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MONDAY ECONOMIC REPORT

53.6% of Manufacturers Expect Supply Chain Challenges to Abate in 2022

By Chad Moutray – Dec. 27, 2021

The Weekly Toplines

Topline Highlights

- In the latest NAM Manufacturers Outlook Survey, 86.8% of respondents felt either somewhat or very positive about their company outlook in the fourth quarter, down only slightly from 87.5% in the third quarter. While many of the key measures pulled back somewhat, expected growth rates remained solid. With a strong labor market, respondents anticipate employee wages rising at the fastest pace in the survey's history, at 3.8% on average over the next 12 months.

- The top primary business challenges for the fourth quarter included rising raw material costs (87.1%), supply chain challenges (84.5%), the inability to attract and retain a quality workforce (82.7%), transportation and logistics costs (73.1%) and rising health care and insurance costs (50.7%).

- On the topic of workforce, 85.2% had unfilled positions within their companies for which they were struggling to find qualified applicants. Without having enough workers, nearly 45% of respondents were unable to take on new business and had lost revenue opportunities.

- Those completing the survey were asked when they expect supply chain disruptions to abate, and 53.6% anticipate these disruptions to improve in 2022, with 38.8% suggesting that it would be in the second half of next year.

- New orders for durable goods rose 2.5% to a record $268.3 billion in November, with 0.8% growth excluding transportation equipment. Nonetheless, core capital goods orders—a proxy for capital spending in the U.S. economy—edged down 0.1% for the month. The longer-term trends remained very positive, with new durable goods orders jumping 14.7% year-over-year and nondefense capital goods excluding aircraft sales just shy of an all-time high.

- The U.S. economy grew 2.3% at the annual rate in the third quarter. Manufacturing value-added output increased to $2.571 trillion, an all-time high, with record levels for both durable and nondurable goods. Manufacturing accounted for 11.1% of real GDP in the third quarter.

- Real GDP should rebound in the fourth quarter, with 6.5% growth expected. For 2021, the forecast is for 5.6% growth. For 2022, the current estimate is for 4.1% growth.

- Personal consumption expenditures rose 0.6% in November, boosted by stronger sales for nondurable goods and services. Durable goods spending fell 0.6% for the month. On a year-over-year basis, personal spending has jumped 13.5% since November 2020. The saving rate dropped to 6.9%, the lowest since December 2017.

- The PCE deflator rose 0.6% in November, with 5.7% growth year-over-year, the most since July 1982. Core inflation has increased 4.7% since November 2020, the fastest pace since February 1989.

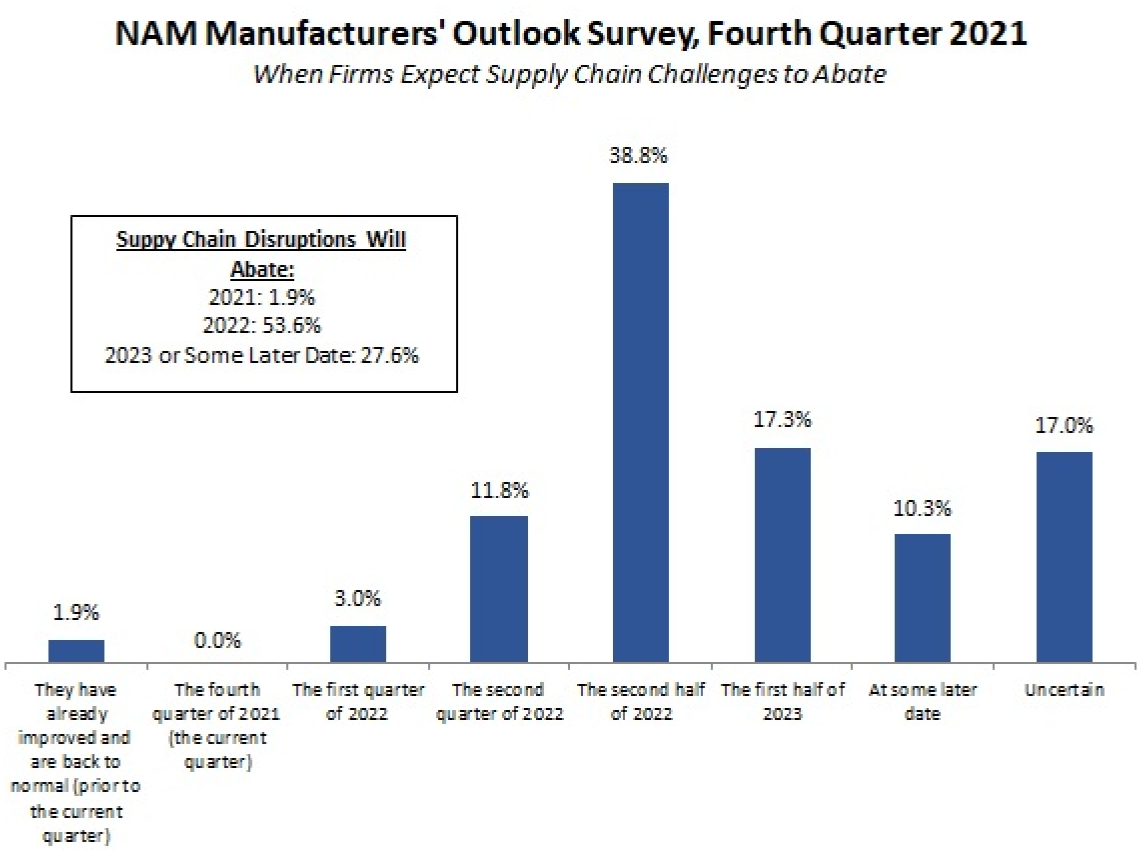
- Core PCE inflation is likely to remain elevated, even if there is some stabilization over the first half of 2022. The current forecast is for the core PCE deflator to be roughly 2.5% year-over-year by the end of 2022.

- For its part, the Federal Reserve has accelerated the tapering of its asset purchases, with quantitative easing likely ending by March 2022. The Federal Open Market Committee is likely to increase short-term interest rates as soon as the May 3–4, 2022, meeting, with three rate hikes expected next year.

- Consumer confidence was somewhat higher in December in surveys from the Conference Board and the University of Michigan. Yet, inflation remains a concern in both surveys, dampening sentiment from stronger assessments earlier in the year.

- Existing and new home sales strengthened in November despite lingering challenges with affordability and inventory issues. Median sales prices have jumped sharply over the past year, hitting a new record for new single-family homes for the month.

  Note: The Monday Economic Report will not be published on Jan. 3, 2022. The next issue will be released on Monday, Jan. 10.



Economic Indicators

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Dec. 20
Conference Board Leading Indicators
NAM Manufacturers' Outlook Survey

Tuesday, Dec. 21
None

Wednesday, Dec. 22
Chicago Fed National Activity Index
Conference Board Consumer Confidence
Existing Home Sales
Gross Domestic Product (Second Revision)
Real GDP by Industry

Thursday, Dec. 23
Durable Goods Orders and Shipments
New Home Sales
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)
Weekly Initial Unemployment Claims

Friday, Dec. 24
None

This Week's Indicators

Monday, Dec. 27
Dallas Fed Manufacturing Survey

Tuesday, Dec. 28
Richmond Fed Manufacturing Survey

Wednesday, Dec. 29
International Trade in Goods (Preliminary)

Thursday, Dec. 30
Weekly Initial Unemployment Claims

Friday, Dec. 31
NEW YEAR'S EVE HOLIDAY

Deeper Dive

Chicago Fed National Activity Index: The U.S. economy expanded strongly for the second straight month in November, according to the Chicago Federal Reserve Bank. While the National Activity Index declined from 0.75 in October to 0.37 in November, these data continue to reflect solid gains in activity, particularly after contracting ever so slightly in September. The three-month moving average rose from 0.25 to 0.37. Positive index readings suggest that the U.S. economy is growing above trend. As such, the three-month moving average suggests that the national economy continues to expand solidly despite ongoing challenges with supply chain disruptions, workforce shortages and soaring costs.

Improvements in the manufacturing sector helped to buoy the economy, with production-related indicators adding 0.21 to the NAI in November. Manufacturing production rose 0.7% in November, improving to the best level since December 2018. Manufacturing employment was also a bright spot, with the sector adding 31,000 workers for the month and 315,000 workers year to date. However, the larger labor market picture was mixed in November, with nonfarm payrolls up a disappointing 210,000 for the month but the unemployment rate dropping to a post-pandemic low of 4.2%.

Conference Board Consumer Confidence: Consumer confidence rose from 111.9 in November to 115.8 in December, a five-month high, according to the Conference

Board. Americans felt more upbeat about the future economy, but survey respondents had slightly reduced perceptions about the current environment.

While inflation remains a concern, expectations for price increases dipped somewhat for the month. The percentage of respondents suggesting that business conditions were "good" increased from 17.9% to 19.9%, while the percentage feeling that conditions were "bad" declined from 27.3% to 26.8%. At the same time, the percentage of respondents suggesting jobs were "plentiful" edged down from 55.5% to 55.1%, while those saying jobs were "hard to get" increased from 10.8% to 12.5%.

Regarding the outlook, the percentage of consumers anticipating better business conditions over the next six months improved from 25.6% to 26.7%, while those predicting a worsening of conditions decreased from 19.6% to 17.9%. Meanwhile, the percentage of respondents expecting more jobs in the next six months rose from 22.8% to 25.1%, while those expecting fewer jobs dropped from 19.0% to 14.8%. With that said, 18.0% of consumers predicted higher incomes in the months ahead, down from 18.9%, with the percentage anticipating reduced incomes inching down from 11.7% to 11.5%.

Conference Board Leading Indicators: The Leading Economic Index increased 1.1% in November, up from 0.9% in October and the strongest monthly gain since May. Over the past six months, the LEI has risen 4.6%, with the U.S. economy continuing to rebound solidly despite lingering challenges. Overall, the data point to solid growth over the coming months. Manufacturing helped buoy the headline index in November, particularly new orders from the ISM® Manufacturing Purchasing Managers' Index®. Other positive contributors to the LEI in November included the average workweek, building permits, initial unemployment claims, the interest rate spread, lending conditions and stock prices, with consumer confidence being the only drag for the month.

Meanwhile, the Coincident Economic Index rose 0.3% in November, slowing from 0.5% in October but increasing for the second straight month. All four components of the CEI—industrial production, manufacturing and trade sales, nonfarm payrolls and personal income less transfer payments—made positive contributions in the latest data. The CEI has increased a modest 2.0% over the past six months.

Durable Goods Orders and Shipments: New orders for durable goods rose 2.5% from $261.7 billion in October to a record $268.3 billion in November. Sizable increases occurred for aircraft and parts orders, which can be highly volatile from month to month. In addition, motor vehicles and parts, a sector that has been hit hard by the chip shortage and supply chain issues this year, has seen increased sales in the past two months, up 5.8% and 1.0%, respectively. Excluding transportation equipment, new durable goods orders increased 0.8% in November.

In addition to automobiles, demand increased in November for computers and electronic products (up 4.0%), other durable goods (up 1.5%), fabricated metal products (up 0.6%) and primary metals (up 0.3%). In contrast, new orders fell for electrical equipment, appliances and components (down 1.1%) and machinery (down 1.0%). Sales for nondefense capital goods excluding aircraft—a proxy for capital spending in the U.S. economy—edged down 0.1% from a record $78.9 billion in October to $78.8 billion in November.

Overall, the durable goods data continue to reflect a strong upward trend, even as manufacturers struggle with supply chain bottlenecks, worker shortages and soaring costs. New orders have jumped 14.7% over the past 12 months, or 13.4% with transportation equipment excluded. Similarly, core capital goods orders have grown 11.7% year-over-year.

Meanwhile, durable goods shipments rose 0.7% from $261.8 billion in October to a record $263.6 billion in November. With transportation equipment excluded, shipments of durable goods increased 0.5% for the month. On a year-over-year basis, durable goods shipments have risen 9.9%, or 13.1% excluding transportation equipment. In addition, core capital goods shipments increased 0.3% from $76.1 billion to $76.3 billion, an all-time high, with 9.7% growth over the past 12 months.

Existing Home Sales: Existing home sales increased 1.9% from 6.34 million units at the annual rate in October to 6.46 million units in November, rising for the third straight month to the best reading since January, according to the National Association of Realtors. Activity strengthened in every region of the country except for the Northeast, which was flat for the month. Overall, existing home sales have drifted higher since 5.78 million units in May, which is encouraging. Sales growth has been solid despite lingering affordability and inventory issues.

In November, single-family sales increased 1.6% from 5.66 million units to 5.75 million units, the best reading since January. In addition, condominium and co-op sales rose 4.4% from 680,000 units to 710,000 units. Existing home sales have fallen 2.0% since November 2020, with single-family sales down 2.2% year-over-year.

There were 2.1 months of unsold inventory for existing homes on the market in November, down from 2.3 months in October and the lowest since March. Inventories remain not far from the record low of 1.9 months of supply on the market in December 2020 and January 2021. The median sales price for existing homes has jumped 13.9% year-over-year, up to $353,900.

Gross Domestic Product (Second Revision): The U.S. economy grew 2.3% at the annual rate in the third quarter, the slowest pace of growth since the pandemic began and edging up from the previous estimate of 2.1% growth. While real GDP grew 6.7% in the second quarter, the third quarter deceleration stemmed from supply chain disruptions and the spread of the delta variant, and consumer and business spending eased significantly. Durable goods purchases fell for the first time since the second quarter of 2020, led by sizable declines in spending for motor vehicles and parts due to the ongoing chip shortage. Residential fixed investment and net exports were also notable drags on growth in the third quarter. However, at $19.479 billion, real GDP in the third quarter was 1.4% above the pace seen at the end of 2019, or before the COVID-19 pandemic began.

Overall, real GDP should rebound in the fourth quarter, with 6.5% growth expected. For 2021, the forecast is for 5.6% growth. For 2022, the current estimate is for 4.1% growth.

NAM Manufacturers’ Outlook Survey: In the latest NAM Manufacturers’ Outlook Survey, 86.8% of respondents felt either somewhat or very positive about their company outlook in the fourth quarter, down only slightly from 87.5% in the third quarter. It was the second straight release with some easing in the outlook, down from 90.1% in the second quarter, which was the best in three years. The data are consistent with solid growth in manufacturing activity, but with some continued easing since the second quarter’s figures, likely on supply chain and workforce concerns. Small manufacturers (those with fewer than 50 employees) remained less upbeat in their outlook than their medium-sized and larger manufacturing counterparts.

While the expected employment growth over the next 12 months pulled back from a record high in September’s survey (3.8%), manufacturers predict hiring to remain very healthy (3.4%). Respondents also anticipate employee wages rising over the next year at 3.8% on average, the fastest pace in the survey’s history, which dates to the fourth quarter of 1997.

Rising raw material costs once again topped the list of primary business challenges in the fourth quarter, cited by 87.1% of respondents. In addition to rising costs, other top challenges in the fourth quarter include supply chain challenges (84.5%), the inability to attract and retain a quality workforce (82.7%), transportation and logistics costs

(73.1%), rising health care and insurance costs (50.7%) and an unfavorable business climate (43.4%). The top four received higher percentages in the fourth quarter than in the third quarter, and for many manufacturers, they are interrelated.

On the topic of workforce, 85.2% had unfilled positions within their companies for which they were struggling to find qualified applicants. Without having enough workers, nearly 45% of respondents were unable to take on new business and had lost revenue opportunities.

Those completing the survey were asked when they expect supply chain disruptions to abate, and 53.6% anticipate these disruptions to improve in 2022, with 38.8% suggesting that it would be in the second half of next year. Nearly 28% believe that supply chain problems will not get better until 2023 or later, with 17.0% uncertain. Overall, 73.6% of respondents said supply chain bottlenecks had impacted their company's outlook for production, hiring and capital spending negatively, with 15.6% responding they had not and 10.8% uncertain.

New Home Sales: New single-family home sales jumped 12.4% from 662,000 units at the annual rate in October to 744,000 units in November, the best pace since April. In the latest figures, sales strengthened in every region except the Midwest. Despite the strong improvement in the latest data, new home sales have trended lower since peaking at 993,000 units in January, which was the strongest pace since December 2006. Affordability issues, supply chain challenges and workforce shortages have contributed to housing market weaknesses this year. Indeed, new single-family home sales have fallen 14.0% over the past 12 months, down from 865,000 units in November 2020.

There were 6.5 months of new single-family homes for sale on the market in November, down from 7.1 months in October. More importantly, the median sales price for new homes was $416,900 in November, a new record and up 18.8% from $350,800 one year ago.

Personal Consumption Expenditures Deflator: The PCE deflator rose 0.6% in November, easing slightly from the 0.7% gain in October. Food and energy prices increased 0.7% and 3.6% for the month, respectively. Excluding food and energy prices, the PCE deflator increased 0.5% in November, the same pace as in October. Overall, the PCE deflator has risen 5.7% year-over-year, the greatest increase since July 1982. Core inflation has increased 4.7% since November 2020, the fastest pace of inflation since February 1989.

Rising raw material costs continue to be a major concern for manufacturers (see the NAM Manufacturers' Outlook Survey above), especially with supply chain disruptions and soaring pent-up demand in the marketplace. Indeed, core inflation is likely to remain elevated, even if there is some stabilization over the first half of 2022. The current forecast is for the core PCE deflator to be roughly 2.5% year-over-year by the end of 2022.

For its part, the Federal Reserve has accelerated the tapering of its asset purchases, with quantitative easing likely ending by March 2022. The Federal Open Market Committee is likely to increase short-term interest rates as soon as the May 3–4, 2022, meeting, with three rate hikes expected next year.

Personal Income and Spending: Personal consumption expenditures rose 0.6% in November, slowing from the 1.4% gain in October but increasing solidly for the fourth straight month. Nondurable goods purchases increased 0.5% in November, but durable goods spending fell 0.6% for the month. As a result, total goods spending edged up just 0.1% in November. Service-sector expenditures rose 0.9% for the month. On a year-over-year basis, personal spending has jumped 13.5%, with durable and nondurable goods soaring 18.1% and 16.6%, respectively, and with service-sector purchases up 11.7% since November 2020.

Meanwhile, personal income rose 0.4% in November, inching down from the 0.5% growth rate in October. Over the past 12 months, personal income has risen 7.4%. Wages and salaries increased 0.5% for the month, with total manufacturing wages and salaries rising 0.8% from $1,001.8 billion in October to $1,009.4 billion in November. More importantly, total manufacturing wages and salaries have increased 7.4% year-over-year. Of note in the latest data, total unemployment insurance dropped to $37.2 billion in November, the lowest level since February 2020 ($26.2 billion), after peaking at $1,395.8 billion in June 2020.

The personal saving rate decreased from 7.1% in October to 6.9% in November, the lowest level since December 2017, suggesting that Americans were dipping into their savings to make purchases for the month.

Real GDP by Industry: The U.S. economy grew 2.3% at the annual rate in the third quarter (see above). According to the Bureau of Economic Analysis, manufacturing value-added output increased from $2.525 trillion in the second quarter to $2.571 trillion in the third quarter, an all-time high. Value-added output rose to new record levels in the third quarter for both durable goods (up from $1.375 trillion to $1.381 trillion) and nondurable goods (up from $1.150 trillion to $1.190 trillion).

Similarly, manufacturing gross output increased from $6.234 trillion in the second quarter to a record $6.441 trillion in the third quarter. New all-time high readings occurred in the third quarter for durable goods (up from $3.144 trillion to $3.218 trillion) and nondurable goods (up from $3.090 trillion to $3.224 trillion).

At the same time, real value-added output in the manufacturing sector eased from a record $2.329 trillion at the annual rate in the second quarter to $2.320 trillion in the third quarter, as expressed in chained 2012 dollars. Despite the pullback, real value-added output remains near record levels, even with lingering challenges from COVID-19 and supply chain and workforce issues, all of which weighed on the latest data. In the third quarter, real value-added output for durable goods decreased from a record $1.286 trillion to $1.277 trillion. Nondurable goods activity edged down from $1.043 trillion, the highest level since the fourth quarter of 2007, to $1.042 trillion.

Overall, real value-added output in manufacturing declined 1.5% at the annual rate in the third quarter, subtracting 0.17 percentage points to headline real GDP growth. Manufacturing accounted for 11.1% of real GDP in the third quarter, unchanged from the first and second quarters.

University of Michigan Consumer Sentiment (Revision): The Index of Consumer Sentiment rose from 67.4 in November to 70.6 in December, according to final data from the University of Michigan and Thomson Reuters. This was slightly better than the original estimate of 70.4, and overall, Americans felt somewhat more upbeat about both current and future economic conditions. Yet, consumers remained dramatically less upbeat today than earlier in the year, largely based on worries about higher prices. The headline index has averaged 70.6 over the past five months (August to December), down from 84.6 in the prior five months (March to July).

Interestingly, households in the lowest third of income distribution felt more upbeat in this release, but other income groups less so. In addition, there were sharp partisan differences in terms of inflation expectations, with Republicans anticipating significantly more price growth than Democrats.

Weekly Initial Unemployment Claims: There were 205,000 initial unemployment claims for the week ending Dec. 18, the same pace as the previous week. Meanwhile, there were 1,859,000 continuing claims for the week ending Dec. 11, a new post-pandemic low and edging down from 1,867,000 for the week ending Dec. 4. At the same time, 2,137,980 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Dec. 4, down from

2,458,432 for the week ending Nov. 27. This was the result of reduced state and pandemic unemployment insurance claims.