MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

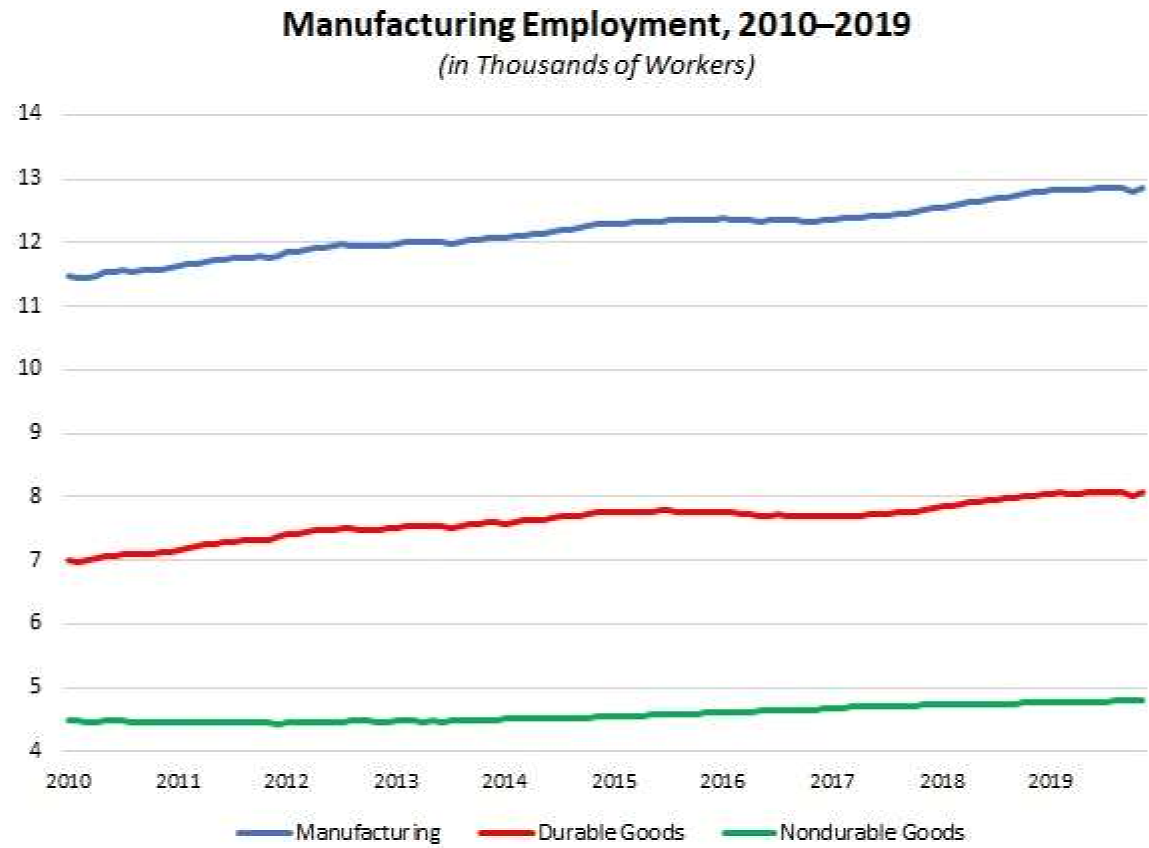
By Chad Moutray, Ph.D., CBE – December 9, 2019 – SHARE

A Solid Jobs Report Ends 2019

- Manufacturing employment jumped by 54,000 workers in November, bouncing back from the loss of 43,000 employees in October. Much of that volatility stemmed from the effects of the auto strike, with motor vehicles and parts employment up 41,300 in November, rebounding from a similar loss in the prior report.
- There were 12,865,000 manufacturing workers in November, the best reading in 11 years, with 1,412,000 employees added since the end of the Great Recession. Nonetheless, manufacturing job growth has slowed to an average of just more than 5,000 additional workers per month year to date. That contrasts with the average of 22,800 manufacturing employees created each month through the first 11 months of 2018.
- In the larger economy, nonfarm payrolls increased by a very robust 266,000 in November, the strongest reading since January. The unemployment rate returned to 3.5%, matching the reading in September, which was the lowest since December 1969.
- Perhaps buoyed by strong labor growth, as well as renewed strength in the stock market, the Index of Consumer Sentiment improved to the best reading

in six months, according to preliminary data from the University of Michigan and Thomson Reuters.

- The ISM® Manufacturing Purchasing Managers' Index® contracted for the fourth straight month, suggesting ongoing weaknesses in the sector in November. While production contracted for the month, it stabilized somewhat in the latest data, falling at a slower rate and bouncing back from the worst reading since April 2009.
- New orders for manufactured goods rose 0.3% in October, but were flat with defense sales excluded. 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 1.2% since October 2018. On a more positive note, core capital goods spending—a proxy for capital spending—rose 1.1% in October, perhaps a sign of some stabilization in the measure.
- The U.S. trade deficit decreased to $47.20 billion in October, the lowest level since June 2018, with goods exports and imports both falling to a two-year low. Encouragingly, real exports of petroleum in 2012 dollars were the highest since the series began in 1994, helping to push the real petroleum trade deficit to a record low in October.
- In non-seasonally adjusted data, U.S.-manufactured goods exports have fallen 3.0% year to date through the first 10 months of 2019 relative to the same period in 2018.



Last Week's Indicators:
(Summaries Appear Below)

Monday, December 2
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Tuesday, December 3
None

Wednesday, December 4
ADP National Employment Report

Thursday, December 5
Factory Orders and Shipments
International Trade Report

Friday, December 6
BLS National Employment Report
Consumer Credit

University of Michigan Consumer Sentiment (Preliminary)

This Week's Indicators:

Monday, December 9
None

Tuesday, December 10
NFIB Small Business Survey
Productivity and Costs (Revision)

Wednesday, December 11
Consumer Price Index
FOMC Monetary Policy Statement

Thursday, December 12
Producer Price Index

Friday, December 13
Retail Sales

- **ADP National Employment Report:** Manufacturing employment declined for the third straight month, with the sector losing 6,000 workers in November, according to ADP estimates. It was the fifth decrease in net hiring for manufacturers year to date, but with employment growth in the sector averaging 2,280 per month over that time frame. Overall, hiring has eased due to slowing global growth and trade uncertainties in 2019.

Meanwhile, total nonfarm private employment rose by 67,000 in November, slowing from a gain of 121,000 in October and the weakest increase since May. In addition to manufacturing, hiring also fell for construction; information; natural resources and mining; and trade, transportation and utilities. Through the first 11 months of this year, private-sector payroll growth has averaged more than 151,250 per month, down from nearly 216,000 per month from January to November 2018.

In addition, small and medium-sized businesses (i.e., those with fewer than 500 employees) generated 59.7% of the net job creation in November.

- **BLS National Employment Report:** Manufacturing employment jumped by 54,000 workers in November, bouncing back from the loss of 43,000 employees in October. Much of that volatility stemmed from the effects of the auto strike, with motor vehicles and parts employment up 41,300 in November, rebounding from a similar loss in the prior report. In addition, there were 12,865,000 manufacturing workers in November, the best reading in 11 years, with 1,412,000 employees added since the end of the Great Recession.

Nonetheless, manufacturing job growth has slowed to an average of just more than 5,000 additional workers per month year to date. That contrasts with the average of 22,800 manufacturing employees created each month through the first 11 months of 2018.

Although slower than we would like, manufacturers are starting to see signs of stabilization in the sector. To stay on track, it is crucial that we resolve trade uncertainties by immediately ratifying the United States–Mexico–Canada Agreement, making additional progress on China negotiations and passing a long-term reauthorization of the Export-Import Bank. In addition, the lack of enough skilled workers continues to hold back manufacturers, which is why the NAM recently launched its nationwide Creators Wanted workforce campaign to help inspire a new generation to pursue promising modern manufacturing careers.

Excluding automobiles, net hiring among manufacturers increased by 12,700 in November. The largest gains for the month occurred in chemicals, computer and electronic products, furniture and related products, miscellaneous nondurable goods and plastics and rubber products. In contrast, some of the segments with declining employment in November included apparel, machinery, paper and paper products, printing and related support activities and textile mills.

In the larger economy, nonfarm payrolls increased by a very robust 266,000 in November, the strongest reading since January. Much like the manufacturing data, nonfarm payrolls have slowed year to date (although not as much), down from an average of nearly 223,000 jobs created per month through the first 11 months of 2018 to almost 180,000 per month year to date in 2019. Meanwhile, the unemployment rate returned to 3.5%, matching the reading in September, which was the lowest since December 1969.

- **Construction Spending:** Private manufacturing construction spending declined 0.4% in the latest data, down from $71.50 billion at the annual rate in September to $71.24 billion in October. In addition, construction activity in the sector has edged down 0.2% over the past 12 months, down from $71.40 billion in October 2018, illustrating the sluggishness of manufacturing construction over that time frame in light of weaker global demand and production. Moreover, private manufacturing construction activity remains well below the all-time high of $86.65 billion in June 2015, even as there has been progress from the recent trough of $67.65 billion in April 2018.

Meanwhile, total private construction spending fell 1.0% in October, with nonresidential activity down 1.2%. Private residential construction spending decreased 0.9% in October, with better single-family activity (up 1.6%) being offset by a decline in multifamily housing construction (down 1.6%). Since October 2018, private residential construction activity has increased 0.5% while nonresidential construction activity has fallen 4.3%.> At the same time, public-sector construction inched down 0.2% in October, but with 10.2% growth over the past 12 months.

- **Factory Orders and Shipments:** New orders for manufactured goods rose 0.3% in October, bouncing back slightly after declining 0.8% in September. With defense spending excluded, however, factory orders were flat for the month. 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 1.2% since October 2018.

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—have declined 0.9% over the past 12 months, the fourth consecutive negative year-over-year reading. Nonetheless, core capital goods spending rose 1.1% in October, perhaps a sign of some stabilization in the measure.

Meanwhile, factory shipments were flat in October after falling 0.4% in September. With transportation equipment excluded, shipments inched up 0.1% for the month. Since October 2018, manufactured goods shipments have decreased 1.5%, but with core capital goods shipments edging up 0.4% year-over-year.

- **International Trade Report:** The U.S. trade deficit decreased from $51.10 billion in September to $47.20 billion in October, the lowest level since June 2018. Goods exports and imports both fell to a two-year low, with the trade deficit largely declining on the more sizable decrease in goods imports (down from $208.54 billion to $204.09 billion). Goods exports edged down from $136.83 billion to $136.06 billion. Notably, the Census Bureau reported that real exports of petroleum in 2012 dollars were the highest since the series began in 1994 ($23.90 billion). As a result, the real petroleum trade deficit also registered an all-time low at $4.10 billion in October.

The reduction in goods imports stemmed largely from sizable declines for consumer goods (down $2.40 billion) and automotive vehicles, parts and engines (down $1.80 billion), with the latter likely impacted negatively by the auto strike. Imports also declined for industrial supplies and materials (down $528 million) and foods, feeds and beverages (down $370 million). The goods exports data were also mostly lower, except for industrial supplies and materials and other goods, which increased by $556 million and $464 million, respectively.

In non-seasonally adjusted data, U.S.-manufactured goods exports totaled $941.64 billion through the first 10 months of 2019, down 3.02% from $970.95 billion for the same period in 2018. This suggests that international demand for U.S.-manufactured goods has weakened in the first 10 months 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 fourth straight month. The composite index ticked down from 48.3 in October to 48.1 in November, which was not far from the 10-year low recorded in September (47.8). This suggests that the manufacturing sector remained weak in November, with activity softened by slower global growth and trade uncertainties. Most of the key data points reflected declining activity in November, including new orders, inventories, employment and exports. While production also contracted for the month, it stabilized somewhat in the latest data, falling at a slower rate (up from 46.2 to 49.1) and bouncing back from the worst reading since April 2009.

Meanwhile, pricing pressures—a major concern among manufacturers at this time last year—fell for the sixth consecutive month. In November, the index for prices improved from 45.5, the lowest level since February 2016, to 46.7. One year ago, that figure was 60.7, illustrating the deceleration in raw material costs since then.

- **University of Michigan Consumer Sentiment:** The Index of Consumer Sentiment improved to the best reading in six months, according to preliminary data from the University of Michigan and Thomson Reuters. The headline measure jumped from 96.8 in November to 99.2 in December, with Americans more upbeat in their assessments of both current and future economic conditions. Surveys of Consumers Chief Economist Richard Curtin noted that respondents with higher incomes accounted for the bulk of the increase in December, likely on recent gains seen in the stock market.

Overall, consumer confidence remains strong, even as perceptions have slipped a bit this year relative to last. The Index of Consumer Sentiment averaged 96.0 in 2019, off from 96.8 and 98.4 in 2017 and 2018, respectively.

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