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MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – June 15, 2020 – SHARE

Job Openings in April Reflect a Dramatically Altered Labor Market

The Weekly Toplines

- There were 311,000 manufacturing job openings in April, edging up slightly from the 310,000 postings in March, which was the slowest pace since October 2016. To illustrate just how much the pace of job openings has eased recently, there were 408,000 as recently as January, and one year ago, the rate was a robust 479,000. Indeed, the COVID-19 outbreak has altered the manufacturing labor market dramatically.

- The manufacturing sector hired 305,000 workers in April, with 706,000 separations. Net hiring in April was -401,000. In the larger economy, nonfarm business job openings declined sharply for the second straight month, down from 7,004,000 in February, to 6,011,000 in March, to 5,046,000 in April, the weakest pace since December 2014.

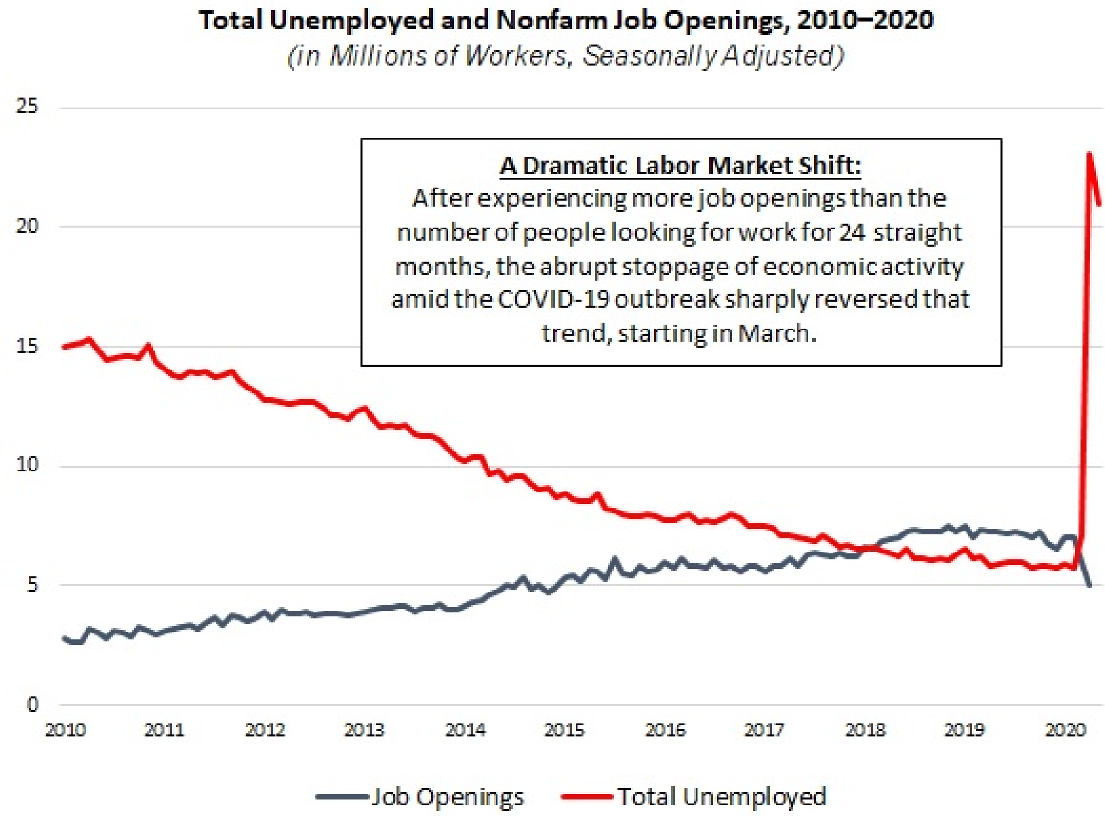
- After experiencing more job openings than the number of people looking for work for 24 straight months, the abrupt stoppage of economic activity amid the COVID-19 outbreak sharply reversed that trend, starting in March. There were 23,078,000 unemployed Americans in April—the figure declined to 20,985,000 in May but remained historically elevated, according to the latest jobs data.

- Weekly initial unemployment claims data have continued to decelerate since peaking at 6,867,000 for the week ending March 28, with 1,542,000 claims filed for the week ending June 6—a still highly elevated level. Over the past 12 weeks, 44,209,000 Americans filed for unemployment insurance. Meanwhile, there were 20,929,000 individuals continuing to receive unemployment insurance for the week ending May 30, or 14.4% of the workforce.

- After the release of the May jobs numbers, there was a lot of discussion about the "misclassification" of employment data in recent months. It might be helpful to outline what is known about this issue, which the Bureau of Labor Statistics outlined here:
  - Workers who were not employed but planned on being called back at some point should be classified as "unemployed on temporary layoff," but

instead, many were marked as "employed but absent from work for 'other reasons.'" As a result of this miscalculation, the unemployment rate could have been 16.4% in May instead of the 13.3% that was officially reported.
    - This issue was also true in April, and the unemployment rate could have been 19.5% instead of 14.7% for that month. February and March data were also likely impacted, but to a smaller extent.
    - With all of that said, the data do not take away from the fact that the unemployment rate unexpectedly fell in May, and it is still true that the unemployment rate remains the worst since the Great Depression, well surpassing numbers seen in recent recessions.
    - To "maintain data integrity," the BLS does not plan to make any changes to its survey or its data collection methods. If it were to make such changes, it might be more difficult to make historical comparisons.

- Other economic highlights last week included the following:
    - The National Bureau of Economic Research officially said that the U.S. economy slipped into a recession in February, which was not a surprise, ending a recovery that lasted 128 months, the longest on record.
    - The Federal Open Market Committee kept interest rates unchanged, as expected, but more importantly, it signaled that Federal Reserve participants do not anticipate any changes to rates through 2022. FOMC officials forecast a 6.5% decline in real GDP growth in 2020, with the unemployment rate falling to 9.3% in the fourth quarter.
    - Consumer and producer prices moved in opposite directions in May, but both continued to reflect deflationary pressures in the U.S. economy due to COVID-19 and the global recession. Not surprisingly, food prices increased sharply in May, with energy costs down dramatically, especially on a year-over-year basis.
    - Small business optimism rebounded somewhat in May, even as firms continue to struggle. Respondents to the survey from the National Federation of Independent Business cited poor sales as the top "single most important problem" for the second straight month, with mixed news for hiring and capital spending in the data.
    - Consumer sentiment also improved in June preliminary data but remained well below levels seen in February before the COVID-19 outbreak. Americans remained uncertain in their outlook, which could dampen their willingness to make some discretionary purchases, according to the University of Michigan and Thomson Reuters.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, June 8
None

Tuesday, June 9
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, June 10
Consumer Price Index
FOMC Monetary Policy Statement

Thursday, June 11
Producer Price Index
Weekly Initial Unemployment Claims

Friday, June 12
University of Michigan Consumer Sentiment

This Week's Indicators:

Monday, June 15
New York Fed Manufacturing Survey

Tuesday, June 16
Industrial Production
NAHB Housing Market Index
Retail Sales

Wednesday, June 17
Housing Starts and Permits

Thursday, June 18
Conference Board Leading Indicators
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, June 19
State Employment Report

Deeper Dive

- **Consumer Price Index:** Consumer prices edged down 0.1% in May, slowing from the 0.8% decrease in April but declining for the third straight month. Energy prices continued to decrease, albeit with some easing from the previous two months, with gasoline costs falling 3.5% in May and plummeting 33.8% year-over-year. In contrast, food prices rose, up 0.7% in May and 4% over the past 12 months. Excluding food and energy, consumer prices declined 0.1% for the month. Increased prices for household furnishings and supplies, medical care, new vehicles and shelter were offset by declining costs for apparel, transportation and used cars and trucks.

  Over the past 12 months, the consumer price index has risen 0.2% (seasonally adjusted), the slowest year-over-year pace since October 2015. At the same time, core inflation (which excludes food and energy) has risen 1.2% since May 2019, the slowest rate since March 2011. As such, the data reflect the deflationary effects of the COVID-19 outbreak and the recessionary economic environment. The outlook is for consumer prices to rise 1.2% in 2020, the slowest pace of growth in five years, with core inflation up 1.7% this year.

- **FOMC Monetary Policy Statement:** The Federal Open Market Committee kept interest rates unchanged, as expected, with the federal funds rate remaining near zero for the foreseeable future. The Federal Reserve said that it is "committed to using its full range of tools to support the U.S. economy in this challenging time," with the federal funds rate at zero to 25 basis points and with the FOMC continuing to increase its asset holdings in financial markets aggressively.

  In updated economic projections, participants do not anticipate any changes to interest rates through 2022. More precisely, the statement reads, "The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals."

  The Federal Reserve notes the severe economic hardship that has resulted from the COVID-19 pandemic, and its outlook reflects just how much the economy has changed since the previous projections in December. FOMC participants forecast a 6.5% decline in real GDP growth in the United States in 2020—well below the 2% expectation in December—with 5% and 3.5% growth in 2021 and 2022, respectively.

  In addition, it sees the unemployment rate falling to 9.3% in the fourth quarter of this year, dropping to 6.5% and 5.5% at the end of 2021 and 2022, respectively. The outlook six months ago was for a continuation of the 50-year lows seen as recently as in February. Core inflation is seen remaining below the Federal Reserve's target of 2% throughout the time horizon in this forecast. The PCE deflator should average 0.8% in 2020, with core inflation at 1%.

- **Job Openings and Labor Turnover Survey:** There were 311,000 manufacturing job openings in April, edging up slightly from the 310,000 postings in March, which was the slowest pace since October 2016. To illustrate just how much the pace of job openings has eased recently, there were 408,000 as recently as January, and one year ago, the rate was a robust

479,000. Indeed, the COVID-19 outbreak has altered the manufacturing labor market dramatically. The manufacturing sector hired 305,000 workers in April, with 706,000 separations. Net hiring in April was -401,000. That was an improvement from March, which had total separations of 804,000 and net hiring of -505,000.

In the larger economy, nonfarm business job openings declined sharply for the second straight month, down from 7,004,000 in February, to 6,011,000 in March, to 5,046,000 in April, the weakest pace since December 2014. After experiencing more job openings than the number of people looking for work for 24 straight months, the abrupt stoppage of economic activity amid the COVID-19 outbreak sharply reversed that trend, starting in March. There were 23,078,000 unemployed Americans in April—the figure declined to 20,985,000 in May but remained historically elevated, according to the latest jobs data.

Digging further into the separations data, fewer workers were quitting their jobs, both for nonfarm businesses (down from 2,789,000 to 1,786,000, the lowest since January 2010) and for manufacturing (down from 150,000 to 98,000, a pace not seen since March 2013). At the same time, layoffs pulled back in April after jumping sharply in March. Nonfarm business layoffs declined from 11,489,000 in March to 7,716,000 in April. Similarly, layoffs in the manufacturing sector fell from 632,000 to 587,000.

- **NFIB Small Business Survey:** The National Federation of Independent Business reported that the Small Business Optimism Index, after falling to the lowest level since March 2013, rebounded somewhat, rising from 90.9 in April to 94.4 in May. Small firms are beginning to open again, which has helped confidence, but the data continue to show the negative impacts from COVID-19, government stay-at-home orders and mandated nonessential business closures. Index readings below 100 are consistent with a shrinking small business sector, and sales expectations remained solidly negative despite improving from the lowest level in the 46-year history of the survey. Indeed, respondents cited poor sales as the top “single most important problem” for the second straight month.

  The percentage of respondents saying the next three months are a “good time to expand” inched up from 3% in April to 5% in May, well below the 28% reading in January, a reflection of just how much things have changed since then. The labor market data provided mixed results. The rate of owners planning to hire in the next three months rose from 1% in April, the slowest pace since December 2012, to 8% in May, which was still low (down from 19% in January). On the other hand, 23% of respondents had job openings in May, the lowest reading since September 2014 and well below the 38% seen in February.

  The data provided similar results regarding capital spending. In May, 52% of small firms have made an investment over the past three months, down from 53% in the previous survey and the lowest since December 2012. Yet, the percentage of respondents planning to make a capital investment over the next three to six months rose from 18% to 20%.

- **Producer Price Index:** After declining for three consecutive months, producer prices for final demand goods and services increased 0.4% in May. In addition, producer prices for final demand goods rose 1.6% in May, boosted by sharp increases in energy and food costs, up 4.5% and 6%, respectively. On a year-over-year basis, final demand food prices have risen 6.8% since May 2019, with final demand energy costs down by a whopping 25.2% year-over-year. Core inflation for goods, which excludes food and energy, was flat in May, and producer prices for final demand services declined 0.2%.

  Over the past 12 months, producer prices for final demand goods and services have decreased 0.8%, slowing from the -1% year-over-year rate in April (seasonally adjusted), which was the lowest since December 2015. At the same time, core producer prices fell a seasonally adjusted 0.4% year-over-year in May, down from -0.3% in April.

  The Federal Reserve remains concerned about deflationary pressures from the sharp drop in global economic activity due to COVID-19—a notion that is supported in this report. As such, the FOMC has pursued extraordinary monetary policy measures to help prop up the economy—providing a financial "bridge" for consumers and businesses until activity picks back up.

- **University of Michigan Consumer Sentiment:** After falling in April to the lowest level since December 2011, consumer confidence rose for the second straight month, according to preliminary data from the University of Michigan and Thomson Reuters. The Index of Consumer Sentiment has increased from 71.8 in April, to 72.3 in May, to 78.9 in June, with improved assessments for both the current economic environment and the outlook.

  With that said, the headline index is well below the levels seen before the COVID-19 outbreak, with a reading of 101.0 in February, and respondents to the latest survey continue to express a record high level of income uncertainty. In trying to explain this uncertainty, the release says the following: "The most often cited cause of a renewed downturn is a resurgence in the spread of the coronavirus, and the most often cited cause of a slow economic recovery is the financial damage from persistently high unemployment." These worries could dampen Americans' willingness to make some discretionary purchases. Final data will be released on June 26.

- **Weekly Initial Unemployment Claims:** There were 1,542,000 initial unemployment claims for the week ending June 6, down from the 1,897,000 claims added for the week ending May 30. Since peaking at 6,867,000 for the week ending March 28, initial claims have continued to decelerate, which has been encouraging. Nonetheless, the data continue to suggest a highly elevated level of unemployment in the U.S. economy. Over the past 12 weeks, 44,209,000 Americans filed for unemployment insurance, illustrating dire conditions in the labor market as the nation grapples with both the COVID-19 pandemic and a global recession. Seven states had at least 50,000 initial unemployment claims in the past week: California, Florida, Georgia, New York, Oklahoma, Pennsylvania and Texas.

  Meanwhile, continuing claims declined from 21,268,000 for the week ending

May 23 to 20,929,000 for the week ending May 30 in this report, with 14.4% of the workforce receiving unemployment insurance for the week.

Upcoming Webinar

“State of the Industry: The Impact of COVID-19 on the Economy”<
Tuesday, June 23
1:00 p.m. – 2:00 p.m. EDT
Click here to register.

Panelists:

- Graham Immerman, Vice President of Marketing, MachineMetrics (moderator)
- Chad Moutray, Chief Economist, NAM
- Jerry Foster, Chief Technology Officer, Plex Systems
- Lou Zhang, Chief Data Scientist, MachineMetrics

The COVID-19 outbreak has caused widespread concern and economic hardship for consumers, businesses and communities around the world. The situation is fast moving, with widespread impacts. One thing is for certain—it has and will continue to have global economic and financial ramifications that will be felt throughout the manufacturing industry. So, how has COVID-19 affected the near-term global manufacturing supply chain today? How will it be affected moving forward? How do we reshape and rebuild an industry to be both more sustainable and resilient for the future? This webinar will highlight economic trends in the manufacturing sector, along with the U.S. and global outlook.