MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – September 9, 2019 – SHARE

Economic Reports Continue to Highlight Manufacturing Weaknesses

The Weekly Toplines

- Several reports last week highlighted weaknesses in the U.S. and global manufacturing economies, which have been impacted by the ratcheting up in trade uncertainties.

- The Institute for Supply Management® reported that manufacturing activity contracted for the first time in three years. The composite index dropped from 51.2 in July to 49.1 in August, pulled lower by declining new orders, exports, production and employment. New orders contracted for the first time since December 2015, and exports plummeted to the lowest reading since April 2009.

- Manufacturing labor productivity fell 2.2 percent at the annual rate in the second quarter, the first decline since the first quarter of 2018 and pulled lower by reduced output for the second straight quarter. In contrast, nonfarm business labor productivity rose 2.3 percent at the annual rate in the second quarter, extending the 3.5 percent gain in the first quarter.

- New orders for manufactured goods rose 1.4 percent in July, extending the 0.5 percent gain in June. Excluding transportation equipment (which includes highly volatile aircraft sales), factory orders increased 0.3 percent in July. Despite the strong headline number, new factory orders have risen just 0.4 percent since July 2018, but down 0.2 percent year-over-year with transportation equipment sales excluded.

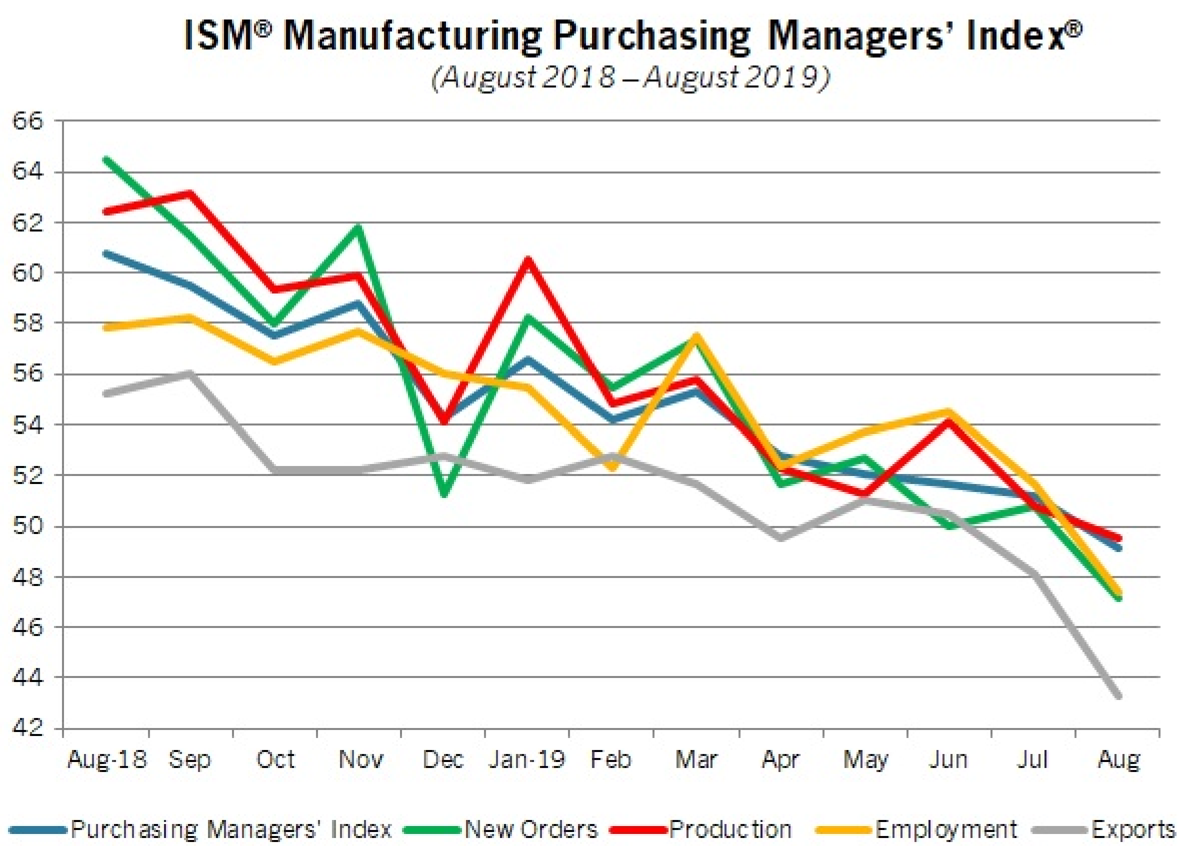
- Along those lines, new orders for core capital goods—a proxy for capital spending in the U.S. economy—increased 0.2 percent in July. Core capital goods orders have fallen 0.6 percent since July 2018, the first negative year-over-year reading since November 2016.

- While the U.S. trade deficit pulled somewhat lower for the second straight month in July, U.S.-manufactured goods exports have fallen 2.52 percent year to date in 2019 relative to the same time frame in 2018.

- Manufacturing employment rose by just 3,000 workers in August, with downward revisions for the prior two months. Overall, manufacturing job growth has slowed considerably year to date, with the sector averaging 5,500 new workers per month so far in 2019 relative to the more robust average of almost 22,000 per month in 2018.

- With that said, there were 12,853,000 employees in manufacturing in August, the most since November 2008. Manufacturers have added 1.4 million workers to the sector since the Great Recession, and firms continue to cite difficulty in obtaining talent as a top concern, with record-high levels of job openings. Meanwhile, average hourly earnings for production and nonsupervisory workers have risen 3.2 percent year-over-year.

  In the larger economy, nonfarm payrolls increased by 130,000 in August, a disappointing reading, with the unemployment rate remaining near 50-year lows at 3.7 percent.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, September 2
LABOR DAY HOLIDAY

Tuesday, September 3
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Wednesday, September 4
International Trade Report

Thursday, September 5
ADP National Employment Report
Factory Orders and Shipments
Productivity and Costs (Revision)

Friday, September 6
BLS National Employment Report

This Week's Indicators:

Monday, September 9
Consumer Credit

Tuesday, September 10
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, September 11
Producer Price Index

Thursday, September 12
Consumer Price Index

Friday, September 13
Retail Sales
University of Michigan Consumer Sentiment

Deeper Dive

- **ADP National Employment Report:** Manufacturing employment rebounded, rising by 8,000 in August after falling by 4,000 in July, according to ADP estimates. Overall, hiring in the sector has slowed year to date, averaging roughly 6,000 new workers per month through the first eight months of 2019 relative to the average of more than 20,000 each month for the same period in 2018. This shows how much hiring has softened recently due to slowing global growth and trade uncertainties.

  Meanwhile, total nonfarm private employment rose by 195,000 in August, well ahead of the consensus estimate of around 150,000 and an improvement from the 142,000 job gains in July. The largest increases occurred in education and health services, financial activities, leisure and hospitality and professional and business services. Using the time frames discussed above, private-sector payroll growth has averaged just more than 173,000 per month year to date, slowing from more than 225,000 each month between January and August 2018.

  In addition, small and medium-sized businesses (i.e., those with fewer than 500 employees) generated 73.3 percent of the net job creation in August.

- **BLS National Employment Report:** Manufacturing employment rose by just 3,000 workers in August. In addition, the data for the prior two months were revised lower, subtracting a total of 14,000 from June and July job growth in the sector. In August, job growth was buoyed by additional hiring from computer and electronic products, nonmetallic mineral products, plastics and rubber products and miscellaneous nondurable goods. In contrast, notable declines in employment occurred for chemicals, fabricated metal products, machinery and petroleum and coal products, among others.

Manufacturing job growth has slowed considerably year to date, with the sector averaging 5,500 new workers per month so far in 2019 relative to the more robust average of almost 22,000 per month in 2018. This mirrors other data, including production and sentiment numbers, which show manufacturing activity slowing due to weaker global growth and ongoing trade uncertainties.

With that said, there were 12,853,000 employees in manufacturing in August, the most since November 2008. Manufacturers have added 1.4 million workers to the sector since the Great Recession. Moreover, firms continue to cite difficulty in obtaining talent as a top concern, with record-high levels of job openings.

In the larger economy, nonfarm payrolls increased by a disappointing 130,000 in August, weakening from the gains of 178,000 and 159,000 in June and July, respectively. Much like the manufacturing data, nonfarm payrolls have slowed year to date, down from an average of 223,250 jobs created in 2018 to just 158,250 per month through the first eight months of 2019. Meanwhile, the unemployment rate remained at 3.7 percent, near 50-year lows.

Beyond hiring, the average workweek of production and nonsupervisory workers edged up from 41.5 hours in July, the lowest level since January 2014, to 41.6 hours in August. The average hourly earnings for production and nonsupervisory workers rose to $22.23 in August, up from $21.55 per hour in August 2018 and up 3.2 percent year-over-year.

- **Construction Spending:** Private manufacturing construction spending rose 1.9 percent in the latest data, up from $70.90 billion at the annual rate in June to $72.25 billion in July. Overall, construction activity has risen modestly over the past 12 months, up from $69.68 billion in July 2018. Despite recent improvements, however, private manufacturing construction activity remains below the all-time high of $86.65 billion in June 2015. Note that this series reflects a new seasonal revision for all data since January 2008.

  Meanwhile, total private construction spending edged down 0.1 percent in July. Private residential construction spending rose 0.6 percent in July, whereas nonresidential activity fell 0.8 percent for the month. On a year-over-year basis, private residential and nonresidential construction activity has fallen 6.6 percent and 2.7 percent since July 2018, respectively. At the same time, public-sector construction increased 0.4 percent, with 4.0 percent growth over the past 12 months.

- **Factory Orders and Shipments:** New orders for manufactured goods rose 1.4 percent in July, extending the 0.5 percent gain in June. With that said, these data were boosted by very large increases in defense and nondefense aircraft orders, which can often be highly volatile from month to month. Excluding transportation equipment, factory orders increased 0.3 percent in July after edging down 0.1 percent in June. Despite the strong headline number, the data continue to highlight weaknesses in the manufacturing sector across the past 12 months, with factory orders up just 0.4 percent since July 2018. Excluding transportation equipment, factory orders fell 0.2 percent year-over-year.

Along those lines, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—increased 0.2 percent in July. Over the past 12 months, core capital goods orders have fallen 0.6 percent since July 2018, the first negative year-over-year reading since November 2016.

Meanwhile, shipments decreased 0.2 percent in July, but rose 0.2 percent with transportation equipment excluded. Since July 2018, manufactured goods shipments have increased 0.5 percent, with core capital goods shipments up 1.1 percent year-over-year.

- **International Trade Report:** The U.S. trade deficit pulled somewhat lower for the second straight month, down from $55.51 billion in June to $53.99 billion in July. The reduction in the trade deficit was the result of increased goods exports (up from $136.94 billion to $138.16 billion) and a slight drop in goods imports (down from $212.24 billion to $211.82 billion). For goods exports, increases for automotive vehicles, parts and engines, consumer goods and non-automotive capital goods were enough to offset declines from industrial supplies and materials and foods, feeds and beverages. At the same time, goods imports were pulled lower mainly from a large drop in non-automotive capital goods, especially computers and semiconductors.

  In non-seasonally adjusted data, U.S.-manufactured goods exports totaled $656.85 billion through the first seven months of 2019, down 2.52 percent from $673.85 billion for the same period in 2018. This suggests that international demand for U.S.-manufactured goods has weakened in the first half of this year after experiencing better data in both 2017 and 2018.

- **ISM® Manufacturing Purchasing Managers' Index®:** The Institute for Supply Management reported that manufacturing activity contracted for the first time in three years. The composite index dropped from 51.2 in July to 49.1 in August, pulled lower by declining new orders, exports, production and employment. New orders contracted for the first time since December 2015, with export sales plummeting to the lowest reading (43.3) since April 2009. Increased trade uncertainties have fueled weaknesses in the global manufacturing economy. Imports were also negative for the second straight month, whereas inventories stabilized and were nearly neutral in August.

  In addition, pricing pressures—a major concern among manufacturers at this time last year—fell for the third consecutive month. In August, the index for prices ticked up from 45.1 to 46.0. That figure registered 60.8 one year ago, illustrating the deceleration in raw material costs since then.

- **Productivity and Costs (Revision):** Manufacturing labor productivity fell 2.2 percent at the annual rate in the second quarter, the first decline since the first quarter of 2018. This represented a notable downward revision from the prior estimate of a decrease of 1.6 percent. Labor productivity in the sector was pulled lower by reduced output for the second straight quarter, down 3.0 percent in the second quarter. At the same time, hourly compensation costs (up 4.3 percent) helped to boost unit labor costs, which jumped 6.7 percent for the quarter. Labor productivity for durable and nondurable goods firms also declined in the second quarter, down 0.6 percent and 4.4 percent, respectively. In addition, durable and nondurable goods output fell 1.9 percent and 4.2 percent, respectively.

  In contrast to manufacturing, nonfarm business labor productivity rose 2.3 percent at the annual rate in the second quarter, extending the 3.5 percent gain in the first quarter. Nonfarm output grew 1.9 percent for the quarter, slowing from 3.9 percent growth in the prior release, with unit labor costs up 2.6 percent.

Take Action

If you have not already done so, please take a moment to complete a new survey from The Manufacturing Institute on workforce training efforts at your company. This 17-question survey will help us measure training and upskilling activities in the manufacturing sector, especially as firms work to ensure their workers have the skills needed to be successful at their jobs. It will be conducted annually, starting with this survey.

Last year, NAM President and CEO Jay Timmons and Manufacturing Institute Executive Director Carolyn Lee asked manufacturers to commit to President Donald Trump's Pledge to America's Workers—a commitment to expand programs that educate, train and reskill American workers from high-school age to near retirement. In July, they announced that manufacturers had committed to training roughly 1.2 million workers over the next five years—a bold goal, but one that we feel accurately reflects the changing nature and needs of the sector.

To complete the survey, click here. Responses are due by Tuesday, Sept. 17, at 5:00 p.m. EDT. As always, all responses are anonymous.