ASA ADVISOR

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AUGUST 2016

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FOR ASA MEMBERS
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AUGUST 2016

SNAP SHOT INDICATORS

Published Monthly by ITR Economics

Retail Sales	Mild Decline
Manufacturing	Mild Decline
Medical	Mild Rise
Auto Production	Flat
Wholesale Trade	Mild Rise
Interest Rates	Mild Decline
Capital Goods	Flat
Electronics	Mild Rise
ITR Leading Indicator	Mild Rise
Housing Starts	Mild Decline
Consumer Expectations	Mild Decline
Chicago Fed National Activity	Flat
US Leading Indicator	Mild Rise
Purchasing Managers Index	Mild Rise
S&P 500 Stock Prices	Mild Rise

Steep Rise
Mild Rise
Steep Decline
Flat
Mild Decline

MACROECONOMIC OUTLOOK

The US economy is throwing some mixed signals. It is reasonable to assume a dull outlook if you do not know which leading indicators to follow. Rest assured, we are in store for improvement in the US economy in the latter half of this year and well into 2017. US Industrial Production (a combination of mining, manufacturing, and utilities), a benchmark to the overall industrial economy, is on track for a cyclical reversal this quarter and recovery through the remainder of 2016.

The US Purchasing Managers Index, which typically leads Industrial Production by 9 to 14 months, has been generally rising on a monthly basis since December 2015. The PMI is reading over 50, which is indicative of expansion in the manufacturing sector of the US economy. This puts us on track for the ongoing improvement in Industrial Production.

There are signs of improvement in commodity prices, particularly when looking at US Crude Oil Futures. Prices averaged $46.34 per barrel for the three months through July. Prices will generally rise into at least mid-2017. China, Brazil, and Canada have decreased their Crude Oil Production which will, in turn, lessen some of the oversupply plaguing the industry. We will see further upward momentum in prices as the pendulum begins to swing. The rise will likely be volatile, but there will be upward movement overall going into 2017. Improvement for commodities is welcomed news for US Nondefense Capital Goods New Orders. A price floor is in sight for oil patch investments. US Mining Equipment New Orders, a component of Nondefense Capital Goods New Orders, is down 57.6% over the most recent 12 months compared to one year ago. The approaching low for the oil patch will aid the current recovery trend for Nondefense Capital Goods going into 2017.

The consumer side of the economy remains strong. One of the worrisome data points that caused concern was the May and June employment data. When we look at the long-term trend in Private Employment, we see that US Private Sector Employment averaged 121.3 million workers for the 12 months through July, up 2.1% from the year-ago level. There will be a relatively tighter labor market stemming from higher wages and a limited labor supply. However, the overall expansion and increase in wages put the consumer in a good place. This is evident when looking at Total Retail Sales, which rose 1.7% compared to the previous year. The increase in disposable personal income is benefiting Nonstore Retail Sales, so be sure to maintain an online presence.

Construction is another area where we see the strength of the consumer come through. Single Unit Housing Starts totaled 73.0 thousand units in July, up 1.3% from the July 2015 level. Within this segment is a tentative revival of Luxury Homes. New Homes Sold for More Than $500.0 Thousand and Premium Homes Sold for More than $750.0 Thousand rose in the second quarter. This is good news for contractors and suppliers in this sector.

The US economy is well-positioned for growth and several leading indicators support the positive outlook for the coming quarters. The US consumer will provide upside momentum while the industrial sector ramps up. Business-to-business activity will recover despite volatile commodity prices along the way.

MAKE YOUR MOVE™

Find your competitive advantages and improve upon them. Prepare to acquire market share, as activity in the industrial sector improves in the coming months and through 2017.

INDUSTRY ANALYSIS

Retail Sales

US Total Retail Sales (deflated) during the 12 months through July were up 1.7% compared to the previous year. Low Oil Prices are dragging down the dollar value of Retail Sales despite consumption levels remaining unchanged. If we look at Retail Sales excluding Gas Stations, spending is up 4.1% from the year-ago level.

Manufacturing

The US Total Manufacturing Production has flattened at 0.5% growth rate for the past three months. A strong US dollar and weak US Exports (down 7.9%) are hindering Production. Manufacturing will avoid recession and transition to Phase B, Accelerating Growth, over the next quarter as commodity prices continue to improve this year.

Medical

US Medical Equipment and Supplies Production is up 3.4% year-over-year. Production in the past three months is up 7.4% compared to the same quarter last year, suggesting further annual growth is likely. Electromedical and Electrotherapeutic Apparatus Production is up 3.4% (annual basis), and will support expanding Medical Equipment Production through 2016.

US Housing Starts

US Housing Starts for the 12 months through July rose 8.5% year-over-year growth. Single Unit Housing Starts are outperforming Multi Unit Housing Starts. Strong consumer trends including rising wages, high employment, and affordable mortgage rates are stimulating the US housing sector.

Wholesale Trade

US Total Wholesale Trade in the 12 months through June is down 3.4% from the previous year. Wholesale Trade of Nondurable Goods (down 5.5%) is hindered by Petroleum and Petroleum Products (down 29.9%). However, Wholesale Trade of Machinery, Equipment, and Supplies is up 2.2% in the most recent quarter as capital investment begins to rise.

Interest Rates

US Short-Term Interest Rates reached 0.61% in July, up 0.06 percentage points from June. Conventional 30-Year Mortgage Rates fell slightly to 3.44% in July. The US Federal Reserve is debating whether or not to carry out rate hikes later this year in the face of mixed economic signals. If they do, expect most interest rates to generally increase.

Capital Goods New Orders

US Nondefense Capital Goods New Orders (excluding aircraft) is down 3.6% year-over-year. Weakness in the mining sector related to low metal and oil commodity prices has deterred capital investment. New Orders will recover as industrial demand picks up and more strain is put on manufacturing machinery.

US Chemicals and Chemical Products Production

US Chemicals and Chemical Products Production is up 0.9% in the 12 months through July compared to the previous year. Inorganic Chemical Production is down 0.2%, while Organic Chemicals Production is up 3.0%. Low input costs for petrochemical production are buoying Organic Chemical Production.

SNAPSHOT INDICATORS

Indicator	Direction	What it means for the US economy
ITR Leading Indicator™ (Actual)	Rise	Indicator rise for six consecutive months suggests that the US Industrial Production 12/12 is likely to reach an imminent low, followed by rise into at least early 2017.
Housing Starts (Most recent 12 months compared to same 12 months one year ago)	Mild Decline	General decline in the quarterly trends indicates the downward movement in housing starts will persist into late 2016, slowing growth in the US economy.
Consumer Expectations Index (Most recent 12 months compared to same 12 months one year ago)	Decline	A second month below the year-ago level signals slower retail sales activity through the end of 2016.
Chicago Fed National Activity Index (Six-month average)	Mild Rise	The level of activity in this index is high enough to be indicative of general economic growth.
US Leading Indicator (Most recent month compared to same month one year ago)	Mild Rise	The indicator ticked up in July and if the tentative trend reversal holds, it would suggest support for economic growth into at least early 2017.
Purchasing Managers Index (Most recent month compared to same month one year ago)	Rise	The 12/12 low in November 2015 and subsequent rise supports improvement the US economy into at least early 2017.
S&P 500 Stock Prices (Raw Data)	Rise	Stock Prices rose for the fifth consecutive month and is signaling for a generally more positive US economy by late 2016.

LONG-TERM VIEW

2016:
Recovery in Second Half

2017:
Accelerating Growth

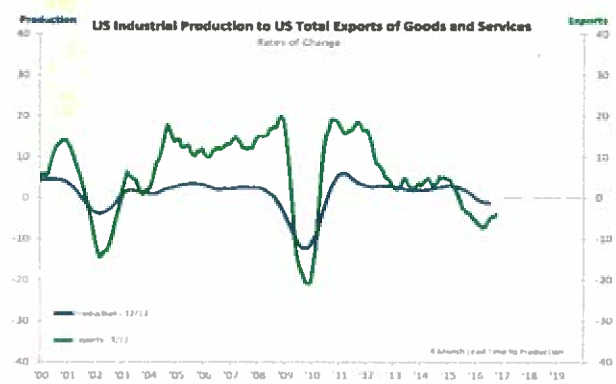
2018:
Slower Growth

THE US ECONOMY AS A GLOBAL BUSINESS

By: Serine Yamout

There has been some concern that globalization jeopardizes the US economy. The Trans-Pacific Partnership (TPP) is one agreement that regulates free trade between the US, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. The TPP could lead to future bilateral agreements with India and China, but they are not included in the agreement at this time. The US is the strongest economic entity out of these countries and is not likely to be dethroned anytime soon. Proponents of the TPP see that the US and the countries listed above have been long-term winners as participants of this agreement. In an increasingly global economy, free trade in general (even imperfectly practiced) raises the standard of living for the majority of people it touches.

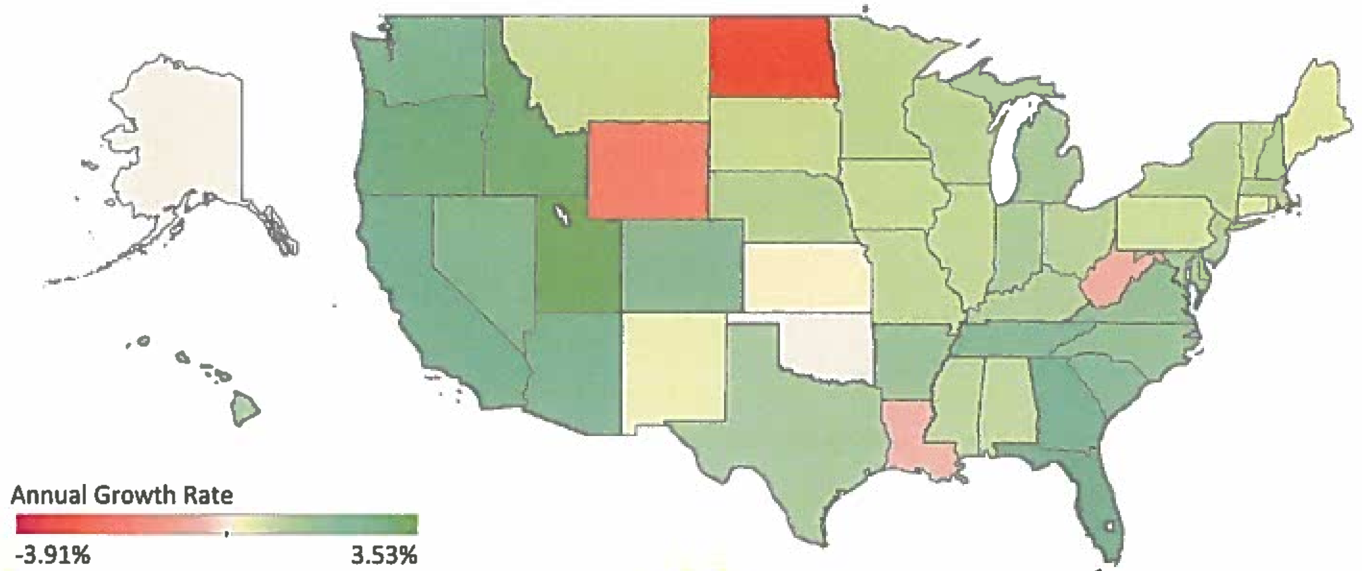
The US consumer is buying US-made products and supporting economic growth. Below are charts depicting the cyclical relationship between US Industrial Production, our benchmark for the US industrial economy, and US Total Exports of Goods and Services and US Total Imports of Goods and Services. Both Imports and Exports lead US Industrial Production by four months. When US Exports and US Imports grow, it indicates that the US economy will grow. It is also important to note that US Imports declined in 2013, but US Production did not falter. This is because imports were 16.6% of GDP (15.5% as of 2015) and therefore, the only force for growth in the economy. Growth in the US population is creating demand for domestic manufacturing and US consumers are not reliant on Imports to meet their needs and wants. Despite being a self-sustainable economy, participating in international trade provides numerous benefits, such as ensuring societal stability, safer traveling conditions, and the exchange of intellectual ideas for world progress.



The US intellectual labor force is constantly innovating and the TPP is geared towards protecting intellectual property. Large companies are unlikely to manipulate politics and the economy in ways that would lead to American job losses. Instead, what we are finding is that while the US labor force is increasing its skill set, we are still finding ourselves facing shortages. As this happens, innovative businesses look for creative solutions, which can mean setting up production outside the US and taking advantage of less-expensive labor and less-intensive regulations. This does not mean we are losing jobs to other countries, it means we are doing what we do best: innovating. As American companies participate in international business, the US communicates its competitive advantages to the rest of the world; a stable currency, a strong manufacturing sector, efficient deployment of capital, and the implementation of the rule of law.

Do not back away from global expansion opportunities due to the fear of competition. We expect that the consumer demand will increase in 2017 and boost the global economy through 2018. If international business prospects appeal to you, it may be time for you and your team to investigate regulations and requirements for companies penetrating new markets. Invest in research to increase your knowledge of possible markets. Analyze what strategies you may need to implement for expansion. Consider what capital expenditures and acquisitions you may need in light of market-by-market potential. Examine your need for investors and lead with optimism as you forge new futures for yourself and your company.

STATE-BY-STATE: Average State Nonfarm Employment



Average State Nonfarm Employment over the last 12 months averaged a 1.5% increase versus the prior-year level. However, the pace of growth is slowing in many states. Employment in the Central (0.5%), Southwest (0.7%), Northeast (1.2%), and Great Lakes (1.1%) regions are each growing at a slower pace than the overall US average. The most noticeable areas of decline are in states that are more heavily reliant on the oil and gas and energy industries for jobs: North Dakota (-3.9%), Wyoming (-2.6%), Louisiana (-0.7%), and West Virginia (-0.9%). Look to regions with growing Employment, as a strong consumer will create new opportunities. Currently the strongest Employment gains are in the Southeast (2.3%) and the West (2.5%) as job growth tied to investments in technology and service-based jobs.

READER'S FORUM

Is ITR concerned about companies, and therefore jobs, leaving the country and having a negative impact on the US economy?

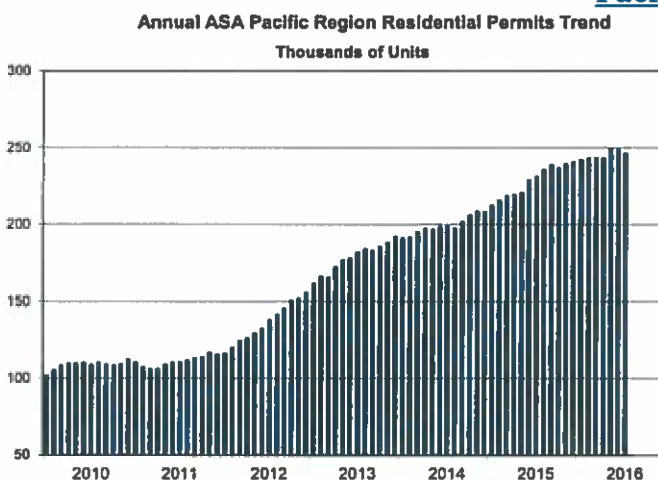
Alan Beaulieu, President at ITR Economics™, answers:

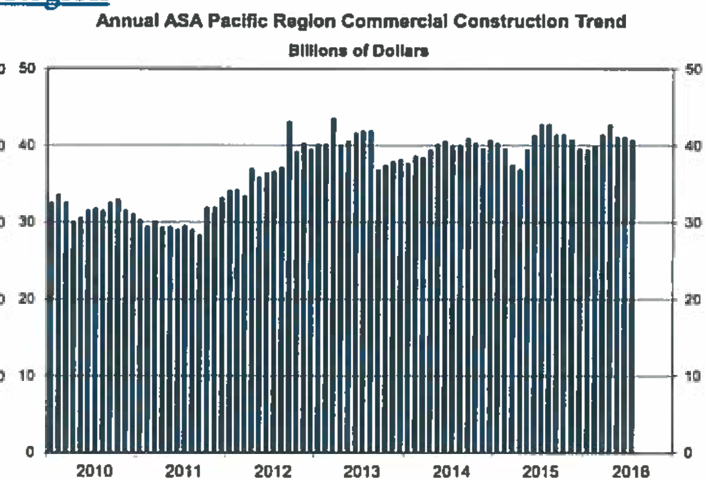
Not particularly, while the papers and politicians will often highlight a company that is leaving the US as bad and showcase how many jobs are lost as a result of that move, there is another side to that story. Although, the story is frequently about the ones that go and the jobs (usually in manufacturing) that are lost, what is not often discussed is the problem of unfillable job openings in the US in the manufacturing sector. The US has the highest job openings in Manufacturing in over 8.5 years (three-month moving average basis). The average Hourly Wage of Manufacturing Employees in July is near a record high level (it is normal for the summer numbers to weaken slightly). This shows us that not only are there positions in the US, but that employers are willing to pay good money for those skills. Due to the skills shortage, in some cases it makes more sense for companies to shift production into labor-intensive countries, such as Mexico, which also has the added benefit of a less expensive labor pool. When we look at Foreign Direct Investment, we see a positive inflow into the US, with the latest numbers showing Investment above the 20-year average. That means more companies are coming in than are moving out. These are facts that stand in direct contradiction to the popular belief that all manufacturing is leaving the country and there are no manufacturing jobs in the US anymore.

Please send questions to questions@itreconomics.com

*Commercial Construction data in this report now provided by CMD Group; Residential Construction data in this report provided by US Census Bureau (unchanged).

Pacific Region

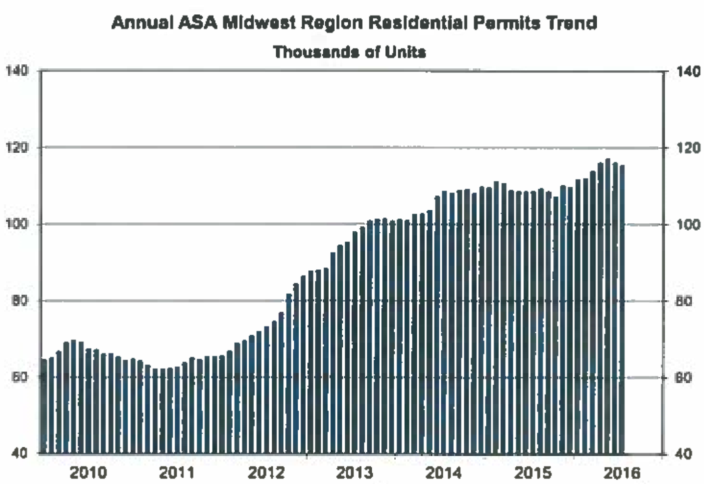


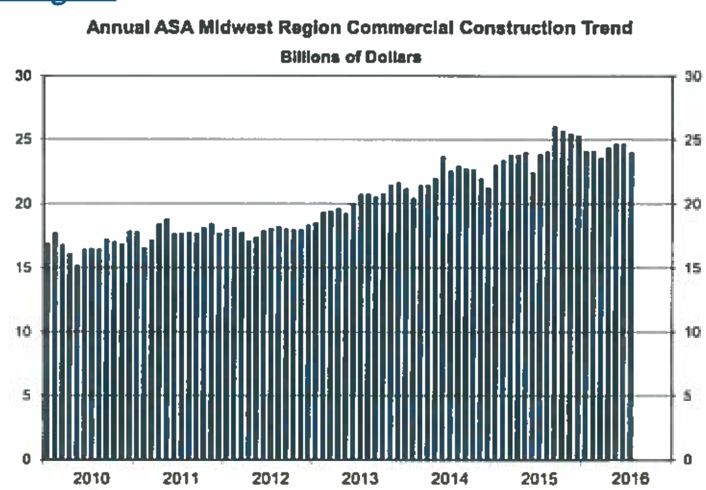


ASA Pacific Region Residential Permits rose 6.7% in the 12 months through July, but the rate of growth is easing. The quarterly trend was 4.5% above the same three months in 2015. This indicates that Permits will continue to slow in its pace of growth and may experience some downturn in the coming quarter.

Construction shifted into Phase D, Recession, in June. Construction in the 12 months through July was 4.7% below the year-ago level. Construction will decline through the end of 2016, presenting ASA members with fewer opportunities for growth.

Midwest Region





ASA Midwest Region Residential Permits are growing at a slowing rate, 6.4% above the year-ago level. Permits will accelerate into 2017. Look to areas outside of the oil patch for growth opportunities, as the decline in the mining industry will hinder Permits.

Midwest Commercial Construction for the 12 months through July is 0.5% above the prior year. However, declining internal trends suggest Construction will mildly decline in the next quarter.

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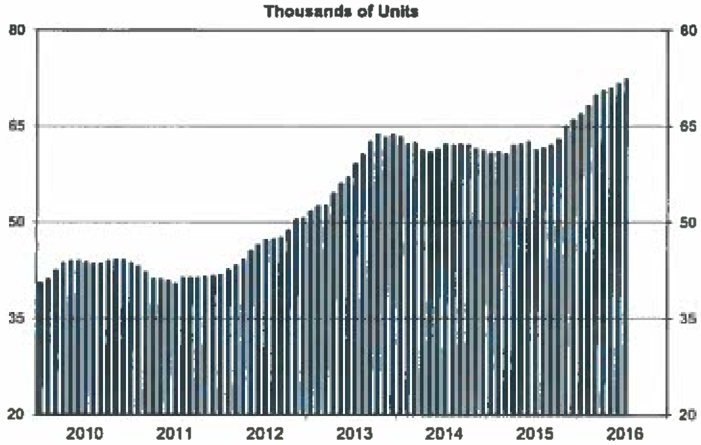
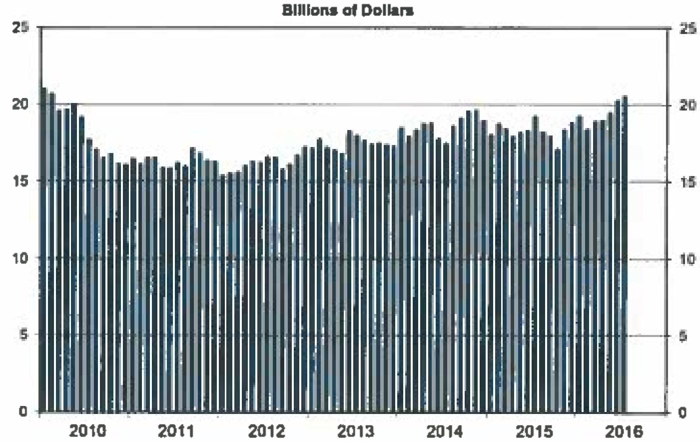
North Central Region

Annual ASA North Central Region Residential Permits Trend
Thousands of Units



Annual ASA North Central Region Commercial Construction Trend
Billions of Dollars

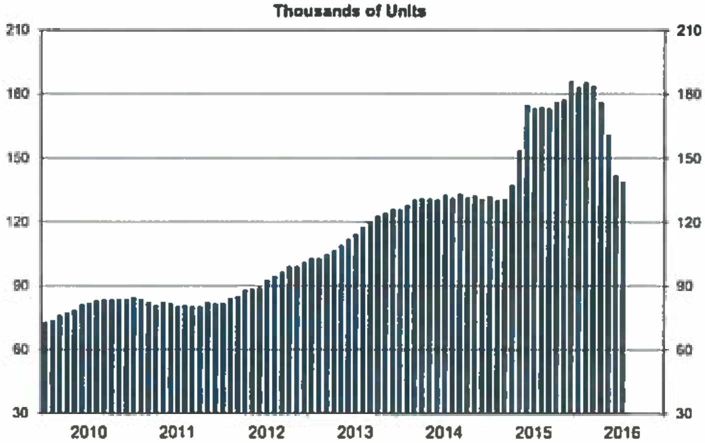


ASA North Central Permits are rising. Permits for the 12 months through July rose 18.2% above the year-ago level. On a quarterly basis, Permits are up 9.8%. This slower growth rate in the quarterly trend suggests the rate of rise for annual Permits is easing, but a recession is not likely at this time.

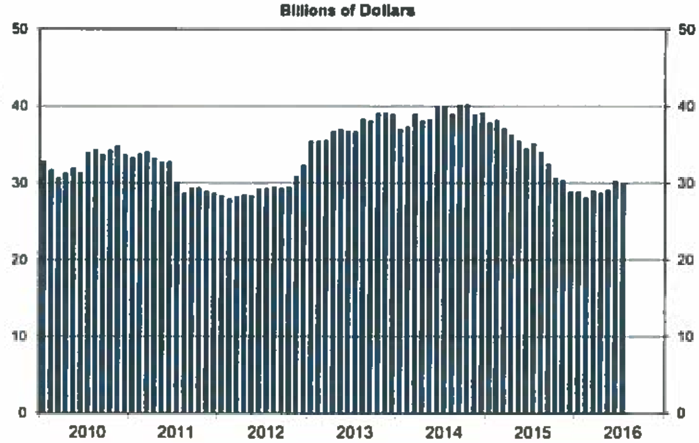
North Central Commercial Construction for the 12 months through June rose 6.7% above the prior year. The quarterly trend rose 26.1% compared to the same three months last year, indicating that this accelerating trend will persist through at least the end of 2016.

Northeast Region

Annual ASA Northeast Region Residential Permits Trend
Thousands of Units



Annual ASA Northeast Region Commercial Construction Trend
Billions of Dollars



ASA Northeast Permits are declining. Permits transitioned to Phase D, Recession, in June. The Permits for the 12 months through July are 19.8% below the year-ago level. This significant drop in Permits indicates that this region will provide fewer opportunities for ASA members through the end of 2016.

Northeastern Construction is recovering. Construction spending in the three months through July was 12.7% above the same three months last year. Expect Construction to recover through early 2017 before accelerating later in the year.

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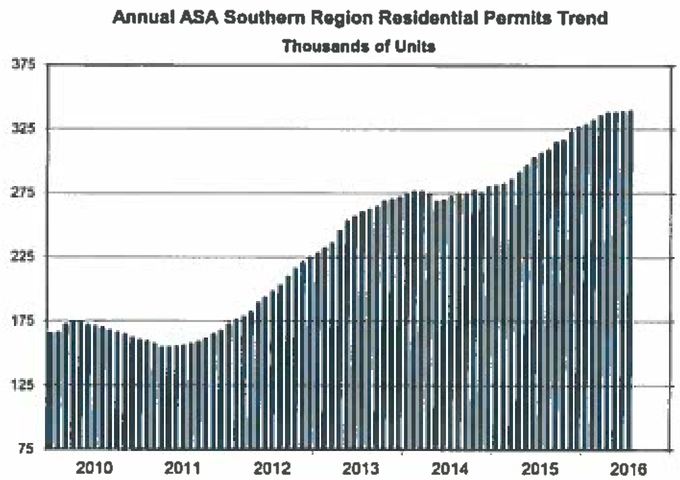
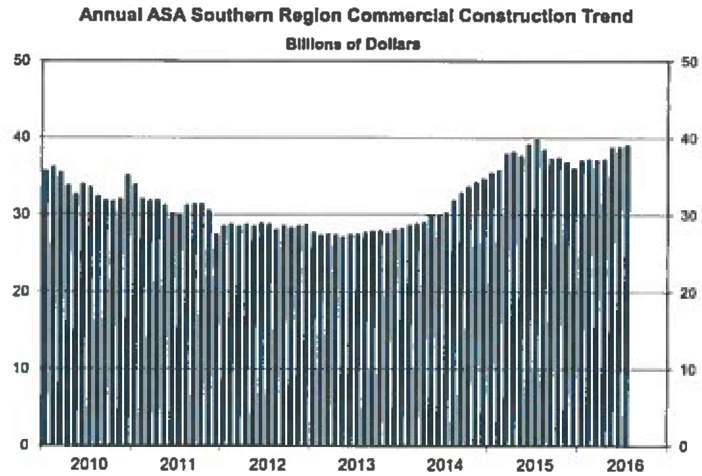
Residential Construction data in this report provided by US Census Bureau (unchanged).

Southern Region

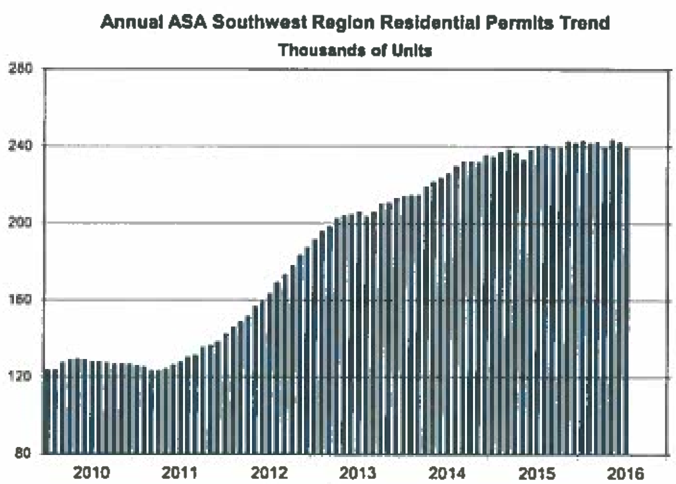


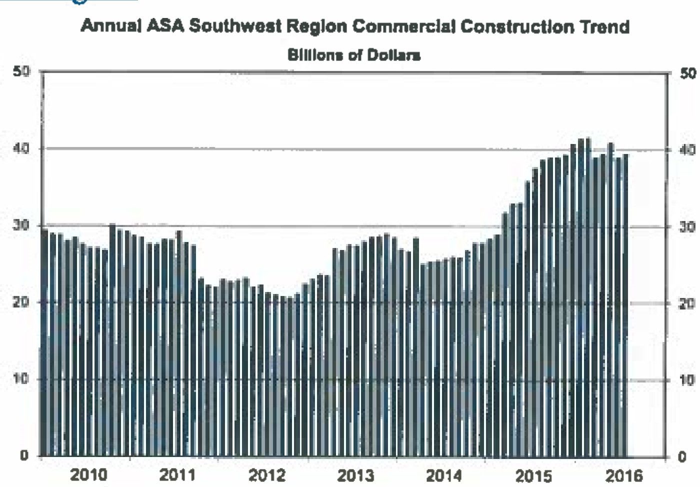


ASA Southern Permits in the 12 months through July rose 10.8% year-over-year, but the rate of growth is easing. Rising population and income in the region will support growth in this region in 2017.

Construction for the 12 months through July is 1.9% below the previous year. However, the quarterly trend is 17.7% above the same three months last year. This indicates that Construction will generally improve in late 2016 and early 2017.

Southwest Region





ASA Southwest Permits will tick down below the year-ago level in the next quarter. Contraction in this sector will be brief and mild as activity in the industrial economy picks up in 2017.

Southwest Construction is slowing. Construction in the 12 months through July is 5.1% above the year-ago level. However, July Construction rose 14.6% over the July 2015 level. This is a positive sign for growth in this sector after the significant falter in June.

ASA Sales

ASA Member Sales were below our forecast range in June. We revised our forecast. Sales in the 12 months through July rose 3.0% above the year-ago level. Expect Sales to finish the year 5.7% above the 2015 level.

Sales will reach record levels into 2019. The growth rate will be mild, but relatively consistent. Growth in the US economy will be backed by a strong consumer as Employment and Disposable Personal Income rise. ASA members should look for opportunities in home improvement construction and new home construction. Construction related to retail and restaurants will also provide some opportunities for Sales in 2017.

