer confidence and so on. The GDP numbers came in better than expected. The pessimists noted there were headwinds to be wary of — trade fights, political instability, reduced levels of business investment and continued distress in the manufacturing sector. “It looked like a balance of opinions, but now there is the threat from the coronavirus (COVID-19) and its impact on China and global supply chains,” he said. “Is the Credit Managers’ Index lending support to either position at this point? The growth shown last month faltered a bit, but the data still remains strong, so it may be too early to draw many conclusions.” 

The combined CMI score remained very close to what it had been in January — slipping from 56.4 to 56.2, both months higher than any in the past two years. The index of favorable factors remained exactly where it was the month before at 62.2, but there was a very slight decline in the unfavorable factors (52.6 to 52.2). “The bottom line is there has been very little change despite the factors that might have affected the business community,” Kuehl said. “This is not to say that next month will not show reaction to all the global angst over the spread of the virus, but it is not showing up yet.”

The sales numbers actually improved to 64 from 63 and now sit near the high point reached in August of last year. The new credit applications reading was also higher than it has been since June. Last month, it stood at 61.1 and is now at 62.2. The dollar collections number fell fairly dramatically, however. That will be a development to keep an eye on. It was sitting at 61.7, but has declined to 58.8. This is not a drastic decline as the reading remains higher than in December, but this is the fifth-lowest point reached in the last 12 months. “This seems to signal that more companies are starting to guard their cash flow,” Kuehl said. The amount of credit extended improved a little from 62.9 to 63.6. He continued, “If it were not for the fall in dollar collections, the entire favorable category would have improved. …”” — Andrew Michaels, Editorial Associate, NACM
“As for the manufacturing sector, Kuehl noted there has been a real slump over the last several months — at least according to some of the measures. The industrial production numbers have been down and there was a slide in the level of capacity utilization. For five months in a row, the Purchasing Managers’ Index (PMI) was in contraction territory. That slide in the PMI ended last month. There have been a few other suggestions that manufacturing has started to make a bit of a comeback. That is also showing up in the CMI as the decline has been very slight. The combined reading moved down a bit from 56.5, but at 55.9, the reading remains one of the highest in the past year.

The combined favorable index stayed right where it was — at 62 for the second month in a row. The combined index for the unfavorable factors slipped a bit from 52.7 to 51.8, but remains in the expansion zone and higher than it was in November of last year.

“Manufacturing most definitely has been facing some serious headwinds, but there are still sectors that remain relatively healthy,” Kuehl explained. “The slump has been pronounced in sectors connected to the aerospace industry as well as the agricultural sector, but automotive has been holding more or less steady. The worry now is that interruptions in the Chinese supply chain will have a negative impact. …”" -- Andrew Michaels, Editorial Associate, NACM
“According to Kuehl, in contrast to the shifting activity in the manufacturing arena, the service sector has been calmer. The big retail season has come and gone and there is not a lot that will be driving services until later in the spring when there will be more action in retail, construction and the travel and entertainment sectors. The threat from COVID-19 may well be felt here first as there will be an impact on everything from consumer goods supply to reluctant travelers and people seeking to avoid crowds. This has not started manifesting as yet.

Sales remained very close to last month’s levels with a reading of 62.3 compared to 62.2 in January. The important factor is that this category remains in the 60s. The new credit applications number showed improvement as it went from 62 to 63.1. There was a drop in dollar collections, as there was in the manufacturing sector, but it was not quite as dramatic as it went from 60.5 to 59.3. The amount of credit extended remained exactly where it had been with another reading of 64.5 — just slightly off the pace set in November of last year when it hit 66.9. …” – Andrew Michaels, Editorial Associate, NACM
# Private Indicators

## National Association of Credit Management

<table>
<thead>
<tr>
<th>Combined Manufacturing and Service Sectors (seasonally adjusted)</th>
<th>Feb '19</th>
<th>Mar '19</th>
<th>Apr '19</th>
<th>May '19</th>
<th>Jun '19</th>
<th>Jul '19</th>
<th>Aug '19</th>
<th>Sep '19</th>
<th>Oct '19</th>
<th>Nov '19</th>
<th>Dec '19</th>
<th>Jan '20</th>
<th>Feb '20</th>
</tr>
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<tbody>
<tr>
<td>Sales</td>
<td>62.6</td>
<td>58.2</td>
<td>61.0</td>
<td>65.9</td>
<td>60.4</td>
<td>58.4</td>
<td>64.4</td>
<td>58.7</td>
<td>57.9</td>
<td>61.6</td>
<td>58.8</td>
<td>63.0</td>
<td>64.0</td>
</tr>
<tr>
<td>New credit applications</td>
<td>58.9</td>
<td>57.8</td>
<td>59.7</td>
<td>64.2</td>
<td>62.4</td>
<td>60.8</td>
<td>60.9</td>
<td>59.7</td>
<td>59.0</td>
<td>61.2</td>
<td>59.4</td>
<td>61.1</td>
<td>62.2</td>
</tr>
<tr>
<td>Dollar collections</td>
<td>59.1</td>
<td>56.6</td>
<td>59.1</td>
<td>59.8</td>
<td>60.3</td>
<td>56.6</td>
<td>60.0</td>
<td>58.5</td>
<td>62.1</td>
<td>59.2</td>
<td>57.9</td>
<td>61.7</td>
<td>58.8</td>
</tr>
<tr>
<td>Amount of credit extended</td>
<td>62.3</td>
<td>63.5</td>
<td>60.6</td>
<td>65.4</td>
<td>62.5</td>
<td>58.7</td>
<td>61.7</td>
<td>59.7</td>
<td>61.6</td>
<td>64.3</td>
<td>61.1</td>
<td>62.9</td>
<td>63.6</td>
</tr>
<tr>
<td>Index of favorable factors</td>
<td>60.7</td>
<td>59.0</td>
<td>60.1</td>
<td>63.8</td>
<td>61.4</td>
<td>58.6</td>
<td>61.8</td>
<td>59.1</td>
<td>60.1</td>
<td>61.6</td>
<td>59.3</td>
<td>62.2</td>
<td>62.2</td>
</tr>
<tr>
<td>Rejections of credit applications</td>
<td>52.1</td>
<td>51.2</td>
<td>52.0</td>
<td>51.8</td>
<td>52.4</td>
<td>52.6</td>
<td>52.1</td>
<td>51.4</td>
<td>52.1</td>
<td>51.3</td>
<td>52.0</td>
<td>52.0</td>
<td>53.8</td>
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<tr>
<td>Accounts placed for collection</td>
<td>49.0</td>
<td>46.4</td>
<td>48.5</td>
<td>47.0</td>
<td>50.0</td>
<td>46.2</td>
<td>48.6</td>
<td>48.4</td>
<td>49.1</td>
<td>49.8</td>
<td>50.3</td>
<td>50.6</td>
<td>50.6</td>
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<tr>
<td>Disputes</td>
<td>48.5</td>
<td>49.5</td>
<td>48.5</td>
<td>48.6</td>
<td>48.6</td>
<td>50.5</td>
<td>49.4</td>
<td>50.0</td>
<td>48.1</td>
<td>50.3</td>
<td>50.8</td>
<td>52.4</td>
<td>50.3</td>
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<tr>
<td>Dollar amount beyond terms</td>
<td>51.3</td>
<td>50.0</td>
<td>47.6</td>
<td>51.3</td>
<td>49.8</td>
<td>46.1</td>
<td>53.6</td>
<td>50.2</td>
<td>52.0</td>
<td>52.6</td>
<td>51.0</td>
<td>54.2</td>
<td>53.5</td>
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<tr>
<td>Dollar amount of customer deductions</td>
<td>50.0</td>
<td>48.8</td>
<td>49.7</td>
<td>49.3</td>
<td>50.0</td>
<td>51.2</td>
<td>50.0</td>
<td>52.1</td>
<td>50.9</td>
<td>51.4</td>
<td>51.3</td>
<td>52.2</td>
<td>51.5</td>
</tr>
<tr>
<td>Filings for bankruptcies</td>
<td>54.9</td>
<td>53.7</td>
<td>53.9</td>
<td>53.3</td>
<td>53.5</td>
<td>53.2</td>
<td>51.6</td>
<td>52.1</td>
<td>53.4</td>
<td>53.5</td>
<td>54.4</td>
<td>53.4</td>
<td>53.3</td>
</tr>
<tr>
<td>Index of unfavorable factors</td>
<td>51.0</td>
<td>49.9</td>
<td>50.0</td>
<td>50.2</td>
<td>50.7</td>
<td>50.0</td>
<td>50.9</td>
<td>50.7</td>
<td>50.9</td>
<td>51.5</td>
<td>51.5</td>
<td>52.6</td>
<td>52.2</td>
</tr>
<tr>
<td>NACM Combined CMI</td>
<td>54.9</td>
<td>53.6</td>
<td>54.0</td>
<td>55.7</td>
<td>55.0</td>
<td>53.4</td>
<td>55.2</td>
<td>54.1</td>
<td>54.6</td>
<td>55.5</td>
<td>54.6</td>
<td>56.4</td>
<td>56.2</td>
</tr>
</tbody>
</table>

### Combined Index Monthly Change (seasonally adjusted)

Source: https://nacm.org/cmi.html; 2/28/20
Private Indicators

National Federation of Independent Business (NFIB)

February 2020 Report

Small Business Owners Remained Optimistic in February

“Small business owners expressed slightly higher levels of optimism in February with the NFIB Optimism Index moving up 0.2 points to 104.5, a reading among the top 10 percent in the 46-year history of the survey. Those expecting better business conditions increased and job creation and openings improved as well. Real sales expectations declined along with capital expenditure and inventory plans.

Reports of better business conditions in the next six months improved 8 points, to a net 22 percent, according to the survey. The NFIB Uncertainty Index fell one point in February to 80. Those who say it is a good time to expand dipped 2 points to 26 percent.

The net percent of owners raising average selling prices fell 4 points to a net 11 percent, seasonally adjusted. A net 5 percent of all owners (seasonally adjusted) reported higher nominal sales in the past three months, down 2 points from January. The levels of owners expecting higher real sales volumes declined 4 points to a net 19 percent of owners.

Small business owners continue to indicate their credit needs are being met with little trouble borrowing. Thirty-two percent reported all credit needs met (up 2 points), and 55 percent said they were not interested in a loan (up 1 point). Two percent of owners reported that all their borrowing needs were not satisfied, down 1 point, matching the record low.” – Holly Wade, NFIB

Historically high percentages of owners plan to raise worker compensation. Seasonally adjusted, a net 36 percent reported raising compensation (unchanged) and a net 19 percent plan to do so in the coming months, down 5 points from January. Eight percent cited labor costs as their top problem.” – Holly Wade, NFIB

Private Indicators

NFIB Small Business Optimism Index

“The small business economic expansion continued its historic run in February, as owners remained focused on growing their businesses in this supportive tax and regulatory environment. February was another historically strong month for the small business economy, but it’s worth noting that nearly all of the survey’s responses were collected prior to the recent escalation of the coronavirus outbreak and the Federal Reserve rate cut. Business is good, but the coronavirus outbreak remains the big unknown.

Firms will likely continue offering improved compensation to attract and retain qualified workers as the labor market remains highly competitive. Compensation levels will hold firm unless the economy weakens substantially as owners do not want to lose the workers that they already have.” – Bill Dunkelberg, Chief Economist, NFIB

“Sixty-two percent reported capital outlays, down 1 point from January’s reading, while 26 percent plan capital outlays in the next few months, down 2 points from January. The net percent of owners reporting inventory increases rose 1 point from January’s reading to a net 7 percent, and the net percent of owners planning to expand inventory holdings decreased from January by 2 points to a net 2 percent, a solid number.

As reported in last week’s NFIB’s monthly jobs report, small business owners added an average of 0.43 workers per firm, but finding qualified workers remained the top issue with 25 percent reporting this as their number one problem, 2 points below August’s record high. Twenty-five percent of the owners selected “finding qualified labor” as their top business problem, far more than those citing either taxes or regulations.” – Holly Wade, NFIB

## Private Indicators

### NFIB Small Business Optimism Index

**Small Business Optimism**

*Small Business Optimism Starts New Year as Solid as Ever*

<table>
<thead>
<tr>
<th>Index Component</th>
<th>Net %</th>
<th>Change From Dec.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plans to Increase Employment</td>
<td>19%</td>
<td>0</td>
</tr>
<tr>
<td>Plans to Make Capital Outlays</td>
<td>28%</td>
<td>0</td>
</tr>
<tr>
<td>Plans to Increase Inventories</td>
<td>4%</td>
<td>1</td>
</tr>
<tr>
<td>Expect Economy to Improve</td>
<td>14%</td>
<td>-2</td>
</tr>
<tr>
<td>Expect Real Sales Higher</td>
<td>23%</td>
<td>7</td>
</tr>
<tr>
<td>Current Inventory</td>
<td>-3%</td>
<td>1</td>
</tr>
<tr>
<td>Current Job Openings</td>
<td>37%</td>
<td>4</td>
</tr>
<tr>
<td>Expected Credit Conditions</td>
<td>-4%</td>
<td>-1</td>
</tr>
<tr>
<td>Now a Good Time to Expand</td>
<td>28%</td>
<td>3</td>
</tr>
<tr>
<td>Earnings Trends</td>
<td>-3%</td>
<td>5</td>
</tr>
</tbody>
</table>

The Paychex | IHS Markit Small Business Employment Watch
Small Business Hiring Growth Improves for Third Consecutive Month

The Paychex | IHS Markit Small Business Employment Watch shows another monthly increase for small business job growth, while hourly earnings growth slowed in February.

“The latest Paychex | IHS Markit Small Business Employment Watch shows an upturn in the pace of small business job growth for the third straight month, a trend last seen in early 2017. Though down 0.61 percent from last year, employment growth increased 0.15 percent from the previous month, and 0.22 percent in the past quarter, to 98.32. Hourly earnings growth dipped to 2.74 percent in February. Weekly hours worked also fell for the second consecutive month but remain up 0.41 percent from a year ago.

“The national jobs index has turned upward as three monthly increases have recovered the ground lost since June of last year. Wage growth, however, peaked late in 2019 and has begun to decelerate in 2020,” said James Diffley, chief regional economist at IHS Markit.

“The past three months mark the longest string of job growth increases in nearly three years, indicating a positive start for small business hiring in 2020,” said Martin Mucci, Paychex president and CEO. “However, these results have yet to reflect any impact from cases of the COVID-19 (coronavirus), which are expected to increase in the coming months.”” – Lisa Fleming, Kate Smith, and Tess Flynn, Paychex, Inc.

“Broken down further, the February report showed:

- The South remains the leading region for small business employment growth; the West continues as the top region for hourly earnings growth. Tennessee continues to lead states in small business job growth; California leads in hourly earnings growth.
- Philadelphia became the top metro for small business job growth; Los Angeles ranks first among metros in hourly earnings growth.
- Small business hiring growth is widespread, with all industry sectors showing employment gains during the past quarter.” – Lisa Fleming, Kate Smith, and Tess Flynn, Paychex, Inc.

### February Jobs Index

<table>
<thead>
<tr>
<th>Index</th>
<th>98.32</th>
</tr>
</thead>
<tbody>
<tr>
<td>12-Month Change</td>
<td>-0.61%</td>
</tr>
</tbody>
</table>

### February Wage Data

<table>
<thead>
<tr>
<th>Hourly Earnings</th>
<th>$27.62</th>
</tr>
</thead>
<tbody>
<tr>
<td>12-Month Growth</td>
<td>+2.74% (+$0.74)</td>
</tr>
</tbody>
</table>
At 98.32, the Paychex | IHS Markit Small Business Jobs Index is up 0.15 percent from the previous month.

The pace of small business employment growth improved for the third straight month, a trend last seen in early 2017.” – Lisa Fleming, Kate Smith, & Tess Flynn, Paychex, Inc.
Private Indicators

U.S. Bank Freight Payment Index™: Q4 2019
Q4 Insights from U.S. Bank

“The U.S. Bank National Shipment and Spend Indexes ended 2019 with both metrics falling sequentially and on a year-over-year basis. The tough quarter was due to weaker economic activity and difficult comparisons from a strong fourth quarter in 2018. The indexes reflect that at least parts of the economy, like manufacturing activity, are currently under pressure.

There is no doubt that 2019 overall was a tough year for motor carriers. In fact, shipments contracted 5.9%1 from 2018, marking the largest annual drop calculated back to 2011. Spending was up 3.4%2 from 2018, which is remarkable considering that volumes were off significantly. Still, it was the smallest gain calculated since 2016.

Economic forecasts would fall under 2% gross domestic product growth in the final quarter of 2019. For trucking, the falling factory sector is having a significant impact on shipments and spend. Truck sales have exceeded the demand for the added capacity. Freight levels will likely remain sluggish into the second quarter; however, shipments could start to improve as capacity starts falling with fewer truck purchases as well as carrier closures.” – Bob Costello, Chief Economist and Senior Vice President for the American Trucking Associations (ATA)
Private Indicators

Source: https://freight.usbank.com/; 2/22/20
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