<

MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – October 7, 2019 – SHARE

The Unemployment Rate Fell to 3.5 Percent in September, Near a 50-Year Low

The Weekly Toplines

- Manufacturing employment fell by 2,000 workers in September, and it has slowed considerably year to date, with the sector averaging roughly 4,500 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 12.85 million employees in manufacturing in September, pulling back just slightly from nearly an 11-year high. 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 136,000 in September. Meanwhile, the unemployment rate fell to 3.5 percent, the lowest since December 1969, and the so-called "real unemployment" rate fell to 6.9 percent, a rate not seen since December 2000.

- The Institute for Supply Management's® Manufacturing Purchasing Managers' Index® plummeted to the weakest reading in 10 years. The composite index dropped from 49.1 in August to 47.8 in September, contracting for the second straight month and the lowest point since June 2009.

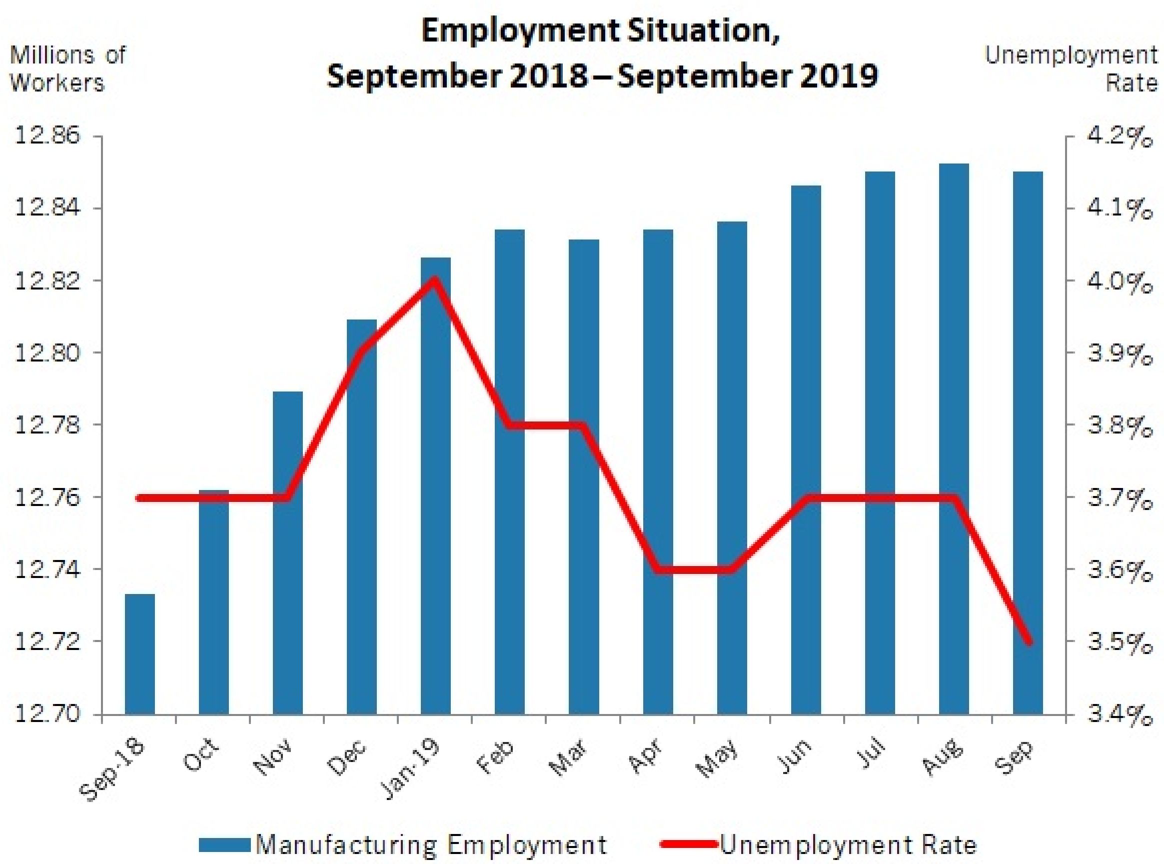
- In the ISM® release, the index for exports contracted sharply, falling from 43.3 to 41.0, a level not seen since March 2009. New orders, production and employment also contracted for the month. Hiring, which had been a strong point among manufacturers, declined at the fastest rate since January 2016.

- New orders for manufactured goods edged down 0.1 percent in August. Over the past 12 months, factory orders have fallen 1.9 percent, or a decline of 0.4 percent year-over-year with transportation equipment excluded. In addition, core capital goods orders—a proxy for capital spending—declined 0.4 percent year-over-year, illustrating weaknesses in the U.S. economy not seen in nearly three years.

- On a regional level, the Dallas Federal Reserve Bank reported a slight expansion of manufacturing activity in September, but the forward-looking measures and sample comments made it clear that respondents feel cautious about the months ahead.

- Private manufacturing construction spending rose 0.5 percent in August, with a modest increase of 1.6 percent year-over-year. In the larger economy, total private construction spending was flat in August, but private residential construction increased 0.9 percent for the month. The latter was likely boosted by reduced mortgage rates, which have helped to produce some rebounds in a housing market that has struggled mightily over the past year or so.

- The U.S. trade deficit increased from $54.04 billion in July to $54.90 billion in August. In non-seasonally adjusted data, U.S.-manufactured goods exports have fallen 2.49 percent through the first eight months of 2019 relative to 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.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, September 30
Dallas Fed Manufacturing Survey

Tuesday, October 1
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Wednesday, October 2
ADP National Employment Report

Thursday, October 3
Factory Orders and Shipments

Friday, October 4
BLS National Employment Report
International Trade Report

This Week's Indicators:

Monday, October 7
Consumer Credit

Tuesday, October 8
NFIB Small Business Survey
Producer Price Index

Wednesday, October 9
None

Thursday, October 10
Consumer Price Index

Friday, October 11
University of Michigan Consumer Sentiment (Preliminary)

Deeper Dive

- **ADP National Employment Report:** Manufacturing employment remained soft, but expanded for the second straight month. The sector added 2,000 workers in September, extending the gain of 3,000 in August, according to ADP estimates. Overall, hiring in the sector has slowed year to date, averaging roughly 4,750 new workers per month through the first three quarters of 2019 relative to the average of nearly 20,000 per month for the same period in 2018. This shows how much hiring has eased year to date due to slowing global growth and trade uncertainties.

  Meanwhile, total nonfarm private employment rose by 135,000 in September, off from 157,000 in August. The largest increases occurred in construction, 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 almost 165,000 per month year to date, slowing from more than 222,000 per month between January and September 2018.

  In addition, small and medium-sized businesses (i.e., those with fewer than 500 employees) generated 51.1 percent of the net job creation in September.

- **BLS National Employment Report:** Manufacturing employment fell by 2,000 workers in September after rising by 2,000 in August. Employment for nondurable goods manufacturers increased by 2,000 in September, but this was offset by a decline of 4,000 workers among durable goods firms. The largest gains in September occurred in chemicals, computer and electronic products, food manufacturing and furniture and related products. In contrast, notable declines in employment occurred in fabricated metal products, machinery, motor vehicles and parts, plastics and rubber products and primary metals, among others.

Manufacturing job growth has slowed considerably year to date, with the sector averaging roughly 4,500 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 12.85 million employees in manufacturing in September, pulling back just slightly from nearly an 11-year high. Moreover, firms continue to cite difficulty in obtaining talent as a top concern, with record-high levels of job openings. The average hourly earnings for production and nonsupervisory workers rose to $22.24 in September, up from $21.62 per hour in September 2018 and up a modest 2.9 percent year-over-year.

In the larger economy, nonfarm payrolls increased by 136,000 in September, easing from a revised gain of 168,000 workers in August. Much like the manufacturing data, nonfarm payrolls have slowed year to date, down from an average of 223,250 jobs created per month in 2018 to nearly 160,800 per month through the first nine months of 2019. Meanwhile, the unemployment rate fell to 3.5 percent, the lowest since December 1969, and the so-called "real unemployment" rate fell to 6.9 percent, a rate not seen since December 2000.

- **Construction Spending:** Private manufacturing construction spending rose 0.5 percent in the latest data, up from $71.16 billion at the annual rate in July to $71.54 billion in August. Overall, construction activity has risen modestly over the past 12 months, up 1.6 percent from $70.40 billion in August 2018. Despite recent improvements, however, private manufacturing construction activity remains below the all-time high of $86.65 billion in June 2015.

  Meanwhile, total private construction spending was flat in August. Private residential construction spending increased 0.9 percent in August, with better single-family activity (up 1.4 percent) being offset by a decline in multifamily housing construction (down 0.9 percent). On a year-over-year basis, private residential and nonresidential construction activity has fallen 5.0 percent and 2.8 percent since August 2018, respectively. At the same time, public-sector construction increased 0.4 percent, with 4.6 percent growth over the past 12 months.

- **Dallas Fed Manufacturing Survey:** Manufacturers expanded for the second straight month in September, albeit with some easing in many measures. The composite index dipped from 2.7 in August to 1.5 in September, with slower growth in new orders, production, shipments and capacity utilization. Yet, stronger expansions occurred for employment, hours worked and capital expenditures, which was encouraging. Pricing pressures also picked up somewhat after decelerating in recent months. The sample comments continued to note worries about slower global growth, political and trade policy uncertainties and difficulties in finding sufficient talent.

Moving forward, manufacturers in the Texas district feel cautious. The index for general business activity six months from now slipped into negative territory for just the second time since January 2016. (It was also negative in June.) With that said, respondents remained positive in their outlook for new orders, production, employment and capital spending for their firms. This suggests mixed expectations for the coming months with lingering anxieties but also cautious optimism toward continued improvements in overall activity in the region.

- **Factory Orders and Shipments:** New orders for manufactured goods edged down 0.1 percent in August, pulling back slightly after rising 1.4 percent in July. Yet, the previous month's sizable increase stemmed largely from nondefense aircraft orders, which are often highly volatile from month to month. Excluding transportation equipment, factory orders were stagnant in August, slowing from a 0.2 percent gain in July. Overall, the data continue to highlight weaknesses in the manufacturing sector across the past 12 months, with global softness and trade uncertainties weighing on activity and factory orders down 1.9 percent since August 2018. Excluding transportation equipment, manufactured goods orders fell 0.4 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—declined 0.4 percent in August after being unchanged in July. Over the past 12 months, core capital goods orders have also fallen 0.4 percent since August 2018, the second negative year-over-year reading since November 2016.

  Meanwhile, shipments decreased 0.1 percent in August, but were flat with transportation equipment excluded. Since August 2018, manufactured goods shipments have decreased 0.3 percent, but with core capital goods shipments up 1.4 percent year-over-year.

- **International Trade Report:** The U.S. trade deficit increased from $54.04 billion in July to $54.90 billion in August. Through the first eight months of 2019, the trade deficit has averaged $53.59 billion, which is up from $50.06 billion over the same time in 2018. The increase in August's trade deficit was the result of a rise in goods imports (up from $211.81 billion to $213.01 billion) that outpaced the gain in goods exports (up from $138.22 billion to $138.58 billion) for the month.

  For goods exports, increases for automotive vehicles, parts and engines; foods, feeds and beverages; and industrial supplies and materials were enough to offset declines from consumer goods and non-automotive capital goods. At the same time, sizable increases in imports for consumer goods and non-automotive capital goods helped to push goods imports higher in August.

In non-seasonally adjusted data, U.S.-manufactured goods exports totaled $753.35 billion through the first eight months of 2019, down 2.49 percent from $772.58 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 plummeted to the weakest reading in 10 years, as global headwinds and trade uncertainties continue to challenge the sector. The composite index dropped from 49.1 in August to 47.8 in September, contracting for the second straight month and the lowest point since June 2009. Once again, reduced exports led the way, with that index falling from 43.3 to 41.0, a level not seen since March 2009. New orders, production and employment also contracted for the month. Hiring, which had been a strong point among manufacturers, declined at the fastest rate since January 2016.

  The sample comments reflected anxious manufacturers. As one respondent put it, the outlook was "cautious," and those completing the survey noted weakening global markets, tariffs and reduced sales. One individual also cited rising inventories for the company's dealers, another signal of weaker demand. With that said, this might be more of an exception. At 45.5, the index for customers' inventories indicated low levels of stockpiles for the month, which might suggest a need for accelerated production if orders were to rebound.

  Meanwhile, pricing pressures—a major concern among manufacturers at this time last year—fell for the fourth consecutive month, but showed some signs of stabilizing. In September, the index for prices ticked up from 46.0 to 49.7. That figure registered 60.0 one year ago, illustrating the deceleration in raw material costs since then.

Deeper Dive

- If you participated in a Manufacturing Day event in any capacity, we want to hear from you, if we have not already. As part of our efforts to learn more about the impact of Manufacturing Day, please take a moment to fill out our survey using the links below. Please share the survey with your event attendees, students, teachers and parents. If you have any questions, do not hesitate to reach out to info@mfgday.com.
  - For hosts, click here for the survey.
  - For students, parents and educators, click here for the survey.

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