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# MONDAY ECONOMIC REPORT

## Wage Boom: Manufacturing Average Hourly Earnings Jump 5% Year-Over-Year

By Chad Moutray – September 3, 2021

The Weekly Toplines

- Manufacturing employment rose by 37,000 in August. Year to date, total employment in the sector has risen by a solid 190,000, with 12,421,000 manufacturing workers in August. There remained 378,000 fewer manufacturing employees relative to pre-pandemic levels.

- There was significant upward pressure on wages, with manufacturers continuing to cite difficulties in finding workers. The average hourly earnings of production and nonsupervisory workers in manufacturing rose 0.5% to $24.01 in August, with a 5.0% increase over the past year. That matches the year-over-year gain in June, which was the fastest wage growth since September 1982.

- Nonfarm payroll employment rose by 235,000 workers in August, well below consensus expectations and the weakest since January. The unemployment rate dropped from 5.4% in July to 5.2% in August, a post-pandemic low, and the labor force participation rate was unchanged at 61.7% for the month.

- The ISM® Manufacturing Purchasing Managers' Index® expanded robustly once again, with the headline index edging up from 59.5 in July to 59.9 in August. Demand and output rose at very solid paces, but respondents continued to cite concerns with supply chain disruptions, rising costs and workforce shortages. Price data stabilized somewhat but remained highly elevated.

- Manufacturing activity softened in the Dallas Federal Reserve Bank's district softened in August, mirroring other regional surveys, even as respondents remained upbeat in their outlook.

- New orders for manufactured goods rose 0.4% to a record $508.1 billion in July but slowing from the 1.5% gain in June. There were sharply reduced orders for nondefense aircraft and parts, which can be highly volatile month to month. Excluding transportation equipment, factory orders and durable goods orders were both up 0.8% in July.

- Overall, the manufacturing sector continues to expand strongly, despite lingering supply chain and pricing pressures, with new factory orders soaring 8.5% year to date. Core capital goods orders increased to $76.6 billion in July, a record high, rising 6.9% so far in 2021.

- Private manufacturing construction spending was changed little in July and remained down 2.6% from pre-pandemic levels. Total private nonresidential spending decreased

0.2% in July, and since February 2020, activity has fallen 12.0%.

- The [U.S. trade deficit]() declined from a record $73.23 billion in June to $70.05 billion in July. Goods exports increased to an all-time high for the month, with goods imports edging down from the prior month's record pace.
- According to the latest non-seasonally adjusted data, U.S.-manufactured goods exports totaled $642.16 billion through the first seven months in 2021, soaring 18.80% from $540.53 billion year to date in 2020.
- [Consumer confidence]() fell to the lowest level since February, declining from 125.1 in July to 113.8 in August, according to the Conference Board. Americans felt less upbeat about the current and future economy, largely on concerns about the spread of the delta variant and on inflationary worries.


Economic Indicators

**Last Week's Indicators:**
*(Summaries Appear Below)*

**Monday, August 30**
*Dallas Fed Manufacturing Survey*

**Tuesday, August 31**
*Conference Board Consumer Confidence*

**This Week's Indicators:**

**Monday, September 6**
*LABOR DAY HOLIDAY*

**Tuesday, September 7**
*None*

**Wednesday, September 1**
*ADP National Employment Report*
*Construction Spending*
*ISM® Manufacturing Purchasing Managers' Index®*

**Thursday, September 2**
*Factory Orders and Shipments*
*International Trade Report*
*Productivity and Costs (Revision)*
*Weekly Initial Unemployment Claims*

**Friday, September 3**
*BLS National Employment Report*

**Wednesday, September 8**
*Consumer Credit*
*Job Openings and Labor Turnover Survey*

**Thursday, September 9**
*NAM Manufacturers' Outlook Survey*
*Weekly Initial Unemployment Claims*

**Friday, September 10**
*Producer Price Index*

## Deeper Dive

- **ADP National Employment Report:** Manufacturing employment increased by 6,000 in August, rising for the sixth straight month but at the slowest pace since February, according to ADP estimates. The sector has added 156,000 employees year to date, a solid pace of job growth. At the same time, nonfarm private payrolls increased by 374,000 in August, weaker than the consensus estimate of around 625,000 and likely dented by rising COVID-19 cases and lingering supply chain challenges. Through the first eight months of 2021, total private nonfarm payrolls have risen by more than 4,065,000 employees, with the economy and labor market recovering strongly, especially in the hard-hit service sectors.

  As noted, the August report was softer than desired. Employment growth was led by the leisure and hospitality sector (up 201,000), with education and health services (up 59,000), construction (up 30,000), professional and business services (up 19,000) and trade, transportation and utilities (up 18,000) also higher. Small and medium-sized businesses (i.e., those with fewer than 500 employees) added 235,000 workers in August, or 62.8% of net job creation for the month.

  Despite notable progress over the past year, private nonfarm payrolls have fallen by nearly 6,070,000 since February 2020, with manufacturing employment down 424,000 over the past 18 months.

- **BLS National Employment Report:** Manufacturing employment rose by 37,000 in August, building on strong gains over the past four months, including an increase of 52,000 in July. In the latest data for August, durable and nondurable goods employment rose by 31,000 and 6,000, respectively. Over the first eight months of 2021, total employment in the sector rose by a solid 190,000, with 12,421,000 manufacturing workers in August. There remained 378,000 fewer manufacturing employees relative to pre-pandemic levels, with 12,799,000 workers in the sector in February 2020.

  There was significant upward pressure on wages, with manufacturers continuing to cite difficulties in finding workers. The average hourly earnings of production and nonsupervisory workers in manufacturing rose 0.5% from $23.88 in July to $24.01 in August, with a 5.0% increase over the past year, up from $22.87 in July 2020. That matches the year-over-year gain in June, which was the fastest wage growth since September 1982.

Nonfarm payroll employment rose by 235,000 workers in August, well below consensus expectations and the weakest since January. The spread of the delta variant likely played into the disappointing reading, with employment lower for retail trade and construction and flat for leisure and hospitality. Nonetheless, the U.S. economy has generated 4,687,000 net new jobs so far this year, a decent pace, even as nonfarm payrolls remain down 5,333,000 today relative to pre-pandemic levels in February 2020.

The unemployment rate dropped from 5.4% in July to 5.2% in August, a post-pandemic low, with the number of unemployed workers decreasing from 8,702,000 to 8,384,000. The labor force participation rate was unchanged at 61.7% for the month, remaining down from 63.3% in February 2020 but up from the low of 60.2% in April 2020. In addition, 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 9.2% to 8.8%, a 17-month low but still highly elevated.

In August, the largest increases in manufacturing employment occurred in transportation equipment (up 25,500, including 24,100 for motor vehicles and parts), fabricated metal products (up 6,600) and plastics and rubber products (up 3,100). In contrast, employment decreased in August for electrical equipment and appliances (down 3,100) and miscellaneous durable goods (down 1,800), among others.

Five major manufacturing sectors have exceeded their pre-pandemic levels of employment as of August: miscellaneous nondurable goods (up 8,900), chemicals (up 5,400), computer and electronic products (up 5,400), miscellaneous durable goods (up 4,200) and plastics and rubber products (up 700). The largest decreases over the past 18 months included transportation equipment (down 107,400), fabricated metal products (down 49,500), printing and related support activities (down 47,200) and machinery (down 34,200).

- **Conference Board Consumer Confidence:** Consumer confidence fell to the lowest level since February, declining from 125.1 in July to 113.8 in August, according to the Conference Board. Americans felt less upbeat about the current and future economy, largely on concerns about the spread of the delta variant and on inflationary worries. The percentage of respondents suggesting that business conditions were "good" decreased from 24.6% to 19.9%, while the percentage feeling that conditions were "bad" ticked up from 20.0% to 24.0%. At the same time, the percentage of respondents suggesting jobs were "plentiful" edged down from 55.2% to 54.6%, while those saying jobs were "hard to get" rose from 11.1% to 11.8%.

  Regarding the outlook, the percentage of consumers anticipating better business conditions over the next six months slipped from 30.9% to 22.9%, while those predicting a worsening of conditions rose from 11.9% to 17.8%. Meanwhile, the percentage of respondents expecting more jobs in the next six months declined from 25.5% to 23.0%, while those expecting fewer jobs increased from 17.8% to 18.6%. Along those lines, 17.9% of consumers predict higher incomes in the months ahead, down from 20.0%, with the percentage anticipating reduced incomes rising from 8.8% to 10.1%.

- **Construction Spending:** Private manufacturing construction spending changed little, edging down from $74.17 billion in June to $74.15 billion in July. Demand in the manufacturing sector remains strong, but there are constraints on capacity. This should provide some optimism for improvements in construction activity moving forward, and yet, uncertainties persist related to supply chain disruptions and COVID-19, which might be holding back faster growth. Relative to pre-pandemic levels, private manufacturing construction has declined 2.6% from $76.16 billion in February 2020.

  Total private nonresidential spending decreased 0.2% in July, and since February 2020, activity has fallen 12.0%. For the month, construction activity increased for amusement and recreation, educational, health care and religious projects, with the largest declines in the communication, power and transportation sectors.

  Overall, total private construction spending rose 0.3% in July, with 8.9% growth since February 2020. This figure was boosted by strength in the housing market, which grew 0.5% in July to a new record high, soaring 26.8% over the past 17 months. In July, new single-family construction increased 0.9%, but multifamily activity was flat. Meanwhile, public construction spending was up 0.7% in July, but with a decline of 9.0% from the pre-pandemic pace.

- **Dallas Fed Manufacturing Survey:** Manufacturing activity expanded in August at a softened pace, with the composite index of general business conditions declining from 27.3 in July to 9.0 in August. Most of the key measures slowed somewhat in the latest survey, including new orders, production, shipments, capacity utilization, employment and capital spending. The index for hours worked strengthened marginally in August. The sample comments mirrored other reports, citing solid growth in new orders but also significant challenges with supply chain disruptions, worker shortages and soaring costs. Raw material costs have pulled back from the record pace in June but remained very elevated, with 78.4% of respondents saying that input prices had risen for the month. Growth in wages and benefits and finished goods prices were similar, easing from the all-time highs in June but still rising strongly.

  Looking ahead, manufacturers in the Texas district remained upbeat in their outlook for the next six months, but with the forward-looking composite measure decreasing from 37.1 to 15.1. At least half of those completing the survey expect new orders and production to increase over the coming months, with 44.9% and 34.6% predicting more hiring and capital spending, respectively. Manufacturers anticipate wages and benefits rising over the coming months at a record pace, with input costs remaining elevated.

- **Factory Orders and Shipments:** New orders for manufactured goods rose 0.4%, up from $506.1 billion in June to a record $508.1 billion in July but slowing from the 1.5% gain in June. Nondurable goods orders increased 0.9% in July, but sales of durable goods edged down 0.1% for the month, largely on sharply reduced orders for nondefense aircraft and parts, which can be highly volatile month to month. Excluding transportation equipment, factory orders and durable goods orders were both up 0.8% in July. Overall, the manufacturing sector continues to expand strongly, despite lingering supply chain and pricing pressures, with new orders soaring 8.5% year to date.

  In addition, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—inched up 0.1% from $76.5 billion in June to $76.6 billion in July, a record high. Core capital goods orders have risen 6.9% through the first seven months of 2021.

Meanwhile, factory shipments rose 1.6% from $500.7 billion in June to $508.5 billion in July, an all-time high. Durable and nondurable goods increased 2.2% and 0.9% for the month, respectively. So far this year, factory shipments have risen 7.0%, a solid figure, or 8.6% with transportation equipment excluded. At the same time, core capital goods shipments increased 0.9% from $73.7 billion in June to a record $74.4 billion. Core capital goods shipments have increased 6.2% year to date.

- **International Trade Report:** The U.S. trade deficit declined from a record $73.23 billion in June to $70.05 billion in July. Goods exports (up from $145.92 billion to $148.59 billion) increased to an all-time high for the month, with goods imports (down from $283.31 billion to $282.88 billion) edging down from the prior month's record pace. Through the first seven months of 2021, growth in goods exports (up 13.00%) have outpaced the increase in goods imports (up 9.27%), but since the COVID-19 pandemic began, goods exports and imports have increased 9.50% and 18.51%, respectively. The more-rapid growth in goods imports corresponds to the stronger economic recovery in the U.S. relative to other markets. Meanwhile, the service-sector trade surplus dropped from $20.03 billion in June to $17.67 billion in July, the lowest since August 2012.

  In July, the increase in goods exports was led by strength in non-automotive capital goods (up $976 million), consumer goods (up $810 million to a new record), automotive vehicles and parts (up $613 million) and industrial supplies and materials (up $179 million to a new record). At the same time, higher imports for automotive vehicles and parts (up $1.07 billion) were offset by declines for consumer goods (down $2.13 billion) and industrial supplies and materials (down $1.66 billion), among others.

  According to the latest non-seasonally adjusted data, U.S.-manufactured goods exports totaled $642.16 billion through the first seven months in 2021, soaring 18.80% from $540.53 billion year to date in 2020.

- **ISM® Manufacturing Purchasing Managers' Index®:** The Institute for Supply Management® reported that manufacturing activity expanded robustly once again, with the headline index edging up from 59.5 in July to 59.9 in August. New orders (up from 64.9 to 66.7), production (up from 58.4 to 60.0) and exports (up from 55.7 to 56.6) each strengthened in the month, with demand and output rising at very solid paces. At the same time, employment (down from 52.9 to 49.0) was disappointing, contracting for the second time in the past three months. Despite weak hiring in August, survey respondents felt upbeat in their hiring expectations, according to ISM® Manufacturing Business Survey Committee Chair Timothy Fiore.

  The sample comments noted continuing concerns with supply chain disruptions, rising costs and workforce shortages, while also recognizing solid growth in orders. Indices for the backlog of orders (up from 65.0 to 68.2), supplier delivery times (down from 72.5 to 69.5) and customer inventories (up from a record low of 25.0 to 30.2) were consistent with still-significant supply chain challenges in the sector. Prices (down from 85.7 to 79.4) pulled back for the second straight month from June's reading, which was the fastest since July 1979, but remained very elevated. On the other hand, while remaining a significant challenge, the price data do provide a sense that cost pressures might be beginning to stabilize.

- **Productivity and Costs (Revision):** Manufacturing labor productivity jumped 8.0% in the second quarter, up from a previous estimate of 6.9% and rebounding strongly after dropping by 0.9% in the first quarter. Output growth was also revised higher, up from the earlier estimate of 3.8% in the second quarter to 5.5% in the latest release. Manufacturing output has risen strongly for four straight quarters as the sector continues to rebound from steep declines in the first half of 2020. In the second quarter, the number of hours worked and real hourly compensation declined 2.3% and 3.4%, respectively, with unit labor costs down 3.0%. Labor productivity for durable and nondurable goods increased 4.6% and 10.0% in the second quarter, respectively. Output in the nondurable goods sector jumped 12.9% in the second quarter, but durable goods output decreased 0.9%.

  Meanwhile, nonfarm business labor productivity increased 2.1% in the second quarter, off slightly from the prior estimate of 2.3% and slowing from the 4.3% gain in the first quarter. Output soared 8.1% in the second quarter, extending the 8.4% increase in the first quarter and up solidly for the fourth consecutive month. These data continue to reflect improvements in the economy, especially in services. Hours worked rose 6.0%, with unit labor costs increasing 1.3%.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 340,000 for the week ending Aug. 28, down from 354,000 for the week ending Aug. 21 and a post-pandemic low. Meanwhile, continuing claims edged down from 2,908,000 for the week ending Aug. 14 to 2,748,000 for the week ending Aug. 21—also the lowest figure since the COVID-19 pandemic began. Continuing claims were consistent with 2.0% of the workforce, down from 2.1% in the previous release.

  At the same time, 12,186,158 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Aug. 14. That figure rose from 12,007,632 for the week ending Aug. 7, largely on increased pandemic unemployment assistance that offset the decline in extended benefits assistance.

Register Today

- Join the NAM on Thursday, Sept. 9, at 3:00 p.m. EDT for a discussion on the economic and policy outlook for manufacturers. NAM Chief Economist Chad Moutray and the NAM's tax policy team will provide a high-level overview of current economic conditions and trends, perspectives on the potential for action on Capitol Hill on domestic and international tax issues and an update on the key issues under consideration at the Securities and Exchange Commission. Click here to register.

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