AIB Group Treasury
Economic Services Unit

Mixed Bag From The US This Week

This week's batch of US economic numbers were mixed with construction spending falling slightly, the manufacturing NAPM index coming in well ahead of expectations, the non-manufacturing NAPM report disappointing and non-farm payrolls much weaker than forecast.

Construction Spending Moderates Further

Construction spending fell slightly in July, after recording its steepest drop in nearly a year in June. Spending proceeded at a seasonally adjusted annual rate of $859.4 billion, down 0.1% from its June pace of $860.0 billion. In June, the rate of construction spending fell by a revised 1.0%, the biggest decline since July 2000, when the pace fell 1.3%. It was originally reported that construction spending was off 0.7%. Home building held up well, but sectors of non-residential constriction are weakening. This includes office and hotel development.

Manufacturing NAPM Offer Hope

The manufacturing NAPM index rose to 47.9% in August, well above market expectations and July's 43.6 reading. This marks the thirteenth consecutive month of decline in the manufacturing industry, but there are some encouraging signs in this most recent release. The production indices all increased in August. In particular, the rise of the new orders index above 50% may signal that the manufacturing industry is finally hitting bottom. The new export orders index rose to 51.9% in August with the current weakness in the dollar likely providing some support here.

Q2 Productivity Revised to 2.1%

Revised data show productivity for the second quarter at 2.1%. Although down slightly on the initial estimate, the data show a strong turnaround on Q1's meager 0.1% gain. Manufacturing productivity was revised upwards to reflect a small gain as opposed to a slight decline. The improvement in productivity is a strongly positive sign for the economy.

Chain Store Sales Worrying

Retail sales slowed in the last week of August, indicating that the government's $38 billion tax rebate has not triggered any great surge in consumer spending. Sales fell 0.1% percent in the latest week, compared with a 0.1% rise one week earlier. The Redbook Average, rose 0.3% during the four retail weeks of August, compared with the same period in July. The rise in the Redbook Average slowed from the previous week's 0.4% gain, indicating sluggish sales for retailers in the last week of the month despite the federal tax rebates. The world's largest retailer, Wal-Mart Stores Inc. said on Wednesday said tax rebate dollars have not had a huge impact on its sales.

Weekly Jobless Claims

New jobless claims slipped in the latest week but by a modest 3,000 to 402,000. However, the number of people filing continued claims, those who have already filed for a week or more of benefits, rose to 3.207 million (from 3.170 million a week earlier) in the Aug. 25 week. This is the first time since 1992 that continuing claims have breached the 3.2 million mark.

Non-Manufacturing NAPM Disappoints

The non-manufacturing NAPM Business Activity Index declined by 3.4% in August to a level of 45.5%. This was below the expected performance. Although a few industries indicated growth, most showed continued contraction. New orders, order backlogs, inventories, employment, and prices are all indicating contraction, and all shrank more rapidly in August than in July. New orders fell 2.7% to 45.9%, indicating that industry activity will remain weak in the months ahead. This development is particularly worrying as this sector accounts for a much larger proportion of the US economy than manufacturing does.

Non Farm Payrolls

The labour market situation deteriorated significantly in August with the jobless rate surging to 4.9% even though non-farm payrolls shedding another 113,000 jobs. This was more than twice what was expected. Losses were again concentrated in manufacturing industries with 141,000 jobs shed in this sector.

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