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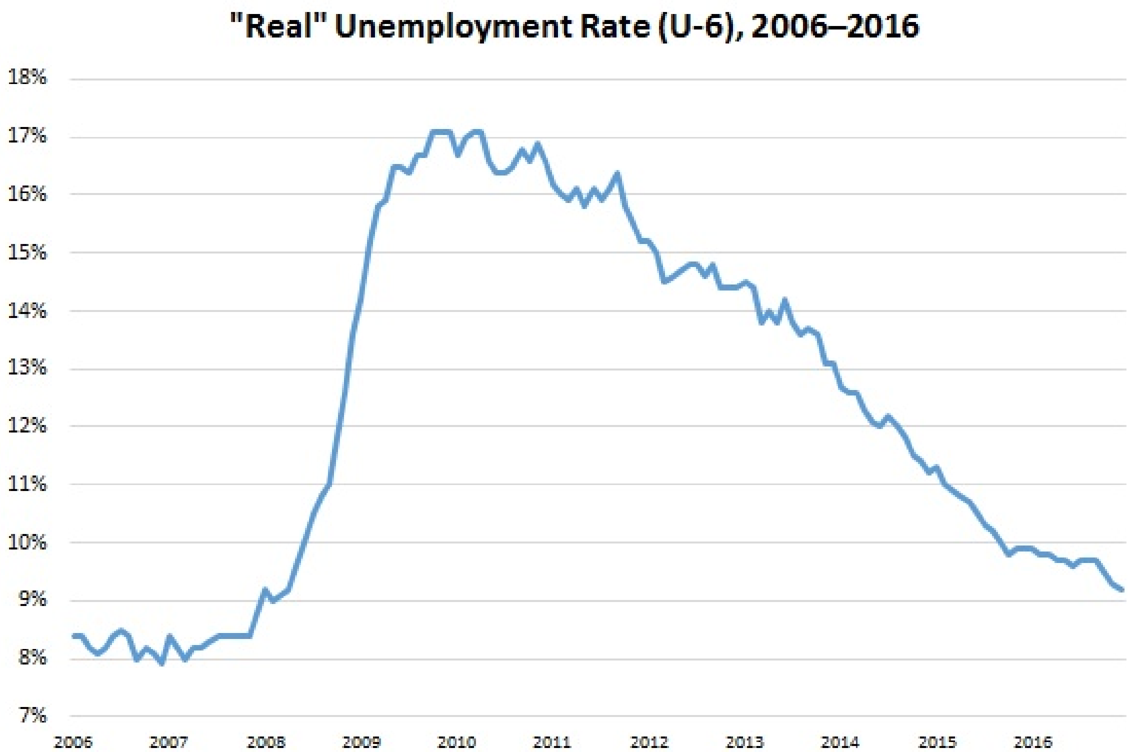
Monday Economic Report

January 9, 2017



Note: U-6 includes those unemployed, plus persons marginally attached to the labor force and those employed part time for economic reasons.

Economic data on manufacturing activity were mixed last week, but for those who are optimists, there were also signs that demand, output and hiring might accelerate moving forward. Along those lines, the Institute for Supply Management's (ISM) Manufacturing Purchasing Managers' Index accelerated to a two-year high in December. It was the second consecutive increase in the headline number, mirroring the jump in business confidence seen in other economic indicators since the election. Indeed, all of the sample comments provided by the ISM echoed the improvement in activity and outlook, noting strong business conditions, a tight labor market and a pickup in inflationary pressures. There were also encouraging data on new orders and production. It was the first time both of these measures have exceeded 60—signifying strong expansions—in 25 months, or since November 2014.

Likewise, manufacturing employment rose by 17,000 in December, its first monthly increase since July. Average weekly earnings in manufacturing also moved higher, up to $1,073.26 in December. On a year-over-year basis, average weekly earnings have increased from $1,035.71 in December 2015, up 3.6 percent for the 12-month period. We hope this is a sign of better hiring numbers moving forward. Nonetheless, it does not reverse the disappointing trend for 2016 as a whole, which saw manufacturing hiring down by 45,000 workers on net for the sector. Indeed, for most of last year, manufacturing leaders were quite cautious in their hiring. In the larger economy, nonfarm payroll employment increased by 156,000 in December.

Meanwhile, the unemployment rate inched up from 4.6 percent in November, its lowest level since August 2007, to 4.7 percent. This increase stemmed largely from a higher participation rate, which ticked up from 62.6 percent to 62.7 percent. At the same time, the so-called "real" unemployment rate, which includes those marginally attached to the labor force and those working part time for economic reasons, declined from 9.3 percent to 9.2 percent. Seven years ago, this number peaked at 17.1 percent in the aftermath of the Great Recession. December's figure was the best since April 2008.

Despite such trends, there were also reminders that manufacturing activity has remained quite challenged over the past two years by global headwinds and economic uncertainties. The U.S. trade deficit rose to a nine-month high, up to $45.24 billion in November, on higher goods imports and reduced goods exports. More importantly, the data continue to reflect the difficulties in growing international demand, particularly with a strong U.S. dollar and lingering economic challenges to key markets. Using non-seasonally adjusted data, U.S.-manufactured goods exports fell 6.1 percent year to date in 2016 through November relative to the same time frame in 2015, and exports were lower to the top-six markets. With that said, the gaps appear to be narrowing in most of those markets, except for Canada, reflecting possible progress of late.

In a similar fashion, new factory orders fell 2.4 percent in November, declining for the first time since June. Yet, the decrease in November came largely from a drop in nondefense aircraft sales, which can be highly volatile from month to month. Excluding transportation equipment, new orders for manufactured goods edged up 0.1 percent. Over the longer term, new factory orders have started to stabilize on a year-over-year basis, improving from the solid negative declines in year-over-year growth seen in prior months. More positively, new factory orders excluding transportation have risen 1.4 percent over the past year in this report, only the second monthly year-over-year increase.

Finally, private manufacturing construction spending remained weak in November, down 1.1 percent for the month and falling to an 11-month low. While manufacturing construction has largely trended higher over the past few years, activity has stalled more recently. Along those lines, construction activity in the manufacturing sector has pulled sharply lower since achieving the all-time high of $82.15 billion in September 2015. Over the past 12 months, manufacturing construction spending has fallen 8.0 percent.

This week, we will get a better sense of consumer sentiment and activity. Consumer confidence has risen sharply in the past two months, and the University of Michigan and Thomson Reuters will report preliminary figures for January, which will determine if that positivity has continued into the new year. In addition, the Census Bureau will release December retail sales figures to see if the uplifting moods have translated into more purchases. To date, anecdotal evidence on holiday shopping has been spotty, making that report more interesting. Other highlights for the week include new data on job openings, producer prices and small business optimism.

Chad Moutray, Ph.D., CBE
Chief Economist
National Association of Manufacturers

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

This Week's Indicators:

Monday, January 9
Consumer Credit

Monday, January 2
None

Tuesday, January 3
Construction Spending
ISM Manufacturing Purchasing Managers' Index

Wednesday, January 4
None

Thursday, January 5
ADP National Employment Report

Friday, January 6
BLS National Employment Report
Factory Orders and Shipments
International Trade Report

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

Wednesday, January 11
None

Thursday, January 12
None

Friday, January 13
Producer Price Index
Retail Sales
University of Michigan Consumer Sentiment

Summaries for Last Week`s Economic Indicators

ADP National Employment Report
ADP reported that manufacturing employment growth continued to disappoint, with hiring down by 9,000 in December. For 2016 as a whole, employment in the sector fell by 51,000, with manufacturers wary about adding to their workforces given ongoing global headwinds and economic uncertainties. We hope that begins to turn around moving forward into 2017 with improved signs of activity seen in other measures. Indeed, job openings have remained elevated in recent months, suggesting that manufacturers are prepared to accelerate hiring and be less cautious with better demand and production figures.

Meanwhile, nonfarm payroll employment rose by 153,000 in December, weaker than the consensus estimate of around 170,000. In 2016, nonfarm payrolls increased by 174,450 per month on average, a decent pace but down from the 209,000 average per month in 2015. For the month, goods-producing employment was lower across the board, including mining (down 5,000) and construction (down 2,000) in addition to manufacturing. The information sector also lost workers in December, down by 6,000. The largest job gains included trade, transportation and utilities (up 82,000), education and health services (up 29,000), professional and business services (up 24,000) and financial activities (up 10,000).

Small and medium-sized businesses (i.e., those with fewer than 500 employees) accounted for more than 58.2 percent of all net new workers in the month.

BLS National Employment Report
The Bureau of Labor Statistics reported that manufacturing employment rose by 17,000 in December, its first monthly increase since July. We hope this is a sign of better hiring numbers moving forward, which would be consistent with some of the improved sentiment and activity data of late. Nonetheless, it does not reverse the disappointing trend seen for 2016 as a whole, which saw manufacturing hiring down by 45,000 workers on net for the sector. Indeed, for most of last year, manufacturing leaders were quite cautious in their hiring in light of disappointing demand and production data and persistent economic uncertainties and headwinds.

Digging deeper into the December release, durable and nondurable goods employment increased by 15,000 and 2,000 workers, respectively. The underlying data were mixed but mostly positive. The largest gains for the month included fabricated metal products (up 5,800), motor vehicles and parts (up 2,900), nonmetallic mineral products (up 2,400), furniture and related products (up 2,300), plastics and rubber products (up 2,200), primary metals (up 2,200) and wood products (up 2,100), among others. Those increases were enough to offset declining employment in December in chemicals (down 900), computer and electronic products (down 900), paper and paper products (down 900), textile mills (down 700), textile product mills (down 500) and apparel (down 300).

Average weekly earnings in manufacturing also moved higher, up from $1,065.34 in November to $1,073.26 in December. On a year-over-year basis, average weekly earnings have increased from $1,035.71 in December 2015, up 3.6 percent for the 12-month period. Average weekly hours edged up from 40.6 to 40.7, with average overtime hours up from 3.2 to 3.3.

In the larger economy, nonfarm payroll employment increased by 156,000 in December, which was slightly below the consensus estimate of around 175,000. However, November employment was revised higher, up from an original estimate of 178,000 to 204,000 in this report. For the year as a whole, nonfarm payroll growth averaged 179,750 per month, signifying decent increases but below the 228,667 average monthly pace in 2015.

Meanwhile, the unemployment rate inched up from 4.6 percent in November, its lowest level since August 2007, to 4.7 percent. This increase stemmed largely from a higher participation rate, which ticked up from 62.6 percent to 62.7 percent. At the same time, the so-called “real” unemployment rate, which includes those marginally attached to the labor force and those working part time for economic reasons, declined from 9.3 percent to 9.2 percent. Seven years ago, this number peaked at 17.1 percent in the aftermath of the Great Recession. December’s figure was the best since April 2008.

Construction Spending

The Census Bureau reported that private manufacturing construction spending remained weak in November, falling to an 11-month low. The value of construction put in place in the sector declined from $73.53 billion in October to $72.71 billion in November, down 1.1 percent for the month. While manufacturing construction has largely trended higher over the past few years, activity has stalled more recently as the sector has grappled with sluggish growth and economic and political anxieties. Along those lines, construction activity in the manufacturing sector has pulled sharply lower since achieving the all-time high of $82.15 billion in September 2015. Over the past 12 months, manufacturing construction spending has fallen 8.0 percent.

On a more positive note, private nonresidential construction spending rose 0.9 percent in November, with year-over-year growth of 6.4 percent. Segments with the largest gains in November included religious (up 9.8 percent), lodging (up 7.0 percent), educational (up 4.0 percent), office (up 1.9 percent), transportation (up 1.9 percent) and amusement and recreation (up 1.7 percent). In addition to reduced spending for manufacturers, other areas with declines included communication (down 3.7 percent) and health care (down 0.2 percent).

Meanwhile, private residential construction spending increased 1.0 percent in November, with 3.0 percent growth over the past 12 months. For the month, single-family construction activity rose 1.8 percent, whereas multifamily spending dropped 2.7 percent. Yet, year-over-year growth stemmed from the multifamily segment, up 10.7 percent since November 2015, with single-family construction down 0.9 percent over that time frame. At the same time, public construction spending increased 0.8 percent in November, or a gain of 2.6 percent year-over-year.

Factory Orders and Shipments

The Census Bureau reported that new factory orders fell 2.4 percent in November, declining for the first time since June. Yet, the decrease in November came largely from a drop in nondefense aircraft sales, which can be highly volatile from month to month. Excluding transportation equipment, new orders for manufactured goods edged up 0.1 percent. Over the longer term, new factory orders have started to stabilize on a year-over-year basis. While orders fell 0.3 percent since November 2015, that represents progress from the 5.8 percent year-over-year decline in June. More positively, new factory orders excluding transportation have risen 1.4 percent over the past year in this report, only the second monthly year-over-year increase.

In this release, durable and nondurable goods orders decreased 4.5 percent and 0.2 percent, respectively. New orders for durable goods excluding transportation increased 0.6 percent. Looking specifically at durable goods sales activity in November, the underlying data were mostly higher. Demand was stronger for the month for primary metals (up 2.2 percent), machinery (up 1.4 percent), motor vehicles and parts (up

1.3 percent), computers and electronic products (up 0.5 percent), furniture and related products (up 0.4 percent) and electronic equipment and appliances (up 0.3 percent). In contrast, transportation equipment (down 13.2 percent) and fabricated metal products (down 0.5 percent) both had reduced sales in November, although, as noted above, the former was due to weaker nondefense aircraft and ships and boats demand.

Meanwhile, shipments of manufactured goods fell 0.1 percent in November, edging down following three months of gains. Excluding transportation equipment, factory shipments were unchanged in this release. Durable goods shipments increased 0.1 percent in November, but shipments of nondurable goods products dropped 0.2 percent in the latest release. Much like the new orders data discussed above, growth in the value of manufactured goods shipments has been less than desired but starting to stabilize. On a year-over-year basis, factory shipments have risen 0.1 percent since November 2015, or 1.0 percent excluding transportation.

International Trade Report

The Bureau of Economic Analysis and the Census Bureau reported that the U.S. trade deficit rose to a nine-month high, up from $42.36 billion in October to $45.24 billion in November. For the year as a whole, the monthly data were quite volatile, ranging from $36.17 billion in September to $45.26 billion in February. In 2016, the trade deficit averaged $41.27 billion, which was not far from the $41.70 billion average in 2015. The November increase stemmed from reduced goods exports (down from $123.07 billion to $122.35 billion) that corresponded with higher goods imports (up from $186.30 billion to $188.98 billion). The goods imports pace was the largest since August 2015.

Looking more closely at the underlying data, goods exports were somewhat lower but also mixed. On the positive side, exports were higher for industrial supplies and materials (up $1.46 billion) and consumer goods (up $481 million). However, those increases were offset by declines for capital goods (down $1.77 billion), other goods (down $691 million), automotive vehicles and parts (down $300 million) and foods, feeds and beverages (down $195 million). At the same time, the higher goods imports figure was buoyed by a large increase in industrial supplies and materials (up $2.25 billion).

The bottom line is that manufacturers continue to struggle with international demand, particularly with a strong U.S. dollar and lingering economic challenges to key markets. Using non-seasonally adjusted data, U.S.-manufactured goods exports totaled $961.91 billion year to date in November, down 6.1 percent from $1,024.74 billion in November 2015.

Moreover, exports were lower to the top-six markets for U.S.-manufactured goods, including Canada (down from $258.90 billion to $245.62 billion), Mexico (down from $217.23 billion to $211.85 billion), China (down from $105.95 billion to $104.15 billion), Japan (down from $57.68 billion to $57.60 billion), the United Kingdom (down from $51.80 billion to $51.08 billion) and Germany (down from $45.97 billion to $45.00 billion). Note that most of those figures are down only slightly, however, with the exception of Canada. That suggests some progress from prior reports as those gaps have narrowed.

ISM Manufacturing Purchasing Managers' Index

The Institute for Supply Management’s (ISM) Manufacturing Purchasing Managers’ Index accelerated to a two-year high in December. The composite index rose from 53.2 in November to 54.7 in December, its highest level since December 2014. It was the second consecutive increase in the headline number, mirroring the jump in business confidence seen in other economic indicators since the election. Indeed, all of the sample comments provided by the ISM echoed the improvement in activity and outlook, with the comments of one respondent summing up the thoughts of many: “Our business remains strong, and we are seeing continued growth.” Along those lines, respondents also cited a tight labor market and a pickup in inflationary pressures, both of which would also be consistent with stronger demand and output.

Looking more closely at the data, the underlying figures were encouraging in December, including very healthy gains for new orders (up from 53.0 to 60.2) and production (up from 56.0 to 60.3). It was the first time both of these measures have exceeded 60—signifying strong expansions—in 25 months, or since

November 2014. Growth in export sales (up from 52.0 to 56.0) and employment (up from 52.3 to 53.1) also improved for the month.

Meanwhile, inventories contracted for the 18th consecutive month (down from 49.0 to 47.0). With reduced stockpiles available, manufacturers will need to increase production to meet additional demand. In addition, input prices rose significantly in December (up from 54.5 to 65.5), with the index exceeding 60 for the first time since June. This suggests that pricing pressures have begun to accelerate somewhat, as noted in the comments.

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Questions or comments?

Contact Chief Economist Chad Moutray at cmoutray@nam.org.

Center for Manufacturing Research