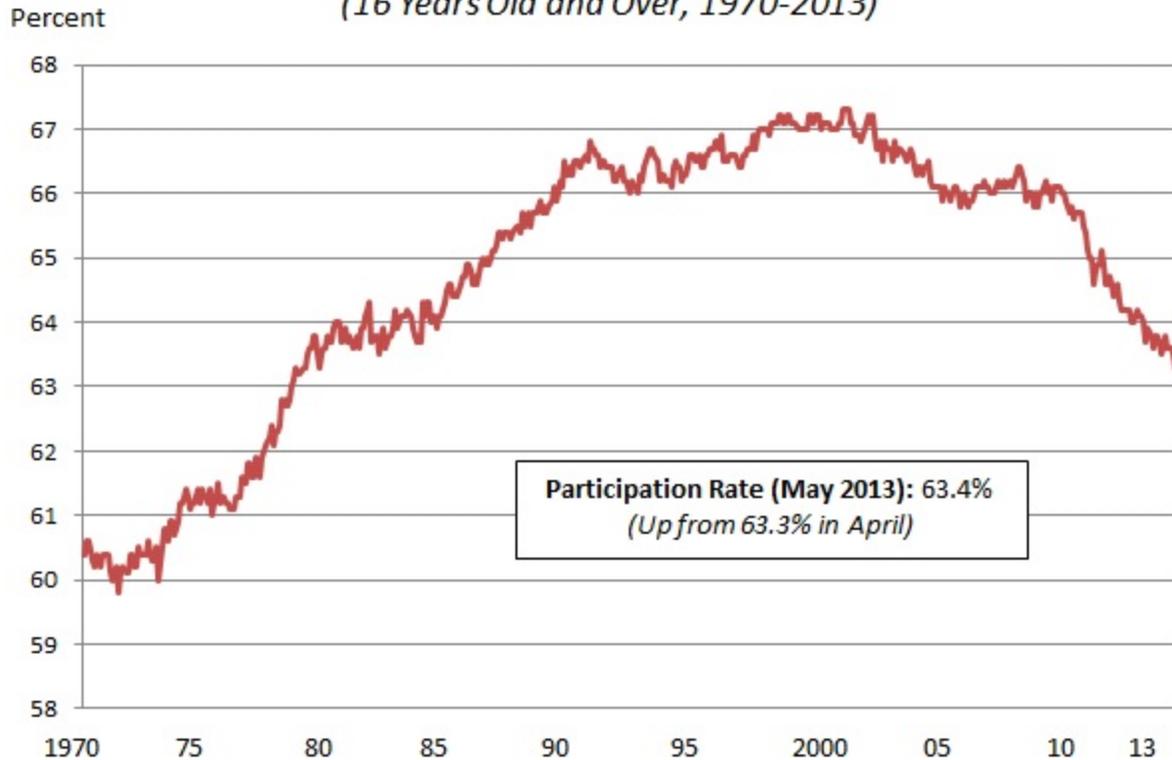




June 10, 2013

## Civilian Labor Force Participation Rate (16 Years Old and Over, 1970-2013)



On many levels, last week's economic indicators confirmed weaknesses in the manufacturing sector. The Institute for Supply Management's (ISM) Purchasing Managers' Index (PMI) dropped below 50—the threshold for growth—for the first time since November. New orders and production levels contracted, with hiring stalled. Some respondents cited softness in export sales, while others noted weaker domestic demand stemming from government spending cuts, higher payroll taxes and other uncertainties.

On the trade front, manufactured goods exports have grown very slowly in 2013, up less than 1 percent in the first four months relative to the same time frame in 2012. In April, goods imports outpaced exports, widening the deficit from \$37.1 billion to \$40.3 billion. Europe's recession, in particular, has decreased sales overseas for our products, with sluggish growth elsewhere in many of our key markets.

These struggles have lessened businesses' ability to bring on new workers. Manufacturing employment fell by 8,000 workers in May, the third consecutive monthly decrease. The sector has added 41,000 net new employees over the course of the past 12 months, just 1.9 percent of all nonfarm workers created in the economy. That pace is disappointing and a sign that we need the manufacturing economy to flourish again. While manufacturers were

making outsized gains to output and employment as recently as a year ago, that pace has stagnated since then. As NAM President and CEO Jay Timmons [noted](#) in February in Detroit, a flourishing sector would yield an average of 20,000 new manufacturing workers each month.

Other data points released last week were mostly mixed. Total nonfarm employment rose 175,000, which was in line with expectations. Nonetheless, greater labor force participation increased the unemployment rate from 7.5 percent to 7.6 percent. The Federal Reserve Board's Beige Book noted modest to moderate growth in the U.S. economy overall, spurred by gains in consumer spending and housing in particular. Meanwhile, even as total construction spending was higher in April, manufacturers devoted fewer dollars to new projects.

Today, the NAM and *IndustryWeek* will release the latest Survey of Manufacturers. It will show that 72.3 percent of our members are either somewhat or very positive about their own company's outlook, up slightly from 70.1 percent three months ago. Many of the findings were not much different from the last survey, with sales expected to increase 2.7 percent on average over the course of the next year. These modest increases are better than what we saw at the end of last year, but they are still not as strong as a year ago. Manufacturers' top concern is once again rising health insurance costs, cited by 82.2 percent of respondents. Many are worried about significant increases in health insurance premiums in 2014 after implementation of the Affordable Care Act.

The largest headline for manufacturers this week will be the latest industrial production number, which will be released on Friday. Last month, we learned that manufacturing output rose just 1.3 percent year-over-year, with monthly activity down 0.4 percent. The expectation is that production increased very slowly in May, around 0.1 percent. Other highlights this week include new data on business inventories, consumer and small business confidence, producer prices and retail sales.

**Chad Moutray**  
*Chief Economist*  
*National Association of Manufacturers*

[{Back to top}](#)

## Economic Indicators

### Last Week's Indicators:

*(Summaries Appear Below)*

#### Monday, June 3

*Construction Spending*

*ISM Manufacturing Purchasing Managers' Index*

#### Tuesday, June 4

*U.S. Trade Balance*

#### Wednesday, June 5

*ADP National Employment Report*

*Beige Book*

*Factory Orders*

*Productivity and Costs (Revision)*

#### Thursday, June 6

*SHRM Leading Indicators of National Employment*

#### Friday, June 7

*BLS National Employment Report*

### This Week's Indicators:

#### Monday, June 10

*NAM/IndustryWeek Survey of Manufacturers*

#### Tuesday, June 11

*Job Openings and Labor Turnover Survey*

*NFIB Small Business Survey*

*Wholesale Trade*

#### Wednesday, June 12

*None*

#### Thursday, June 13

*Business Inventories*

*Retail Sales*

#### Friday, June 14

*Industrial Production*

*Producer Price Index*

[{Back to top}](#)

## Summaries of Last Week's Economic Indicators

### ADP National Employment Report

[Automatic Data Processing \(ADP\)](#) reported that nonfarm payroll growth rose by 135,000 in May, lower than the consensus estimate of 165,000. Hiring has slowed somewhat from earlier in the year. The average employment gain between November and February was 215,000, but that has fallen to just 134,000 in the past three months. The data are consistent with other indicators, which have shown increased skittishness on the part of businesses to hire.

This is true for manufacturers. ADP reported there were 6,000 fewer manufacturing workers on net in May, building off of April's loss of 15,000 employees. Employment growth in the sector has been extremely soft since the second half of last year, with negative jobs numbers in seven of the past 11 months.

Meanwhile, the service-providing sectors added 138,000 net new workers in the month, with the goods-producing sectors shedding 3,000 on net. The largest gains came from the professional and business services (up 42,000) and trade, transportation and utilities (up 31,000) sectors. Construction hiring rose by 5,000. Roughly 72 percent of the net new jobs came from small and medium-sized businesses (e.g., those with fewer than 500 employees).

### Beige Book

[The latest Federal Reserve Board Beige Book](#) reported that "economic activity [has] increased at a modest to moderate pace since the previous report." Consumer spending and housing activity continue to be a positive, with most of the Federal Reserve districts reporting increases in both. Motor vehicle sales, in particular, have remained somewhat strong, helping to boost the economy.

Interestingly, the Fed says that manufacturing activity expanded in most districts, and it specifically mentioned a number of regions where this was the case. The Beige Book used data collected before May 24. Since that date, a number of sentiment surveys from the regional Federal Reserve Banks have shown weaknesses. These include contracting activity levels in [Dallas](#), [New York](#), [Philadelphia](#) and [Richmond](#), as well as slower output in [Chicago](#). At least some of these data points are mentioned in this write-up, particularly the softening seen in Philadelphia and Richmond. In the sector analysis section, the report also singles out strengths in construction-related manufacturing sectors due to improvements in housing and challenges in the defense industry pertaining to sequestration.

Meanwhile, employment growth remains sluggish. Specifically, the Fed writes, "Hiring increased at a measured pace in several districts, with some contacts noting difficulty finding qualified workers." Many Fed districts saw an easing in employment growth, with the Boston Fed reporting that "with only a few exceptions, businesses were not hiring much beyond replacement." Yet, there were also areas where labor market conditions were tightening. For instance, the Minneapolis District reported the shortage of labor in the "oil boom area" of North Dakota and Montana. Overall, however, wage pressures continue to be held in check.

On the topic of inflation, districts reported level prices to mild price increases. While some manufacturers have been able to raise prices and certain raw material costs have gone up, pricing pressures in general remain under control. We have also seen this in other reports, including the most recent data on [consumer](#) and [producer](#) prices. Year-over-year prices have grown by less than 2 percent, the desired level stated by the Federal Open Market Committee.

## BLS National Employment Report

[Manufacturing employment fell by 8,000 workers in May according to the BLS.](#) With the latest data revisions, this was the third consecutive month of declining employment in the sector, a sign of just how weak activity has become recently. Manufacturers have added only 41,000 workers over the past 12 months, or just 1.9 percent of total nonfarm jobs created, signifying that the sector's contributions are well below what we need to see. Since the second half of 2012, slowing global sales, U.S. fiscal woes, higher taxes and reduced government spending have challenged manufacturers. To the extent that the industry is growing, it has been modest at best, dampening job growth.

The decline in manufacturing employment occurred in both durable and nondurable goods industries, down by 2,000 and 6,000, respectively. Areas of strength included motor vehicles (up 2,400), wood products (up 1,300), computer and peripheral equipment (up 1,100) and chemicals (up 900). However, declines in printing and related support (down 3,200), machinery (down 3,100), food manufacturing (down 2,800) and primary metals (down 2,200) lessened these gains.

On the positive side, manufacturers' average weekly earnings rose slightly, up from \$803.40 to \$804.65. Likewise, the average number of hours worked remained unchanged at 41.8, with overtime hours off from 4.3 to 4.2 on average.

The BLS reported that nonfarm payrolls rose by 175,000 in May, slightly above expectations of around 165,000. At the same time, the labor participation rate edged up somewhat from 63.3 percent in April to 63.4 percent in May. This contributed to the unemployment rate increasing from 7.5 percent to 7.6 percent.

May's report confirms that the U.S. economy is growing modestly. The service sector appears to be the main beneficiary of this growth. For manufacturers, the data are quite frustrating, as they are indicative of many larger trends that we are seeing in the sector. Recent reports show that new orders have been soft, with weaker economies overseas and persistent domestic uncertainties challenging exports.

## Construction Spending

[The Census Bureau reported total construction spending rose 0.4 percent in April.](#) This was below the 0.8 percent consensus estimate, with a decline in residential construction activity and reduced spending from manufacturers. Private-sector housing construction spending declined 0.2 percent for the month but has increased a whopping 18.3 percent since April 2012. This pullback mirrors the decline in [new housing starts](#) reported a few weeks ago. Despite April's decrease, however, residential construction remains a bright spot in the economy.

Meanwhile, manufacturing construction spending fell 2.6 percent, down from an annualized \$50.2 billion in March to \$48.9 billion in April. Year-over-year, manufacturers have added just more than \$1 billion to their construction spending activity put in place, a gain of 2.2 percent. Still, this is not a fair way of presenting the annual change, as there has been a high degree of volatility in this figure over much of that time. The 2012 average was \$48.0 billion and peaked at \$52.2 billion in December.

Overall private, nonresidential activity rose 2.2 percent, the first increase since December. The largest gain was in the power sector, with construction activity in that segment up 10.8 percent. Year-over-year growth in that power industry, however, was down 2.8 percent. Other nonresidential areas with higher construction spending in April included amusement and recreational (up 3.5 percent), educational (up 2.9 percent) and transportation (up 1.5 percent) entities. In addition to manufacturing, there was reduced monthly construction investment among religious (down 11.5 percent), communication (down 4.1 percent) and office (down 2.1 percent) institutions.

Meanwhile, public construction spending was down 1.2 percent in April and 5.1 percent year-over-year. Dollars spent on public residential projects were off 5.4 percent for the month, with nonresidential spending down 1.1 percent. The largest monthly gains were in commercial (up 8.2 percent), sewage and waste disposal (up 6.8 percent) and public safety (up 5.5 percent) projects. In contrast, the power (down 13.3 percent), conservation and development (down 5.7 percent) and educational (down 4.4 percent) sectors had the greatest declines in public construction spending in April.

### Factory Orders

[The Census Bureau reported that new orders for manufactured goods rose 1.0 percent in April, a nice improvement from March's 4.7 percent decline.](#) The data have been highly volatile over the past few months, with wide swings in aircraft orders moving the top-line figure higher and lower. April's gain was largely related to increased aircraft sales, with nontransportation orders off by 0.1 percent. Nondurable goods orders were also lower, down 1.0 percent, with durable goods sales (including aircraft) up 3.5 percent.

Outside of airplanes, there were areas of strength for new durable goods orders. These included higher April sales numbers for electronic products, fabricated metal products, furniture, machinery and primary metals. Motor vehicle sales were also higher, up 3.9 percent.

Meanwhile, shipments of manufactured goods were down 0.7 percent, with lower durable and nondurable goods figures (down 0.4 percent and 1.0 percent, respectively). This was the second consecutive decline in shipments—a sign of the recent weaknesses in the sector. The sector-by-sector data were mostly down, but there were some pockets of strength. These included shipments of beverages, fabricated metals, food products, motor vehicles, plastics and rubber, primary metals and textiles.

### ISM Manufacturing Purchasing Managers' Index

[The ISM's PMI contracted for the first time in six months.](#) The PMI declined from 50.7 in April to 49.0 in May, with values under 50 indicating contracting levels overall in manufacturing. The decrease indicates that the manufacturing sector, which had seen some signs of progress earlier in the year, has floundered. May is the third straight month we have seen a PMI decline, falling from 54.2 in February.

Measures for new orders and production both fell below 50. The index for new orders dropped from 52.3 to 48.8, and the production index declined from 53.5 to 48.6. In general, these numbers tend to mirror many regional sentiment surveys, which have noted sales and output pulling back in the past month or two. Not surprisingly, given the weak activity data, hiring has stalled. The employment index decreased slightly from 50.2 to 50.1, or just barely above neutral.

The sample comments tend to support the more pessimistic data. A fabricated metal products producer said, "The general economy seems sluggish and pensive. Buyers are not buying much beyond lead times." Other respondents noted the flattening or softening of sales, with weaker domestic and foreign sales to blame. On the international front, a machinery maker added, "The downturn in European and Chinese markets is having a negative effect on our business."

Meanwhile, reductions in government spending slowed U.S. orders, according to a computer and electronic products manufacturer, and a transportation equipment leader noted the difficulty in hiring skilled employees.

There were two other data points of note. First, the pricing measure indicates modest deflation, with the index dropping from 50.0 (neutral) to 49.5 (just barely negative). This is consistent with recent consumer and producer pricing reports that have shown pricing pressures fall across the past year, largely due to lower energy costs. Second, inventory levels continue to contract, but the rate of decline slowed in May. Stockpiles have fallen in five of the past seven months, which should be a positive if and when new orders pick up.

The bad news is that the manufacturing sector is once again contracting. Cutbacks in government spending, higher taxes and weaker economic growth overseas have challenged sales. As we saw in the latest [industrial production](#) report, manufacturing output has grown just 1.3 percent over the past 12 months. Growth is well below what we need to see for positive job creation. Ideally, we would like to see manufacturing production grow by 4.5 percent or more annually on average. To achieve higher growth and get manufacturing back on track, Washington must act on pro-growth policies like those laid out in the NAM's [Growth Agenda](#) that will help make us more competitive, grow and create jobs.

### Productivity and Costs (Revision)

[The BLS revised its labor productivity figures for the first quarter, with modest changes overall.](#) Labor productivity for manufacturing rose 3.5 percent for the quarter, just slightly lower than the [original estimate](#) of 3.8 percent.

This increase stemmed from a 5.3 percent gain in output in the first quarter.

There was a significant revision in the compensation and unit labor cost measures. This was true for all businesses, and some of it could be tied to what we saw in the [personal income](#) data at year's end as individuals worried about possible higher taxes related to the fiscal cliff deal. Hourly compensation for nonfarm businesses was revised from an earlier estimate of 2.7 percent to 9.9 percent. I can only guess this was due to accelerated end-of-year payouts, including dividend payments and bonuses, as companies sought to avoid higher tax rates in 2013.

For manufacturers, hourly compensation was revised from a 0.4 percent gain to an increase of 16.7 percent. As a result, unit labor costs in the fourth quarter, which had originally been estimated to fall by 1.8 percent, were up by 14.0 percent. With such a dramatic shift, we see the reverse of that in the first quarter of 2013. Hourly compensation declined by 6.9 percent, with unit labor costs down by 10.0 percent.

Despite these revisions, the bigger storyline is still the same. Manufacturers increased their productivity fairly strongly in the first quarter of this year, assisted by higher output and an ever-present desire to operate more leanly.

In the larger economy, labor productivity in the nonfarm business sector rose 0.5 percent, below its original estimate of 0.7 percent. Still, this was an improvement from the prior quarter's 1.7 percent decline, and this gain was due largely to an increase in output of 2.1 percent.

### **SHRM Leading Indicators of National Employment**

[The Society for Human Resource Management \(SHRM\) reported that manufacturing hiring will remain weak in June, but it expects service-sector employment to pick up.](#) The Leading Indicators of National Employment survey is one of the few that look at hiring trends for the current month, and it mostly observes net hiring changes relative to what they were a year ago.

Specifically, 50.8 percent of manufacturers planned to increase employment in June, compared to 13.5 percent expecting to reduce employment. The good news is that this suggests net hiring of 37.3 percent, but it also indicates that the pace has eased from 12 months ago. In June 2012, just 5.2 percent planned employment decreases, with 49.0 percent hiring in that month. The net hiring rate was 43.8 percent. Therefore, the year-over-year difference in net hiring is a drop of 6.5 percentage points.

In comparison, the net percentage of service-sector firms planning increases this month was 42.9 percent, with 49.8 percent of service-sector businesses expecting to increase employment in June. At the same time, 6.9 percent anticipated the need to let workers go. These figures are a significant shift from a year ago, when just 31.0 percent were planning to hire. Overall, the net percentage rose 20.5 percentage points from last year.

### **U.S. Trade Balance**

[The Bureau of Economic Analysis and the Census Bureau reported that the U.S. trade deficit widened from \\$37.13 billion in March to \\$40.29 billion in April.](#) March's figure was revised from its earlier estimate of \$38.83 billion, with the newer number making it the lowest level since January 2010. The higher trade deficit in April stemmed primarily from a larger goods trade deficit. Goods exports increased from \$129.26 billion to \$131.09 billion, and goods imports grew from \$184.66 billion to \$189.71 billion.

The wider trade deficit also stemmed from mostly nonpetroleum factors, with the petroleum trade balance narrowing from \$20.46 billion to \$19.72 billion. The nonpetroleum trade balance, meanwhile, widened from \$33.71 billion to \$37.81 billion. The small improvement in the petroleum balance came from a marginal decline in petroleum imports, down from \$30.09 billion to \$29.57 billion. The petroleum changes mirrored a modest decrease in the cost of petroleum, with the price of West Texas Intermediate crude falling from an average of \$95.31 per gallon in February to \$92.94 in March to \$92.02 in April.

Looking more specifically at the sectors with export growth, the largest increases were in consumer goods (up \$1.96 billion), nonautomotive capital goods (up \$885 million) and automotive vehicles (up \$586 million).

Unfortunately, these were also the same sectors with higher imports, producing a net negative in each case. The change in goods imports for those sectors in April were consumer goods (up \$2.98 billion), nonautomotive capital goods (up \$1.04 billion) and automobiles (up \$1.28 billion). At the same time, exports and imports were lower in the foods, feeds and beverages and industrial supplies and materials industries.

The net result is for very slow growth in manufactured goods exports to continue. In the first four months of 2013, manufactured goods exports equaled \$384.89 billion (not seasonally adjusted), or 0.9 percent higher than the \$381.45 billion exported in the same time period last year. This suggests manufacturers continue to struggle to grow their overseas sales, with slower economic growth worldwide hampering exports. Europe's recession and weakness in other key markets has slowed new orders. In 2012, manufactured goods exports increased 5.5 percent over the prior year, and it will be hard to match that pace if export growth does not pick up. We would need to see a 15 percent growth rate or higher for us to achieve the goal of doubling exports by 2015.

As expected, goods exports to Europe are off from where they were last year. Using non-seasonally adjusted data, year-to-date exports to the European Union have fallen from \$91.18 billion in the first four months of 2012 to \$84.39 billion in the same time period in 2013. The good news is that we see slight increases to our largest trading partners—Canada (up from \$96.46 billion to \$98.50 billion) and Mexico (up from \$70.20 billion to \$73.49 billion). In addition, goods exports to China, our third-largest trading partner, rose from \$35.42 billion to \$37.12 billion. However, the data remain mixed overall, with goods exports higher to South America (up from \$58.51 billion to \$59.68 billion) but lower to Pacific Rim nations (down from \$124.79 billion to \$122.42 billion).

[{Back to top}](#)

---

**Questions or comments?** Please contact Chad Moutray at [cmoutray@nam.org](mailto:cmoutray@nam.org)



Copyright © 2013 National Association of Manufacturers

To unsubscribe from future Monday Economic Report emails, [click here](#).

