MONDAY ECONOMIC REPORT

Job Growth Disappoints in April, Participation Rate Rises to Eight-Month High

By Chad Moutray – May 10, 2021

The Weekly Toplines

- Manufacturing employment fell by 18,000 in April, pulling back from solid gains in the prior two months. The U.S. economy adding just 266,000 nonfarm payroll workers in April. This was a disappointing and somewhat unexpected report given the rebound in the U.S. economy, but it should not take away from the outlook for solid employment growth over the coming months.

- The unemployment rate edged up from 6.0% in March to 6.1% in April, with the number of unemployed workers rising from 9,710,000 to 9,812,000. The labor force participation rate rose for the second straight month, up from 61.5% to 61.7%, an eight-month high.

- Businesses continue to cite difficulties in finding enough talent, and manufacturers will need to identify 2.1 million more workers for the sector between now and 2030, according to new analysis from The Manufacturing Institute and Deloitte.

- More encouragingly on the labor market front, initial unemployment claims fell to 498,000 for the week ending May 1, the lowest since the pandemic began.

- The ISM® Manufacturing Purchasing Managers' Index® pulled back from 64.7 in March, the fastest pace since December 1983, to 60.7 in April. New orders and production continued to expand very strongly, but supply chain disruptions remained a significant challenge. Prices soared at the fastest rate since July 2008, and the backlog of orders was the highest on record.

- New orders for manufactured goods rose 1.1% in March. Overall, factory orders continued to rebound strongly, rising 3.3% since February 2020, or 5.7% with transportation equipment excluded. Durable goods orders increased even stronger, rising 4.3% over the past 13 months or 11.1% with transportation equipment excluded.

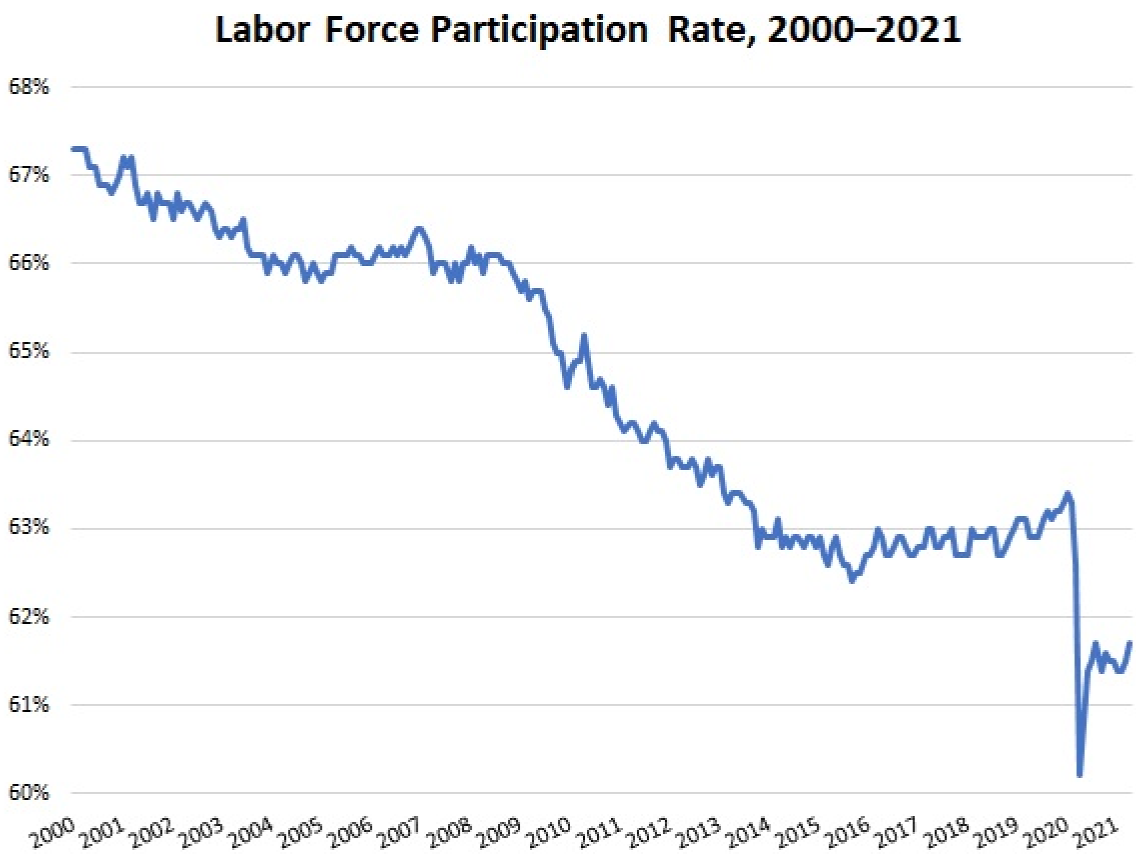
- Likewise, new orders for core capital goods—a proxy for capital spending in the U.S. economy—increased 1.2% to $73.4 billion in March, a record high. As such, core capital goods orders have risen a robust 10.5% over the past 13 months, buoyed by confidence in the economic outlook.

- Manufacturing labor productivity edged up 0.1% at the annual rate in the first quarter, sustaining the 4.5% gain in the fourth quarter. Output in the sector rose a modest 2.4% in the first quarter, but these data likely reflect supply chain disruptions in the sector.

- Private manufacturing construction spending fell 1.3% from the six-month high of $70.10 billion in February to $69.16 billion in March, pulling back following two straight months of gains.

- The U.S. trade deficit rose to $74.45 billion in March, an all-time high. Trade volumes were higher overall, but growth in imports (which also hit a new record) outpaced the rise in exports. The service-sector trade surplus hit the lowest level since August 2012.

- U.S.-manufactured goods exports in the first quarter of 2021 were 3.52% lower than the pace seen through the first three months of 2020, using non-seasonally adjusted data.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, May 3
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Tuesday, May 4
Factory Orders and Shipments
International Trade Report

Wednesday, May 5
ADP National Employment Report

This Week's Indicators:

Monday, May 10
None

Tuesday, May 11
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, May 12
Consumer Price Index

Thursday, May 13
Producer Price Index

Thursday, May 6
Productivity and Costs
Weekly Initial Unemployment Claims

Friday, May 7
BLS National Employment Report

Weekly Initial Unemployment Claims

Friday, May 14
Industrial Production
Retail Sales
University of Michigan Consumer Sentiment (Preliminary)

Deeper Dive

- **ADP National Employment Report:** Manufacturing employment increased by 55,000 in April, extending the gain of 47,000 in March, according to ADP estimates. As such, the sector has added 102,000 workers in the past two months, a solid pace of job growth. At the same time, nonfarm private payrolls increased by 742,000 in April, up from 565,000 in March and the fastest monthly growth in seven months. Overall, the data continue to reflect an economy that is recovering strongly. The April report noted large increases for leisure and hospitality (up 237,000), trade, transportation and utilities (up 155,000), professional and business services (up 104,000), education and health services (up 92,000) and construction (up 41,000).

  Despite notable progress since last spring, private nonfarm payrolls have fallen by nearly 8,226,000 since February 2020, with manufacturing employment down 483,000 over the past 14 months.

  Meanwhile, small and medium-sized businesses (i.e., those with fewer than 500 employees) added 465,000 workers in April, or 62.7% of net job creation for the month.

- **BLS National Employment Report:** Manufacturing employment fell by 18,000 in April, pulling back from solid gains in the prior two months, with 35,000 and 54,000 job gains in February and March, respectively. Durable goods employment declined by 20,000 in April, with nondurable goods firms adding 2,000 workers on net for the month. There remained 515,000 fewer manufacturing employees in April relative to pre-pandemic levels, with 12,284,000 employees in April. There were 12,799,000 employees in the sector in February 2020.

  Overall, this was a disappointing and somewhat unexpected report given the rebound in the U.S. economy, but it should not take away from the outlook for solid employment growth over the coming months. Still, it is hard not to be disheartened with the sluggish nonfarm payroll data, with the U.S. economy adding just 266,000 workers in April and the March data revised lower from the original estimate of 916,000 to 770,000. The consensus estimate had been for roughly 1 million workers being added in April. Nonfarm payrolls reported 8,215,000 fewer workers today than 14 months ago. At the same time, businesses continue to cite difficulties in finding enough talent, and for their part, manufacturers will need to identify 2.1 million more workers for the sector between now and 2030, according to new analysis from The Manufacturing Institute and Deloitte.

  The unemployment rate edged up from 6.0% in March to 6.1% in April, with the number of unemployed workers rising from 9,710,000 to 9,812,000. The labor force participation rate rose for the second straight month, up from 61.5% to 61.7%, an eight-month high. For comparison purposes, the participation rate registered 63.3% in February 2020. More encouragingly, 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 10.7% to 10.4%, albeit still at a very elevated pace.

In April, the manufacturing data provided mixed results. The largest declines in employment in the sector occurred in transportation equipment (down 28,000, including 27,000 from motor vehicles and parts), wood products (down 7,200), fabricated metal products (down 2,900), printing and related support activities (down 2,900) and food manufacturing (down 2,600), among others. In contrast, some examples of higher employment in April included miscellaneous durable goods (up 12,600), chemicals (up 4,300), miscellaneous nondurable goods (up 4,300), machinery (up 3,700) and computer and electronic products (up 2,100) sectors.

There were two major manufacturing sectors that have exceeded their pre-pandemic levels of employment as of April: miscellaneous durable goods (up 3,900 since February 2020) and chemicals (up 700). The other major sectors continued to experience reduced employment over that time frame, although some were close to being neutral. The largest decreases over the past 14 months included transportation equipment (down 149,800), fabricated metal products (down 73,900), printing and related support activities (down 48,300) and machinery (down 46,200).

The average hourly earnings of production and nonsupervisory workers in manufacturing inched up from $23.33 in March to $23.38 in April, with a 2.9% increase over the past year, up from $22.72 in April 2020.

- **Construction Spending:** Private manufacturing construction spending fell 1.3% from the six-month high of $70.10 billion in February to $69.16 billion in March, pulling back following two straight months of gains. Despite the weaker figure, there remains hope for a recovery in construction for the sector moving forward. With that said, private construction among manufacturers has fallen 7.8% year-over-year, down from $74.99 billion in March 2020.

  Total private nonresidential spending declined 0.9% in March, with a decrease of 9.1% over the past 12 months. Every major segment of private nonresidential construction spending experienced year-over-year decreases in activity in March. The largest declines over the past year, not surprisingly given the COVID-19 pandemic, occurred in amusement and recreation (down 24.9% year-over-year), lodging (down 24.0%) and educational (down 18.1%) sectors.

  Overall, total private construction spending rose 0.7% in March, with 8.6% more activity than one year ago. This was boosted by strength in the housing market, which increased 1.7% in March and 23.3% year-over-year. New private single-family construction activity rose 2.0% for the month, but multifamily activity eased 0.3%. Over the past 12 months, private single-family and multifamily construction jumped 26.7% and 14.6%, respectively. Meanwhile, public construction spending decreased 1.5% in March, with a decline of 4.6% year-over-year.

- **Factory Orders and Shipments:** New orders for manufactured goods rose 1.1% in March, rebounding after falling 0.5% in February, largely on weather and supply chain challenges. Durable and nondurable goods sales increased 0.8% and 1.5% in March, respectively. Excluding transportation equipment, factory orders rose 1.7% in March, with demand for durable goods up 1.9% for the month. Overall, the manufacturing sector continues to expand strongly, rising 3.3% since February 2020 (before the pandemic), or 5.7% with transportation equipment excluded.

In addition, durable goods orders have risen 4.3% over the past 13 months, or with transportation equipment sales excluded, orders have jumped 11.1% since February 2020. Likewise, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—increased 1.2% from $72.6 billion in February to $73.4 billion in March, a record high. As such, core capital goods orders have risen a robust 10.5% over the past 13 months.

Meanwhile, factory shipments increased 2.1% in March to a new record high of $513.6 billion after declining 1.9% in February. Durable and nondurable goods rose 2.8% and 1.5% for the month, respectively. Excluding transportation equipment, manufactured goods shipments increased 1.6% in March, with durable goods shipments increasing 1.8% without transportation equipment included. Since February 2020, factory shipments have risen 3.2%, or with transportation equipment excluded, manufactured goods shipments increased 4.5% over the past 13 months. At the same time, core capital goods shipments rose 1.6% from $71.1 billion in February to $72.3 billion in March, an all-time high. Over the past 13 months, core capital goods shipments have soared 9.8%.

- **International Trade Report:** The U.S. trade deficit rose from $70.52 billion in February to $74.45 billion in March, the second straight monthly all-time high. Trade volumes increased overall, but growth in imports outpaced the rise in exports. Goods exports increased from $131.23 billion to $142.89 billion, the strongest pace since May 2018. At the same time, goods imports jumped from $219.16 billion to $234.44 billion, a new record. In the first quarter, goods exports and imports increased 6.97% and 7.69%, respectively, but goods imports have soared 18.02% since February 2020, with goods exports up a more modest 3.35% since the COVID-19 pandemic began. Meanwhile, the service-sector trade surplus decreased from $17.41 billion in February to $17.11 billion in March, the lowest since August 2012.

  In March, goods exports rose across the board, with very sizable increases in industrial supply and materials (up $5.17 billion), nonautomotive capital goods (up $2.92 billion), consumer goods (up $2.01 billion) and automotive vehicles, parts and engines (up $859 million). Likewise, the data on goods imports also strengthened in every major category, including significant jumps in consumer goods (up $4.48 billion to a new record level), industrial supplies and materials (up $3.70 billion), nonautomotive capital goods (up $3.32 billion) and automotive vehicles, parts and engines (up $2.05 billion).

  According to the latest data, U.S.-manufactured goods exports totaled $260.09 billion through the first three months in 2021, using non-seasonally adjusted data, decreasing 3.52% from $269.57 billion year to date in 2020.

- **ISM® Manufacturing Purchasing Managers' Index®:** After expanding in March at the fastest pace since December 1983, the Institute for Supply Management® reported that manufacturing activity eased a bit in April, but with growth continuing to be robust overall. The headline index pulled back from 64.7 in March to 60.7 in April, with slower (but still strong) expansions for new orders (down from 68.0 to 64.3), production (down from 68.1 to 62.5) and employment (down from 59.6 to 55.1). Exports (up from 54.5 to 54.9) accelerated somewhat, rising for the 10th straight month.

Supply chain disruptions remain a significant challenge, including labor market and logistics struggles. The index for supplier deliveries (down from 76.6 to 75.0) continued to report very slow delivery times despite this measure decelerating from its highest reading since April 1974. (In this case, readings above 50 are consistent with slower deliveries.) The backlog of orders (up from 67.5 to 68.2) rose to the highest on record, dating back to when the question was added in January 1993. The index for customer inventories (down from 29.9 to 28.4) plummeted to the lowest level since January 1997. With such low stockpiles, it should continue to necessitate additional production for manufacturers moving forward, as firms struggle to keep up with demand.

Prices (up from 85.6 to 89.6) soared at 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 experience price increases as a result of product scarcity.”

The sample comments note the strength in demand and production in the manufacturing sector, but also cited significant problems with supply chain challenges and rising raw material costs.

- **Productivity and Costs:** Manufacturing labor productivity edged up 0.1% at the annual rate in the first quarter, sustaining the 4.5% gain in the fourth quarter. Output in the sector rose a modest 2.4% in the first quarter, but hourly compensation increased 4.6%, cutting into headline growth in labor productivity. Unit labor costs rose 4.6% in the first quarter as well. Labor productivity for durable and nondurable goods increased 0.7% and 0.3% in the first quarter, respectively, with output up 4.6% and 0.1% and unit labor costs rising 5.5% and 1.2%.

  These data likely reflect the supply chain disruptions that were pervasive in the manufacturing sector in the first quarter, which was also rocked by poor weather, particularly in February. With that in mind, it is hoped the second quarter data will reflect more stability, with continued rebounds in output.

  Meanwhile, nonfarm business labor productivity jumped 5.4% in the first quarter, bouncing back from the 3.8% decline in the fourth quarter. Output soared 8.4%, extending the 5.8% increase from the fourth quarter and reflecting the rebounding of the economy, especially in services, buoyed by increased vaccinations, pent-up demand and fiscal stimulus. Hours worked rose 2.9%, with unit labor costs inching down 0.3%.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 498,000 for the week ending May 1, down from 590,000 for the week ending April 24 and the lowest since the week of March 14, 2020. Meanwhile, continuing claims inched higher for the second straight report, rising from 3,653,000 for the week ending April 17 to 3,690,000 for the week ending April 24. That pace remains elevated, consistent with 2.6% of the workforce.

  At the same time, 16,157,024 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending April 17. That figure declined from 16,561,533 for the week ending April 10, largely on reduced pandemic assistance and state claims.

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