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MONDAY ECONOMIC REPORT

New Record: Manufacturing Job Openings Soar to 706,000 in March

By Chad Moutray – May 17, 2021

The Weekly Toplines

- Manufacturing job openings soared to 706,000 in March, a new record. Business leaders in the sector need to ramp up production, capacity and staffing in light of robust demand, the reopening of the U.S. and global economy and the very strong economic outlook for the coming months. As a result, job postings have risen to stratospheric levels. These data offer an encouraging sign that manufacturers feel confident enough about economic growth over the coming months for their businesses to post new jobs.

- Nonfarm business job openings jumped to 8,123,000 in March, also a new record. There are currently 1.20 unemployed workers for every one job opening in the U.S. economy. In addition, nonfarm payroll quits rose to a pre-pandemic high, and quits in the manufacturing sector—an important measure regarding "churn" in the labor market—was the most since January 2001.

- The National Federation of Independent Business reported that 44% of respondents had job openings that they were unable to fill in April, a new record, with workforce challenges once again being the top "single most important problem."

- Manufacturing production rose 0.4% in April, extending the 3.1% gain in March. Excluding motor vehicles, which plummeted 4.3% due to supply chain challenges, manufacturing production increased 0.6% in April.

- Since February 2020, output in the manufacturing sector is down 1.7% from pre-pandemic levels. I continue to expect manufacturing production to be back to pre-pandemic levels by July.

- After retail sales soared by 10.7% in March, fueled by stimulus payments and pent-up demand, consumer spending was flat in April. Excluding motor vehicles and parts, which increased by 2.9%, retail spending fell 0.8% for the month.

- Despite a disappointing reading, it is important to note that the sharply higher increases in March were largely sustained moving into April, even without additional stimulus. More importantly, retail sales should continue to grow strongly over the coming months as the U.S. economy continues to reopen.

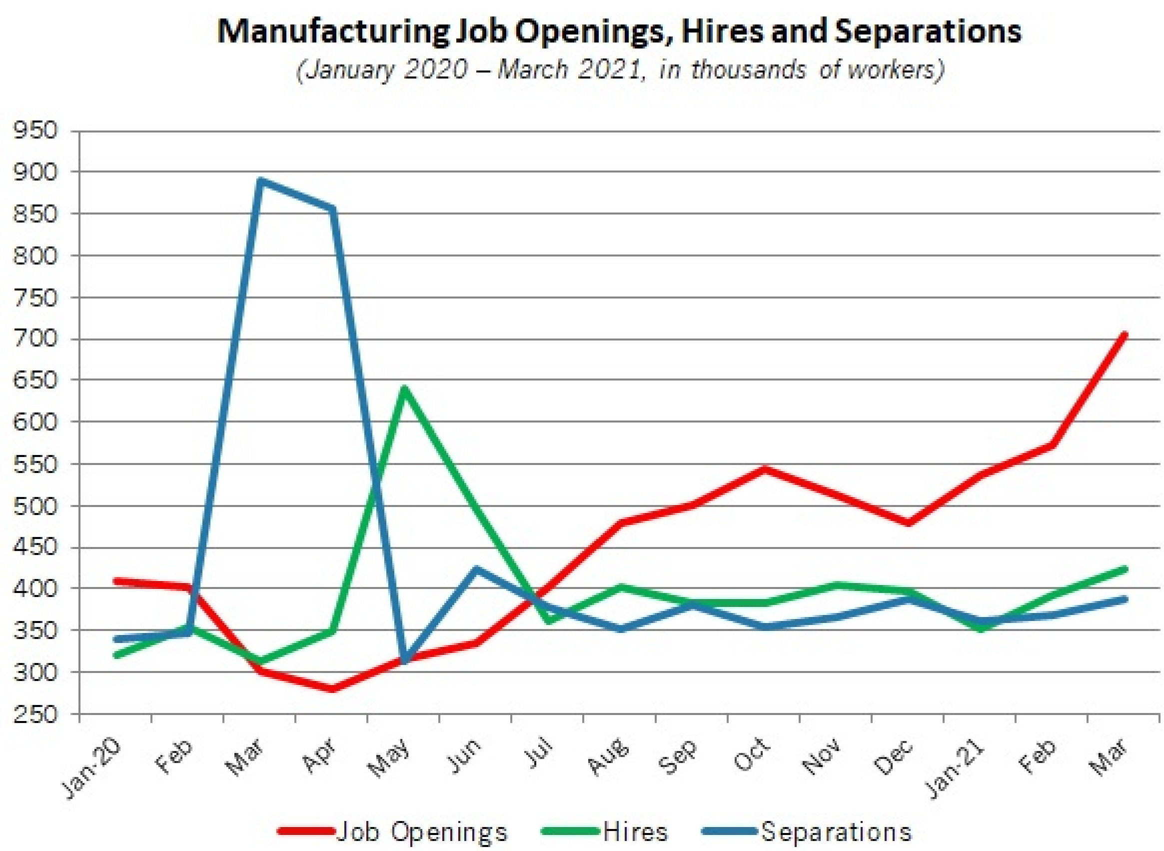
- For what it is worth, retail sales have increased a robust 17.9% since February 2020, or since the pandemic began, or 14.7% with motor vehicles and gasoline excluded.

- Consumer confidence declined from 88.3 in April to 82.8 in May, a three-month low, according to preliminary data from the University of Michigan and Thomson Reuters. Americans felt less upbeat in their assessments of both current and future economic conditions, largely on worries about inflation. The expected increase in prices was the largest in a decade in the survey, and accordingly, real income expectations were also weaker.

- Consumer and producer prices increased sharply in April. The year-over-year paces both set new records. Even adjusting for "base effects" by looking at the changes in costs since February 2020, it is clear that pricing pressures have accelerated very significantly, exacerbated by supply chain constraints and shortages related to the reopening of the economy.

- Manufacturing leaders continue to cite supply chain disruptions as a key challenge. With that in mind, the jump in raw material prices was not a surprise. A fair number of these increases will be transitory, but there is also a worry that cost pressures will not abate, particularly given the strength of the rebounding economy.

- That will put pressure on the Federal Reserve and its stance of keeping rates near zero with aggressive bond-buying for the foreseeable future. If cost pressures are less transitory than the Federal Reserve believes, the shift toward normalization could be sooner.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, May 10

This Week's Indicators:

Monday, May 17
NAHB Housing Market Index

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
Weekly Initial Unemployment Claims

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

New York Fed Manufacturing Survey

Tuesday, May 18
Housing Starts and Permits

Wednesday, May 19
None

Thursday, May 20
Conference Board Leading Indicators
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, May 21
Existing Home Sales
IHS Markit Flash U.S. Manufacturing PMI
State Employment Report

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Deeper Dive

- **Consumer Price Index:** Consumer prices rose 0.8% in April, extending the 0.6% gain in March and the fastest growth of monthly inflation since June 2009. Food prices increased 0.4% in April, including sizable gains for both food at home and food away from home, but energy costs edged down 0.1% for the month. Excluding food and energy, consumer prices increased 0.9% in April, tripling the 0.3% gain in March. Used car and truck prices soared 10.0% for the month, with transportation services rising 2.9%. In addition, costs for apparel, household furnishings and supplies, medical care commodities, new vehicles and shelter also increased for the month. Prices for medical care services were flat in April.

Over the past 12 months, the consumer price index has risen 4.2%, the fastest growth since September 2008. To be fair, this year-over-year comparison was skewed by the 0.7% decline in consumer prices in April 2020. Still, consumer prices have jumped 3.1% since February 2020, pointing to upward pressures overall. Meanwhile, core inflation (which excludes food and energy) increased 3.0% year-over-year, the most since January 1996. Adjusting for the year-over-year "base effects," core consumer prices have risen 2.6% over the past 14 months.

It is clear that pricing pressures have accelerated. For their part, manufacturers continue to cite rising raw material costs as a primary concern.

- **Industrial Production:** Manufacturing production rose 0.4% in April, extending the 3.1% gain in March. Production in the nondurable goods sector increased 1.3% for the month, but durable goods output fell 0.4%. Output in the motor vehicles and parts sector plummeted 4.3% in April, as that sector continues to grapple with supply chain challenges. Excluding motor vehicles, manufacturing production increased 0.6% in April.

  Manufacturing production has soared 23.0% over the past 12 months, but it is important to note that output in the sector tumbled 20.1% between February and April 2020. Since February 2020, output in the manufacturing sector is down 1.7% from pre-pandemic levels. Moving forward, I would expect for manufacturers to be back to pre-pandemic levels by July.

  Manufacturing capacity utilization increased from 73.8% in March to 74.1% in April. For comparison purposes, capacity in the sector was 75.2% in February 2020.

  In April, the underlying data provided mixed results. The largest manufacturing production gains occurred in chemicals (up 3.2%), primary metals (up 1.7%), petroleum and coal products (up 1.6%) and electrical equipment, appliances and components (up 1.1%), among others. In contrast, motor vehicles and parts (down 4.3%), other manufacturing (down 1.1%), nonmetallic mineral products (down 0.8%), plastics and rubber products (down 0.8%) and aerospace and miscellaneous transportation equipment (down 0.7%) declined for the month.

  Six of the major manufacturing sectors experienced increased production over the past 14 months, or since the COVID-19 pandemic began: aerospace and miscellaneous transportation equipment (up 4.7%), machinery (up 3.7%), food, beverage and tobacco products (up 3.0%), computer and electronic products (up 2.7%), miscellaneous durable goods (up 2.2%) and wood products (up 1.9%). The biggest declines since February 2020 occurred in the following: printing and related support activities (down 12.8%), other manufacturing (down 11.9%), furniture and related products (down 11.5%) and motor vehicles and parts (down 11.1%).

  Meanwhile, total industrial production increased 0.7% in April, building on the 2.4% gain in March. Mining and utilities production rose 0.7% and 2.6% for the month, respectively. Since February 2020, industrial production remains down by 2.7%. Total capacity utilization rose from 74.4% in March to 74.9% in April. That remains below the 76.9% pace seen before the pandemic.

- **Job Openings and Labor Turnover Survey:** Manufacturing job openings soared from 572,000 in February to 706,000 in March, a new record. Business leaders in the sector need to ramp up production, capacity and staffing in light of robust demand, the reopening of the U.S. and global economy and the very strong economic outlook for the coming months. As a result, job postings have risen to stratospheric levels, with all-time highs for postings in the durable (up from 298,000 to 365,000) and nondurable (up from 273,000 to 341,000) goods sectors. These data offer an encouraging sign that manufacturers feel confident enough about economic growth over the coming months for their businesses to post new jobs.

In the larger economy, nonfarm business job openings jumped from 7,526,000 in February to 8,123,000 in March, also a new record. In March, there were 9,710,000 Americans who were unemployed, which translates to 1.20 unemployed workers for every one job opening in the U.S. economy, down from 1.33 in February. That figure peaked at 4.99 unemployed workers for every one job opening in April 2020, reflecting significant progress since then. At the same time, the labor market was very tight pre-pandemic, with just 0.82 unemployed workers for every one job opening in February 2020.

In March, manufacturers hired 425,000 workers, a nine-month high and up from 393,000 in February, rising for both durable and nondurable goods firms. At the same time, total separations increased from 369,000 to 387,000, a three-month high. Therefore, net hiring (or hiring minus separations) was 38,000 in March, extending the gain of 24,000 in February.

Nonfarm business layoffs dropped from 1,723,000 in February to 1,480,000 in March, the lowest level on record for a series dating to December 2000. At the same time, layoffs in the manufacturing sector increased from 86,000 to 104,000. That was not far from the average of the past eight months, which was 101,875 for manufacturing.

Finally, the “churn” in the labor market is often a signal of strength in the economy, and for that reason, it is important to look at quits. Workers do not quit their job if they are concerned about the economy, for instance. The number of quits in the manufacturing sector ticked up from 258,000 in February to 263,000 in March, the most since January 2001. Similarly, nonfarm business quits increased from 3,383,000 to 3,508,000, the highest since January 2020, or since before the pandemic.

- **NFIB Small Business Survey:** The National Federation of Independent Business reported that the Small Business Optimism Index rose from 98.2 in March to 99.8 in April, a five-month high. Small business owners felt more positive in their outlook but also remained anxious about the economy and the political landscape. The percentage of respondents saying that the next three months would be a “good time to expand” increased from 11% to 14%, the best since February 2020, and the net percentage expecting greater sales over the next three months edged into positive territory for the first time since November.

  The percentage of respondents suggesting that they had job openings they were unable to fill rose from 42% to 44%, a new record. Respondents once again cited difficulties in obtaining enough labor as the top “single most important problem,” followed by concerns with taxes and government regulations. Indeed, 54% of respondents said that there were not enough qualified applicants for job openings, up from 51% and the most since August 2019. The percentage of respondents planning to increase hiring over the next three months inched down from 22% to 21% but remained solid.

  Regarding capital spending, 57% of small firms have made an investment over the past six months, down from 59% in the previous survey. Yet, the percentage of respondents planning to make a capital investment over the next three to six months rose from 20% to 27%, the best since October.

As with other surveys, pricing pressures have picked up. In April, the net percentage of respondents reporting higher prices today than three months ago soared from 26% to 36%, the highest in the history of the series, which dates to January 1986. In addition, the net percentage planning a price increase over the next three months rose from 34% to 36%, the best since July 2008.

- **Producer Price Index:** Producer prices for final demand goods and services rose 0.6% in April, extending the 1.0% gain in March. At the same time, producer prices for final demand goods also increased 0.6% for the month, a solid gain but slowing from 1.7% in March, which was the largest monthly gain in the history of the series. Food prices increased 2.1% in April, but energy costs fell 2.4%, the first decline in seven months. Excluding food and energy, producer prices for final demand goods rose 1.0% in April, a new record. At the same time, producer prices for final demand services also rose 0.6% for the month. Costs for transportation and warehousing soared 2.1% in April, the fastest monthly pace on record, for a series dating to November 2009.

  Over the past 12 months, producer prices for final demand goods and services have jumped by a seasonally adjusted 6.1%, the biggest increase on record. To adjust for "base effects" given the deflationary pressures seen at this time last year, it might be more helpful to look at how prices have risen since February 2020, or before the pandemic. Producer prices have risen 4.4% over the past 14 months, a still-rapid pace of inflation. Meanwhile, core producer prices have risen by a record 4.6% since March 2020, but with an even stronger gain of 5.4% since February 2020.

  Manufacturing leaders continue to cite supply chain disruptions as a key challenge. With that in mind, the jump in raw material prices was not a surprise. A fair number of these increases will be transitory, but there is also a worry that cost pressures will not abate, particularly given the strength of the rebounding economy. That will put pressure on the Federal Reserve and its stance of keeping rates near zero with aggressive bond-buying for the foreseeable future. If cost pressures are less transitory than the Federal Reserve believes, the shift toward normalization could be sooner.

- **Retail Sales:** After retail spending soared by 10.7% in March, fueled by stimulus payments and pent-up demand, consumer sales were flat in April. The March figure was revised higher from the original estimate of 9.8% growth. Retail sales at motor vehicle and parts dealers increased by a solid 2.9% in April. Excluding autos, retail spending fell 0.8% for the month. While these data are disappointing, especially given the consensus estimate of 1.0% growth in April, it is important to note that the sharply higher increases in March were largely sustained moving into April, even without additional stimulus. More importantly, retail sales should continue to grow strongly over the coming months as the U.S. economy continues to reopen.

  For what it is worth, retail sales have jumped 51.2% over the past 12 months, but that fails to account for the significant declines in activity in March and April 2020 at the beginning of the COVID-19 pandemic. Since February 2020, retail spending has increased a still robust 17.9%, or 14.7% with motor vehicles and gasoline excluded.

  In April, the underlying data provided mixed results. Retail sales rose for food services and drinking places (up 3.0%), motor vehicles and parts dealers (up 2.9%), electronics and appliance stores (up 1.2%), health and personal care stores (up 1.0%) and food and beverage stores (up 0.4%). At the same times, spending declined for clothing and accessories stores (down 5.1%), general merchandise stores (down 4.9%), sporting goods and hobby stores (down 3.6%), gasoline stations (down 1.1%), miscellaneous store retailers (down 1.1%), furniture and home furnishings stores (down 0.7%), nonstore retailers (down 0.6%) and building material and garden supply stores (down 0.4%).

- **University of Michigan Consumer Sentiment (Preliminary):** Consumer confidence declined from 88.3 in April to 82.8 in May, a three-month low, according to preliminary data from the University of Michigan and Thomson Reuters. Americans felt less upbeat in their assessments of both current and future economic conditions, largely on worries about inflation. The expected increase in prices was the largest in a decade in the survey, and accordingly, real income expectations were also weaker.

  Despite some slippage in the latest results, consumers felt more upbeat when asked about economic growth over the next year, including employment prospects. The press release adds, "Importantly, consumer spending will still advance despite higher prices due to pent-up demand and record saving balances." Final data will be released on May 28.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 473,000 for the week ending May 8, down from 507,000 for the week ending May 1 and the lowest since the week of March 14, 2020. Meanwhile, continuing claims edged down from 3,700,000 for the week ending April 24 to 3,655,000 for the week ending May 1. That pace remains elevated, consistent with 2.6% of the workforce.

  At the same time, 16,855,264 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending April 24. That figure was up from 16,159,112 for the week ending April 17, largely on increased pandemic assistance and state claims for the week.