

MONDAY ECONOMIC REPORT



ISM: Manufacturing Expanded in March at Fastest Pace Since December 1983

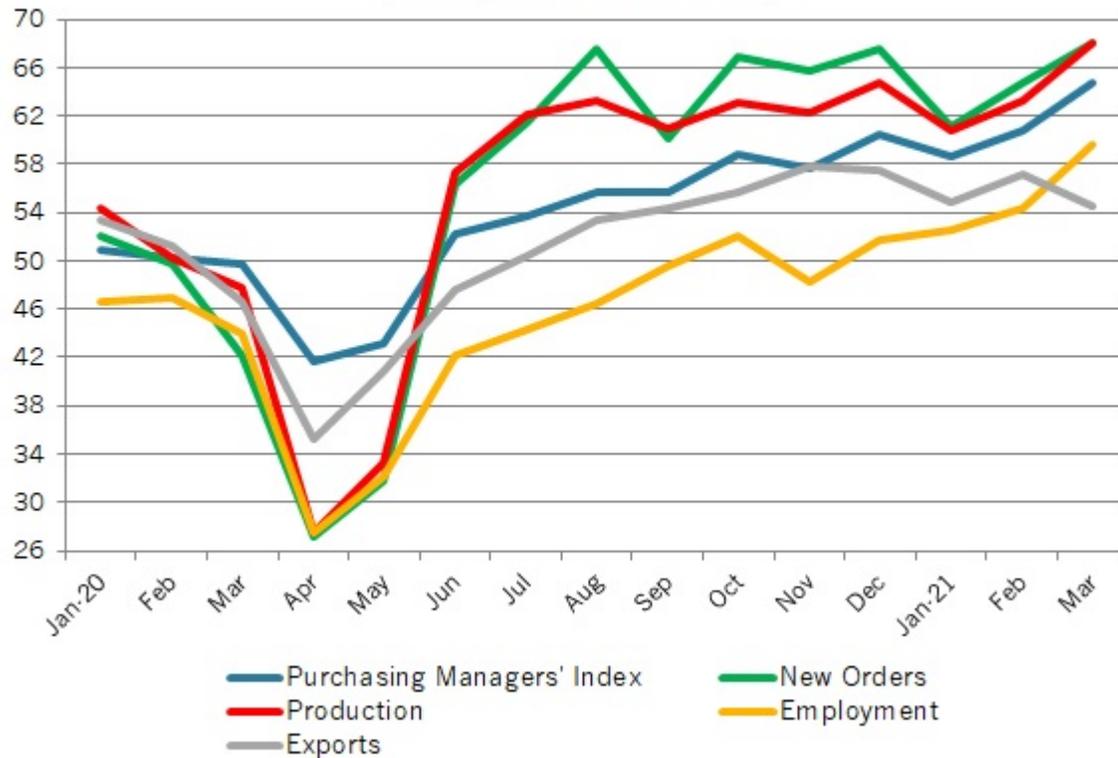
By Chad Moutray – April 5, 2021

The Weekly Toplines

- The Institute for Supply Management® [reported](#) that manufacturing activity expanded at the fastest pace since December 1983, with data solidly higher across the board. New orders and production expanded at the best rate since January 2004, and hiring grew at swiftest clip since February 2018.
- Yet, manufacturers also note challenges with weather, supply chains and rising costs. Supplier deliveries were the slowest since April 1974, and the backlog of orders was the highest since January 1993. With that in mind, raw material prices continued to rise sharply, near the highest on record since the question was added in January 1993.
- Similarly, the Dallas Federal Reserve Bank [reported](#) that manufacturing activity rose at a pace not seen since August 2018, with input costs up at fastest pace since July 2008.
- Private manufacturing construction spending [grew](#) 0.3% in February, rising for the second straight month but still down 10.4% year-over-year.
- Manufacturing employment [increased](#) by 53,000 in March, the fastest monthly pace since September and rising for tenth time in the past eleven months. Durable and nondurable goods employment rose by 30,000 and 23,000 in March, respectively.
- The manufacturing sector remains a bright spot in the U.S. economy, with expanding demand, production and hiring moving in the right direction. With that said, manufacturing employment has fallen by 515,000 workers over the past 13 months. Average hourly earnings for production and nonsupervisory workers in manufacturing have risen 3.1% year-over-year.
- Overall, the U.S. economy added 916,000 nonfarm payroll workers in March, the strongest monthly gain since August. Despite the solid increase in the latest data, nonfarm payrolls reported 8,403,000 fewer workers today than 13 months ago. The unemployment rate declined from 6.2% in February to 6.0% in March.
- According to the Conference Board, consumer confidence [moved sharply higher](#), up from 90.4 in February to 109.7 in March, the best reading in 12 months. Americans were more upbeat in their assessments of current and future economic conditions. More importantly, consumers expressed greater willingness to open their pocketbooks and spend more.

ISM® Manufacturing Purchasing Managers' Index®

(January 2020 – March 2021)



Economic Indicators

Last Week's Indicators: (Summaries Appear Below)

Monday, March 29
Dallas Fed Manufacturing Survey

Tuesday, March 30
Conference Board Consumer Confidence

Wednesday, March 31
ADP National Employment Report

Thursday, April 1
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®
Weekly Initial Unemployment Claims

Friday, April 2
BLS National Employment Report

This Week's Indicators:

Monday, April 5
Factory Orders and Shipments

Tuesday, April 6
Job Openings and Labor Turnover Survey

Wednesday, April 7
Consumer Credit
International Trade Report

Thursday, April 8
Weekly Initial Unemployment Claims

Friday, April 9
Producer Price Index

- **[ADP National Employment Report](#)**: Manufacturing employment increased by 49,000 in March, bouncing back from the decline of 7,000 in February, according to ADP estimates. This increase marked the fastest monthly growth in six months. At the same time, private nonfarm payrolls grew by 517,000 in March, up from 176,000 in February and near the consensus estimate. As with manufacturing, these data represented the best reading since September 2020. Overall, the data continue to reflect an economy that is recovering strongly. The March report noted large increases for leisure and hospitality (up 169,000), trade, transportation and utilities (up 92,000), professional and business services (up 83,000), education and health services (up 68,000) and construction (up 32,000).

Despite solid growth in March, private nonfarm payrolls have fallen by nearly 9,020,000 over the past 13 months, with manufacturing employment down roughly 536,000 since February 2020.

Meanwhile, small and medium-sized businesses (i.e., those with fewer than 500 employees) added 362,000 workers in March, or 70.0% of net job creation for the month.

- **[BLS National Employment Report](#)**: Manufacturing employment increased by 53,000 in March, the fastest monthly pace since September and rising for tenth time in the past eleven months. Durable and nondurable goods employment rose by 30,000 and 23,000 in March, respectively. Overall, the manufacturing sector remains a bright spot in the U.S. economy, with expanding demand, production and hiring moving in the right direction. With that said, manufacturing employment has fallen by 515,000 workers over the past 13 months, as the sector continues to recover from the COVID-19 pandemic. The sector added 12,284,000 workers in March, down from 12,799,000 in February 2020.

In March, growth in manufacturing employment was led by strength in fabricated metal products (up 13,700), miscellaneous nondurable goods (up 7,400), printing and related support activities (up 5,900), miscellaneous durable goods (up 4,500), machinery (up 3,500) and food manufacturing (up 3,400). In contrast, transportation equipment (down 3,000), furniture and related products (down 1,300), petroleum and coal products (down 500) and plastics and rubber products (down 300) each had reduced employment in March.

All the major sectors in manufacturing continued to experience reduced employment since the pandemic began in February 2020. The largest decreases over the past 13 months came in fabricated metal products (down 70,000), machinery (down 52,000), printing and related support services (45,200), furniture and related products (down 31,900) and primary metals (down 30,400). At the other end of the spectrum, chemicals (down 1,700), computer and electronic products (down 4,000), plastics and rubber products (down 5,000) and textile product mills (down 5,500) fared better, with the smallest employment declines post-pandemic.

The average hourly earnings of production and nonsupervisory workers in manufacturing inched up from \$23.25 in February to \$23.28 in March, with a 3.1% increase over the past year, up from \$22.58 in March 2020.

Meanwhile, the U.S. economy added 916,000 nonfarm payroll workers in March, up from 468,000 in February and the strongest monthly gain since August. Despite the solid increase in the latest data, nonfarm payrolls reported 8,403,000 fewer workers today than 13 months ago.

The unemployment rate declined from 6.2% in February to 6.0% in March, with the number of unemployed workers dropping from 9,972,000 to 9,710,000. The so-called “real unemployment rate”—a term that refers to those marginally attached to the workforce, including discouraged workers and the underemployed—dropped from 11.1% to 10.7%. The labor force participation rate edged up from 61.4% to 61.5%. For comparison purposes, the participation rate registered 63.3% in February 2020.

- **[Conference Board Consumer Confidence](#)**: According to the Conference Board, consumer confidence moved sharply higher, up from 90.4 in February to 109.7 in March, the best reading in 12 months. Americans were more upbeat in their assessments of current and future economic conditions. More importantly, consumers expressed greater willingness to open their pocketbooks and spend more.

Survey respondents were optimistic about the labor market and income prospects. The percentage of respondents suggesting that business conditions were “good” rose from 16.1% to 18.5%, while the percentage feeling that conditions were “bad” dropped from 39.7% to 30.5%. Regarding the outlook, the percentage of consumers anticipating better business conditions over the next six months increased from 30.7% to 40.8%, while those predicting a worsening of conditions declined from 17.7% to 11.0%.

In addition, the percentage of respondents feeling jobs were “plentiful” increased from 21.6% to 26.3%, while those saying jobs were “hard to get” fell from 22.4% to 18.5%. At the same time, the percentage of respondents expecting more jobs in the next six months jumped from 27.4% to 36.1%, while those expecting fewer jobs decreased from 21.3% to 13.4%.

- **[Construction Spending](#)**: Private manufacturing construction spending grew 0.3% from \$68.47 billion in January to \$68.66 billion in February. These figures represent the second straight monthly increase following six months of declines. Hopefully, they also signal the beginning of a recovery in construction for the sector. On a year-over-year basis, private construction spending among manufacturers has plummeted 10.4% from \$76.64 billion in February 2020. Total private nonresidential spending declined 1.0% in February, with a decrease of 9.7% over the past 12 months. Every major segment of private nonresidential construction spending experienced year-over-year decreases in activity in the latest figures.

Overall, total private construction spending fell 0.5% in February, but with 7.1% growth since last year. Private residential construction edged down 0.2% in February, pulled lower by a decline of 1.4% for multifamily activity. Private single-family residential construction inched up 0.1% for the month. Over the past 12 months, private single-family and multifamily construction jumped 20.9% and 14.6%, respectively. Meanwhile, public construction spending decreased 1.7% in February, with a decline of 0.3% year-over-year.

- **[Dallas Fed Manufacturing Survey](#)**: Manufacturing activity continued to expand strongly, with the composite index of general business conditions rising from 17.2 in February to 28.9 in March, the best reading since August 2018. The underlying data rose sharply higher across the board, including for new orders, shipments, production, capacity utilization, employment and capital expenditures. Indeed, 60.9% of respondents said that output was higher for the month, with just 12.9% citing declines, pushing the index for production to a record high. With that said, supply chain disruptions pushed growth in raw material prices to the fastest pace since July 2008—a trend seen in other reports as well.

Looking ahead, manufacturers in the Texas district remained upbeat in their outlook

for the next six months, even with the forward-looking composite measure inching down from 33.9 in February to 33.7 in March. The index for expected new orders rose to the strongest reading in six months, and manufacturers expect that employment during the coming months will expand at the best pace since January 2019. Input prices are expected to continue to accelerate rapidly, with that measure jumping to the strongest reading since March 2012.

- **[ISM® Manufacturing Purchasing Managers' Index®](#)**: The Institute for Supply Management® reported that manufacturing activity expanded at the fastest pace since December 1983, with the headline index up from 60.8 in February to 64.7 in March. The data were very solid across the board, including strong growth for new orders (up from 64.8 to 68.0—best since January 2004), production (up from 63.2 to 68.1—best since January 2004) and employment (up from 54.4 to 59.6—best since February 2018). Exports (down from 57.2 to 54.5) continued to expand modestly, despite softening somewhat in March.

Supply chain disruptions remain a significant challenge, including labor market and logistics struggles. The index for supplier deliveries (up from 72.0 to 76.6) soared to its highest reading since April 1974, with sharply slower delivery times in March. (In this case, readings above 50 are consistent with slower deliveries.) The backlog of orders (up from 64.0 to 67.5) jumped to the highest on record, dating back to when the question was added in January 1993.

With that in mind, prices (down from 86.0 to 85.6) decelerated marginally in March from February's pace, which was the fastest rate since July 2008. Timothy Fiore, chair of the ISM® Manufacturing Business Survey Committee, said, "Aluminum, copper, chemicals, all varieties of steel, plastics, transportation costs, wood and lumber products all continued to record price increases as a result of product scarcity."

The sample comments note the strength in demand and production in the manufacturing sector, but also cite weather, supply chain challenges and rising raw material costs as problems. In addition, firms are struggling to identify qualified talent for their operations.

- **[Weekly Initial Unemployment Claims](#)**: Initial unemployment claims totaled 719,000 for the week ending March 27, up from 658,000 for the week ending March 20, which had been the lowest level in just over one year. Over the past six weeks, initial claims have averaged 728,833 each week. Meanwhile, continuing claims declined from 3,840,000 for the week ending March 13 to 3,794,000 for the week ending March 20. Although this figure represents the lowest level since the week ending March 21, 2020, it is still too high and consistent with 2.7% of the workforce.

At the same time, 18,213,575 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending March 13. That figure declined from 19,731,501 for the week ending March 6 and reflects sizable decreases in state and pandemic assistance claims.

Take Action

- The Manufacturing Institute will host a webinar, "Connecting Manufacturers with the Future: How 5G Will Transform Your Business," on Tuesday, April 6, at 2:00 p.m. EDT in conjunction with the release of a new study on the topic. Avrio Institute President Shawn DuBravac will walk through the results of the Institute's study. Other panelists

include Qualcomm Senior Vice President and General Manager of 5G Durga Malladi and Deere & Company Manager of Enterprise Manufacturing Technologies Casey Kann. Click [here](#) for more information and to register.

- The Institute and Deloitte will host a webinar, “Beyond Reskilling in Manufacturing: Creating Pathways for Tomorrow’s Workforce Today,” on Friday, April 16, at 12:00 p.m. EDT in conjunction with an updated release of the skills gap study. Deloitte Human Capital Practice Managing Director Victor Reyes will join the Institute Executive Director Carolyn Lee for a discussion of the highlights of the report and current and future labor force conditions for manufacturers. Chad Moutray, the Institute’s director for the Center for Manufacturing Research, will also provide a quick economic overview. Click [here](#) for more information and to register.

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