

MONDAY ECONOMIC REPORT



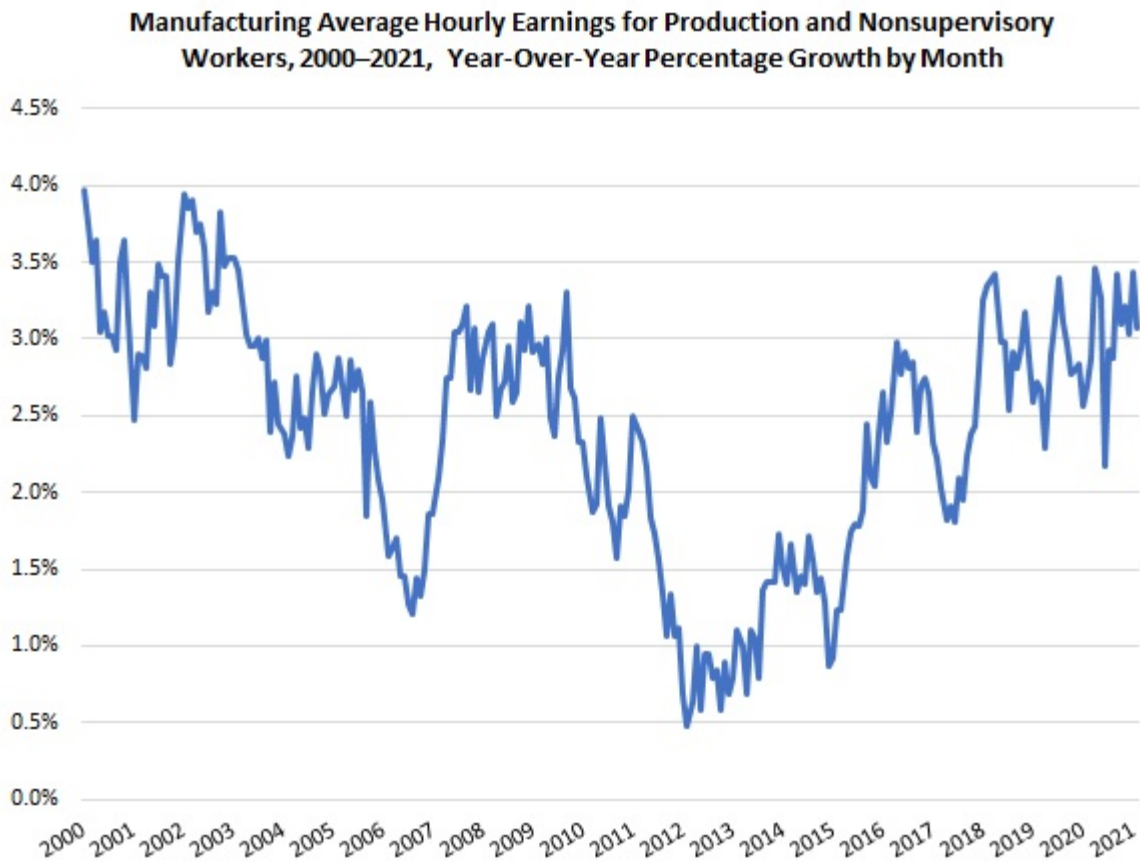
Manufacturing Employment Has Risen in 9 of the Past 10 Months

By Chad Moutray – March 8, 2021 – [SHARE](#) [f](#) [t](#) [in](#)

The Weekly Toplines

- [Manufacturing employment](#) increased by 21,000 in February, rising for the ninth time in the past 10 months. Overall, the manufacturing sector remains a bright spot in the U.S. economy, with expanding demand and production and hiring moving in the right direction. With that said, manufacturing employment has fallen by 561,000 workers over the past 12 months.
- The average hourly earnings of production and nonsupervisory workers in manufacturing inched up from \$23.18 in January to \$23.19 in February, with a 3.1% increase over the past year, up from \$22.50 in February 2020 (see chart).
- Meanwhile, the U.S. economy added 379,000 nonfarm payroll workers in February, up from 166,000 in January. The unemployment rate edged down to 6.2% in February.
- The [ISM® Manufacturing Purchasing Managers' Index®](#) expanded at the fastest pace in three years, with strong growth for new orders, production and exports and hiring strengthening for the third straight month.
- With that said, supply chain disruptions remain a significant challenge. The backlog of orders soared to the highest level since April 2004, and raw material costs rose at the swiftest rate since May 2008 in the Institute for Supply Management® report.
- [New orders for manufactured goods](#) rose 2.6% in January, increasing for the ninth straight month. Over the past 12 months, factory orders have risen 2.8%—an impressive rebound after demand for manufactured goods plummeted 23.0% between February and April 2020.
- At the same time, new orders for core capital goods—a proxy for capital spending in the U.S. economy—rose 0.4% to \$72.9 billion in January, a new record. More importantly, core capital goods orders have risen a robust 8.3% over the past 12 months.
- After falling for six straight months to the lowest level since September 2014, [private manufacturing construction spending](#) grew 4.9% to \$65.60 billion in January. Hopefully, this is the beginning of a recovery in construction for the sector. On a year-over-year basis, private construction spending in the sector has plummeted 14.7% from \$76.88 billion in January 2020.

- The [U.S. trade deficit](#) rose from \$66.97 billion in December to \$68.21 billion in January. Goods imports increased to a new record pace, more than outpacing the rise in goods exports, which was the best reading since February 2020. U.S.-manufactured goods exports totaled \$81.66 billion in January, using non-seasonally adjusted data, dropping 5.3% from \$86.25 billion in January 2020.
- [Manufacturing labor productivity](#) rose 5.0% at the annual rate in the fourth quarter with strong rebounds in output, both for durable and nondurable goods, according to revised data.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, March 1
Construction Spending
ISM® Manufacturing Purchasing
Managers' Index®

Tuesday, March 2
None

This Week's Indicators:

Monday, March 8
None

Tuesday, March 9
NFIB Small Business Survey

Wednesday, March 10
Consumer Price Index

Wednesday, March 3
ADP National Employment Report

Thursday, March 4
Factory Orders and Shipments
Productivity and Costs (Revision)
Weekly Initial Unemployment Claims

Friday, March 5
BLS National Employment Report
International Trade Report

Thursday, March 11
Job Openings and Labor Turnover Survey
Weekly Initial Unemployment Claims

Friday, March 12
Producer Price Index
University of Michigan Consumer Sentiment

Deeper Dive

- **[ADP National Employment Report](#)**: Manufacturing employment declined by 14,000 in February, falling for the second time in the past three months, according to ADP estimates. Overall, the labor market grew more softly than expected, slowing from a gain of 195,000 in January to 117,000 in February. The consensus expectation was for an increase of between 175,000 to 200,000. The sectors with the largest increases in February included trade, transportation and utilities (up 48,000), education and health services (up 35,000), leisure and hospitality (up 26,000) and professional and business services (up 22,000). In addition to manufacturing, the construction and information sectors also experienced reduced employment for the month, both down by 3,000.

Over the past 12 months, private nonfarm payrolls have fallen by nearly 9,600,000, with manufacturing employment down 592,000 year-over-year.

Meanwhile, small and medium-sized businesses (i.e., those with fewer than 500 employees) added 89,000 workers in February, or 76.1% of net job creation for the month.

- **[BLS National Employment Report](#)**: Manufacturing employment increased by 21,000 in February, rebounding from the decline of 14,000 in January and rising for the ninth time in the past 10 months. Durable and nondurable goods employment rose by 17,000 and 4,000 for the month, respectively. Overall, the manufacturing sector remains a bright spot in the U.S. economy, with expanding demand and production and hiring moving in the right direction. With that said, manufacturing employment has fallen by 561,000 workers over the past 12 months, as the sector continues to recover from the COVID-19 pandemic. There were 12,238,000 workers in the sector in February, down from 12,799,000 one year ago.

In February, growth in manufacturing employment was led by strength in transportation equipment (up 9,700), miscellaneous nondurable goods (up 4,100), machinery (up 3,800), plastics and rubber products (up 3,000), miscellaneous durable goods (up 2,800), apparel (up 2,400) and electrical equipment and appliances (up 2,400). In contrast, food manufacturing (down 3,100), nonmetallic mineral products (down 2,400), printing and related support activities (down 1,700),

wood products (down 1,100) and paper and paper products (down 1,000) were among the sectors with reduced employment in February.

All the major sectors in manufacturing continued to experience reduced employment year-over-year in February. The largest decreases over the past 12 months included transportation equipment (down 128,500), fabricated metal products (down 84,100), machinery (down 54,100) and printing and related support services (down 50,700). At the other end of the spectrum, plastics and rubber products (down 3,900), chemicals (down 4,800), textile product mills (down 5,800), petroleum and coal products (down 7,700) and computer and electronic products (down 8,000) fared better, with the smallest employment declines since January 2020.

The average hourly earnings of production and nonsupervisory workers in manufacturing inched up from \$23.18 in January to \$23.19 in February, with a 3.1% increase over the past year, up from \$22.50 in February 2020.

Meanwhile, the U.S. economy added 379,000 nonfarm payroll workers in February, up from 166,000 in January. Despite the solid increase in the latest data, there are 9,475,000 fewer nonfarm payrolls today than 12 months ago.

The unemployment rate edged down from 6.3% in January to 6.2% in February, with the number of unemployed workers dropping from 10,130,000 to 9,972,000. The so-called “real unemployment rate”—a term that refers to those marginally attached to the workforce, including discouraged workers and the underemployed—remained at 11.1%. The labor force participation rate was unchanged at 61.4%, but for comparison purposes, the participation rate registered 63.3% one year ago.

- **Construction Spending:** After falling for six straight months to the lowest level since September 2014, private manufacturing construction spending grew 4.9% from \$62.55 billion in December to \$65.60 billion in January. Hopefully, this is the beginning of a recovery in construction for the sector. On a year-over-year basis, private construction spending among manufacturers has plummeted 14.7% from \$76.88 billion in January 2020. Total private nonresidential spending rose 0.4% in January, but with a decrease of 10.1% over the past 12 months. Every major segment of private nonresidential construction spending experienced year-over-year decreases in activity in the latest figures.

Overall, total private construction spending increased 1.7% in January, with 6.8% growth since last year. The data were buoyed by strength in the private residential construction market, which rose 2.5% in January. Single-family and multifamily construction increased 3.0% and 0.7% for the month, respectively. Over the past 12 months, single-family and multifamily construction jumped 24.2% and 16.9%, respectively. Meanwhile, public construction spending increased 1.7% in January, with a gain of 2.9% from one year earlier.

- **Factory Orders and Shipments:** New orders for manufactured goods rose 2.6% in January, increasing for the ninth straight month and extending the 1.6% gain in December. Durable and nondurable goods sales increased 3.4% and 1.9%, respectively, in January. Over the past 12 months, factory orders have risen 2.8%—an impressive rebound after demand for manufactured goods plummeted 23.0% between February and April 2020 at the beginning of the COVID-19 pandemic. Moreover, new orders for durable goods, which fell 32.0% last spring, have recovered even stronger, up 6.3% since January 2020, or 8.6% year-over-year with

transportation equipment excluded.

Similarly, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—rose 0.4% to \$72.9 billion in January, a new record. More importantly, core capital goods orders have risen a robust 8.3% over the past 12 months.

Meanwhile, factory shipments increased 1.9% in January, with durable and nondurable goods also increasing by that rate for the month. Since January 2020, manufactured goods shipments have risen 2.7%, or with transportation equipment excluded, durable goods shipments increased 2.4% year-over-year. At the same time, core capital goods shipments rose 1.8% to a record \$71.9 billion in January, jumping 7.5% over the past 12 months.

- **[International Trade Report](#)**: The U.S. trade deficit rose from \$66.97 billion in December to \$68.21 billion in January. That was not far from the all-time high recorded in November, which was \$69.04 billion. Goods imports (up from \$217.70 billion to \$221.11 billion) increased to a new record pace, more than outpacing the rise in goods exports (up from \$133.58 billion to \$135.66 billion), which was the best reading since February 2020. Overall, trade volumes for goods have rebounded solidly after being battered by COVID-19 and the global recession last year. Yet, imports have recovered faster than exports, continuing a trend seen throughout the second half of 2020. The service-sector trade balance (a surplus) inched higher, up from \$17.16 billion in December to \$17.24 billion in January, but it has trended lower since peaking at a record level of \$24.34 billion in November 2018.

In January, goods exports were boosted by strength in industrial supplies and materials (up \$2.51 billion) and non-automotive capital goods (up \$1.57 billion), but exports were lower for automotive vehicles, parts and engines (down \$660 million), consumer goods (down \$638 million) and foods, feeds and beverages (down \$563 million). At the same time, goods imports increased for consumer goods (up \$3.74 billion), foods, feeds and beverages (up \$832 million), industrial supplies and materials (up \$691 million) and non-automotive capital goods (up \$650 million). Automotive vehicles, parts and engines imports were lower, down \$1.56 billion.

According to the latest data, U.S.-manufactured goods exports totaled \$81.66 billion in January, using non-seasonally adjusted data, dropping 5.3% from \$86.25 billion in January 2020.

- **[ISM[®] Manufacturing Purchasing Managers' Index[®]](#)**: The Institute for Supply Management[®] reported that manufacturing activity expanded at the fastest pace in three years, with the headline index up from 58.7 in January to 60.8 in February. The data were very solid across the board, including strong growth for new orders (up from 61.1 to 64.8), production (up from 60.7 to 63.2) and exports (up from 54.9 to 57.2). Employment (up from 52.6 to 54.4) strengthened for the third straight month.

With that said, supply chain disruptions remain a significant challenge, including labor market and logistics struggles. The index for supplier deliveries (up from 68.2 to 72.0) noted slower delivery times in February. (In this case, readings above 50 are consistent with slower deliveries.) The backlog of orders (up from 59.7 to 64.0) soared to the highest level since April 2004, making it the second-highest reading for the index since the question was added in January 1993.

With that in mind, prices (up from 82.1 to 86.0) increased robustly, rising at the swiftest rate since May 2008. Timothy Fiore, chair of the ISM® Manufacturing Business Survey Committee, said, “Aluminum, copper, chemicals, all varieties of steel, soy, petroleum-based products including plastics, transportation costs, electrical and electronic components, corrugate, and wood and lumber products all continued to record price increases.”

- **[Productivity and Costs \(Revision\)](#):** Manufacturing labor productivity rose 5.0% at the annual rate in the fourth quarter. Output jumped 13.0% in the fourth quarter after soaring by 57.8% in the third quarter, as the sector continues to recover from the 5.5% and 46.4% COVID-19-related declines in output in the first and second quarters, respectively. Unit labor costs fell 8.8% in the latest data. Labor productivity for durable and nondurable goods increased 6.4% and 2.8% in the fourth quarter, respectively, with output soaring 12.8% and 13.1%.

For the year overall, manufacturing labor productivity rose 0.3% in 2020, following increases of 0.4% and 0.3% in 2018 and 2019, respectively. Output fell 6.3% in the manufacturing sector in 2020, with unit labor costs up 4.4%. One of the larger economic concerns has been sluggishness of productivity growth since the Great Recession. Indeed, output per worker in the manufacturing sector averaged -0.1% from 2011 to 2020. In contrast, the average growth rate for the sector registered 3.8% and 4.8% in the 1990–2000 and 2000–2008 time frames, respectively, or the two prior economic recoveries.

Meanwhile, nonfarm business labor productivity fell 4.2% in the fourth quarter, the largest quarterly decline since the second quarter of 1981. Output rose sharply, up 5.5% in the fourth quarter, but the number of hours worked increased more, up 10.1%. As a result, unit labor costs rose 6.0%. In 2020 as a whole, nonfarm labor productivity increased 2.5%, up from 1.8% in 2019 and the best annual reading since 2010.

- **[Weekly Initial Unemployment Claims](#):** Initial unemployment claims totaled 745,000 for the week ending Feb. 27, rising somewhat from 736,000 for the week ending Feb. 20, which was a 12-week low. This included sizable increases in Ohio and Texas. Meanwhile, continuing claims declined from 4,419,000 for the week ending Feb. 13 to 4,295,000 for the week ending Feb. 20. Although this figure represents the lowest level since the week ending March 21, 2020, it is still too high and consistent with 3.0% of the workforce.

At the same time, 18,026,537 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Feb. 13, down from 19,045,300 for the week ending Feb. 6 and reflecting reduced pandemic assistance claims.

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