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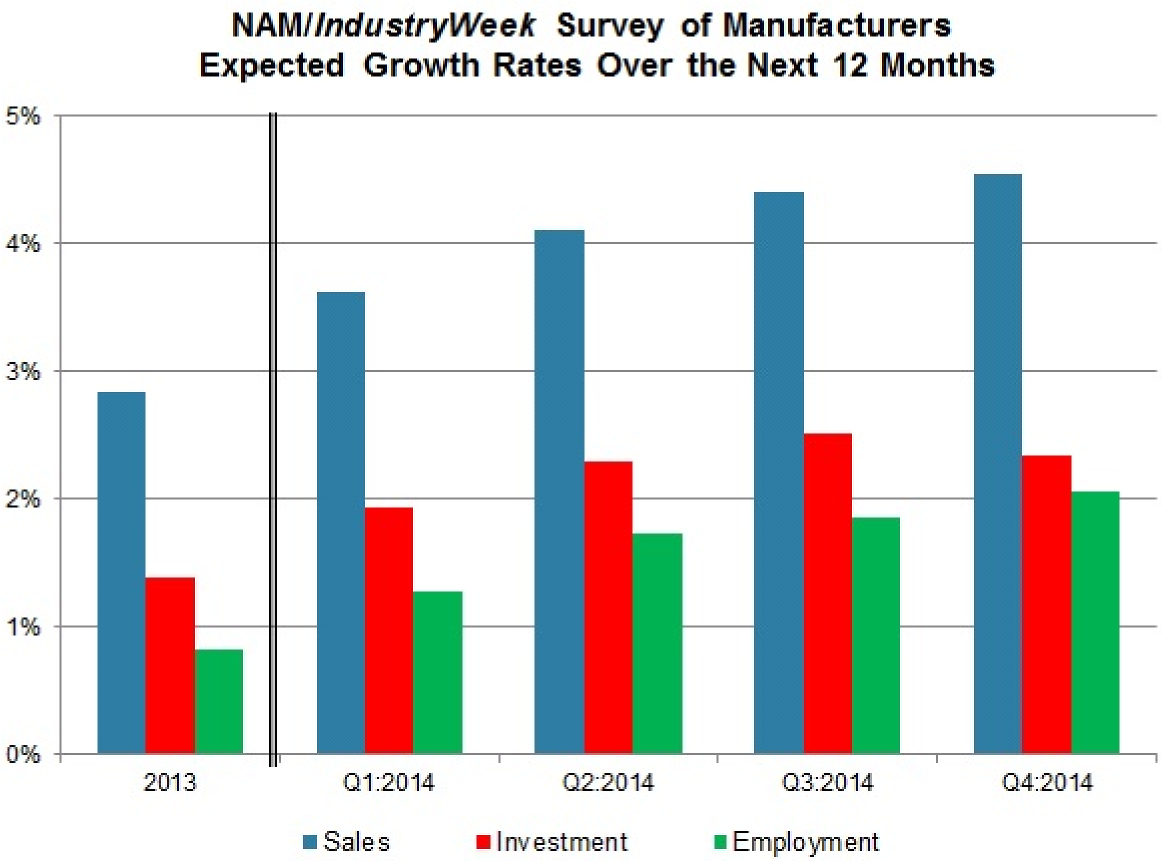

This morning, we will release the results from the latest NAM/*IndustryWeek* Survey of Manufacturers. Business leaders continue to reflect optimism about the coming months, with 91.2 percent of survey respondents saying they are either somewhat or very positive about their own company's outlook. Moreover, manufacturers predict growth of 4.5 percent in sales and 2.1 percent in employment over the next 12 months, with both experiencing the strongest pace in at least two years.

These findings were largely consistent with other indicators released last week. Most notably, the U.S. economy added 321,000 nonfarm payroll employees on net in November. This was well above the consensus estimate, and it was the fastest monthly pace since April 2011. Hiring in the manufacturing sector was also strong, with 28,000 new workers during the month. Since January, manufacturers have hired almost 15,000 workers on average each month, or 740,000 total since the end of 2009. In other news, manufacturing construction spending was also up sharply, increasing 3.4 percent in October and a whopping 23.0 percent year-over-year.

These reports suggest that accelerating growth in demand and output is beginning to translate into healthier employment and construction figures, with businesses stepping up investments, perhaps as a sign of confidence. This should bode well for manufacturing employment as we move into 2015. In particular, the Institute for Supply Management's (ISM) manufacturing Purchasing Managers' Index (PMI) remains strong, despite edging marginally lower in November. For instance, the production index has now been 60 or higher, which indicates robust expansionary levels, for seven straight months. Similarly, the new orders index has been 60 or higher for five consecutive months, and the export measure also noted some improvements for the month.

Speaking of exports, the U.S. trade deficit changed little in October, edging marginally lower from the month before. Still, growth in goods exports was somewhat better than the headline figure suggested, with the value of petroleum exports declining on lower crude oil costs. The good news is that year-to-date manufactured goods exports have increased to each of our top-five trading partners so far this year. Yet, growth in manufactured goods exports remains sluggish through the first 11 months of 2014, up just 1.1 percent relative to the same time frame in 2013. Not surprisingly, challenges abroad continue to dampen our ability to grow international sales.

New factory orders have declined for the third straight month, a disappointing figure particularly given the strength seen in other measures. In addition, the NAM/*IndustryWeek* survey noted that the expected pace of exports decelerated once again, mirroring the slow growth in manufactured goods exports noted above. The survey also found that manufacturers remain frustrated with Washington, particularly regarding rising health care costs and regulatory burdens. At the same time, nearly 65 percent were more optimistic that policymakers would address our long-term challenges in light of the midterm election results.

This week, we will get a sense of whether Americans are more willing to open their pocketbooks. Recent indicators have suggested that the public remains quite cautious, despite economic progress and lower gasoline prices, and there have been mixed reports on holiday spending to date. November retail sales figures—due out on Thursday—should provide more details. Other highlights for the week include the latest data on consumer confidence, job openings, producer prices and small business optimism.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

This Week's Indicators:

Monday, December 1
ISM Manufacturing Purchasing Managers' Index

Tuesday, December 2
Construction Spending

Wednesday, December 3
ADP National Employment Report
Manufacturing Labor Productivity *(Revised)*

Thursday, December 4
None

Friday, December 5
BLS National Employment Report
Factory Orders
International Trade

Monday, December 8
NABE Outlook Survey
NAM/*IndustryWeek* Survey of Manufacturers

Tuesday, December 9
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, December 10
None

Thursday, December 11
Retail Sales

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

Summaries for Last Week`s Economic Indicators

ADP National Employment Report

ADP reported that manufacturers added 11,000 net new workers in November. It was the 10th straight month of employment gains in the sector, rebounding after a weak January. Over that 10-month period, manufacturing firms averaged 11,799 net new hires per month, with an 18,217 average over the past four months. This suggests that manufacturers have begun to step up their hiring a bit during the autumn, which is promising.

In the larger economy, nonfarm private businesses added 208,000 employees in November, less than the 230,000 increase in October. Since January, nonfarm payrolls have risen 213,933 on average each month, according to ADP. This represents an improvement from the 187,316 per month average in all of 2013. Outside of manufacturing, the largest job gains in November were in trade, transportation and utilities (up 49,000), professional and business services (up 37,000), construction (up 17,000) and financial activities (up 5,000).

Small and medium-sized businesses (e.g., those with fewer than 500 employees) contributed nearly 80 percent of the net new jobs created in November.

BLS National Employment Report

The Bureau of Labor Statistics reported that manufacturers added 28,000 net new workers in November, extending the revised increase of 20,000 in October. This was a relatively strong number, suggesting that the manufacturing sector has averaged just shy of 15,000 additional employees per month through the first 11 months of 2014. Since the end of 2009, manufacturers have hired an additional 740,000 workers on net.

The data show that the more robust growth in new orders and output seen in other indicators is beginning to translate into healthier hiring figures. Indeed, manufacturing leaders remain mostly upbeat in their outlook, which should bode well for hiring in the sector as we move into 2015.

Looking specifically at the November manufacturing employment numbers, durable and nondurable goods firms added 17,000 and 11,000 workers on net, respectively. The largest increases were in plastics and rubber products (up 7,100), motor vehicles and parts (up 3,000), fabricated metal products (up 2,200), machinery (up 2,100), printing and related support activities (up 2,000) and furniture and related products (up 1,800). In contrast, chemicals (down 1,800), apparel (down 700), textile product mills (down 500), petroleum and coal products (down 300) and paper and paper products (down 200) had lower employment in November.

Earnings and the average number of hours worked were also higher. Average weekly earnings for manufacturing employees rose from $1,020.05 in October to $1,025.86 in November, suggesting a 1.8 percent increase year-over-year. The average worker earned $24.96 per hour in November. In addition, the average number of hours worked in the sector increased from 40.9 to 41.1, with the average for overtime hours edging up from 3.4 to 3.5.

Meanwhile, nonfarm payroll employment jumped 321,000 in November. This was well above the consensus expectation of around 230,000, and it was the fastest monthly pace since April 2011. Nonfarm payrolls also exceeded 140 million for the first time ever. It was the 10th straight month with nonfarm payrolls increasing by at least 200,000 or greater, with a year-to-date monthly average of 240,909 (or 250,600 if you exclude January).

The unemployment rate was unchanged at 5.8 percent. At the same time, the participation rate remained at 62.8 percent, staying near 30-year lows. Meanwhile, the so-called "real" unemployment rate, which includes those who are marginally attached to the workforce and those who work part time for economic reasons, fell to 11.4 percent, the lowest level since September 2008.

Construction Spending

The Census Bureau reported that manufacturing construction increased 3.4 percent in October, rebounding from September's 0.9 percent decline. Manufacturers devoted an annualized $57.42 billion to construction projects in October, up from $55.55 billion in September. More importantly, it was up from $46.67 billion in October 2013, with a year-over-year gain of 23.0 percent. This upward trend bodes well for the manufacturing sector, suggesting that business leaders have enough confidence in their outlook to warrant additional construction investment.

Total construction spending increased 1.1 percent in October, with 3.3 percent growth over the past 12 months. Both residential and nonresidential construction was higher, up 1.3 percent and 1.0 percent, respectively. Public spending also increased, up 2.3 percent.

However, private, nonresidential construction declined 0.1 percent in October, its first decrease since June. On a year-over-year basis, it has risen 6.4 percent. In October, there was less construction recorded for religious (down 3.6 percent), commercial (down 2.6 percent), power (down 1.9 percent) and communication (down 1.8 percent) projects. That was enough to offset increased spending from lodging (up 3.7 percent), manufacturing (up 3.4 percent), transportation (up 2.5 percent) and amusement and recreation (up 1.0 percent) businesses, among others.

Meanwhile, in the public sector, the monthly construction data were largely positive, with the exception of sewage and waste disposal projects (down 0.5 percent). The largest increases in October were in the commercial (up 11.2 percent), public safety (up 10.7 percent), office (up 8.1 percent), conservation and development (up 5.2 percent) and power (up 5.2 percent) segments. Some of these strong gains reflected increases that followed softness in September.

Factory Orders

The Census Bureau reported that new factory orders declined 0.7 percent in October, extending September's 0.5 percent decrease. It was the third straight monthly decline, although August's fall was the response from substantial aircraft orders in July. Overall, October's numbers were a disappointment, with softness across the board.

Defense aircraft orders were one of the larger exceptions, surging 45.3 percent for the month, perhaps on end-of-fiscal-year purchases. Motor vehicle sales were also higher, up 0.6 percent. Excluding transportation orders, however, new manufactured goods orders fell sharply, down 1.4 percent in October. Durable goods excluding transportation fell 0.8 percent for the month, with nondurable goods orders off 1.5 percent.

Still, the year-over-year data tell a more encouraging story. Durable goods excluding transportation were up 2.2 percent over the past 12 months, suggesting modest growth overall. However, nondurable goods orders have fallen 1.1 percent year-over-year.

Meanwhile, shipments of manufactured goods were also lower, down 0.8 percent in October. Durable goods shipments (0.1 percent) were up slightly. Yet, nondurable goods shipments decreased 1.5 percent. On a year-over-year basis, factory shipments have expanded 2.2 percent, with durable goods up 5.7 percent but nondurable goods down 1.5 percent.

International Trade

The Bureau of Economic Analysis and the Census Bureau reported that the U.S. trade deficit edged marginally lower, down from $43.60 billion in September to $43.43 billion in October. The increase in goods exports (up from $136.04 billion to $138.05 billion) essentially matched the gain in goods imports (up from $198.74 billion to $200.72 billion), with the service-sector goods surplus rising from $19.10 billion to $19.24 billion.

Petroleum exports have fallen from $14.13 billion in August to $10.98 billion in October. Lower crude oil costs explain much of this decline. Interestingly, however, petroleum imports have declined by less, down from $27.26 billion in August to $26.22 billion in October. As a result, the petroleum trade deficit has risen from $13.13 billion in August to $15.24 billion in October, its highest point in five months.

Outside of petroleum, growth in goods exports was somewhat better than the headline figure might suggest. Nonautomotive capital goods (up $1.74 billion), consumer goods (up $433 million) and automotive vehicles and parts (up $163 million) experienced monthly gains, whereas foods, feeds and beverages (down $147 million) and industrial supplies and materials (down $86 million) were lower. However, the declines could be attributed to reduced exports for soybeans and corn and for fuel oil and petroleum products, with the broader categories faring better.

Goods imports were also higher, with the exception of consumer goods (down $759 million). The other major segments experienced increases, including automotive vehicles and parts (up $1.31 billion), nonautomotive capital goods (up $1.11 billion), industrial supplies and materials (up $277 million) and foods, feeds and beverages (up $226 million).

We have seen increases in the same data year-to-date for the top-five markets for U.S.-manufactured goods exports: Canada (up from $252.17 billion to $261.84 billion), Mexico (up from $188.68 billion to $201.72 billion), China (up from $95.67 billion to $99.60 billion), Japan (up from $54.10 billion to $56.11 billion) and Germany (up from $39.34 billion to $41.67 billion).

One consistent trend has been the sluggish growth of manufactured goods exports so far this year. Using non-seasonally adjusted data, U.S.-manufactured goods exports have increased from $987.08 billion year-to-date in 2013 to $998.38 billion in 2014, or a gain of 1.1 percent.

ISM Manufacturing Purchasing Managers' Index

The ISM's manufacturing PMI edged marginally lower, down from 59.0 in October to 58.7 in November. October's reading had been the highest level since March 2011. Despite the slight decrease, manufacturing activity remained healthy in November. The headline PMI figure has averaged 58.1 so far in the second half of 2014, which represents progress from the average of 54.0 for the first half of the year. Moreover, the sector has largely rebounded from the weather-related softness in January (51.3).

Indeed, the underlying data were also largely encouraging. The production index (down from 64.8 to 64.4) has now been at 60 or higher for seven straight months, albeit with a slight easing in November, suggesting strong output growth. Along those lines, the new orders index (up from 65.8 to 66.0) has been at 60 or greater for five consecutive months, signifying robust growth in demand for manufactured goods. Another positive sign was exports (up from 51.5 to 55.0), which were one of the weaker spots in the previous month's report due to global softness.

Employment and prices were two other highlights in this release. Hiring decelerated somewhat (down from 55.5 to 54.9). Yet, as with the total PMI number, the average from July through November (56.3) suggests stronger employment growth in recent months versus the first six months of the year (52.7). In fact, one sample comment suggested there were some workforce shortage issues. Meanwhile, on the inflation front, the prices for raw materials contracted for the first time since July 2013 (down from 53.5 to 44.5), as lower energy costs have helped to ease these pressures.

Manufacturing Labor Productivity (Revised)

The Bureau of Labor Statistics reported that manufacturing productivity increased 2.9 percent during the third quarter. This was slightly lower than the original estimate of 3.2 percent growth. Manufacturing output rose 4.2 percent in the third quarter, with unit labor costs down 1.3 percent. On a year-over-year basis, labor productivity has increased 2.7 percent, with unit labor costs down 0.5 percent. Higher productivity has helped to improve U.S. manufacturers' overall global competitiveness, with unit labor costs in the sector down 6.3 percent since the recession.

In the third quarter, durable and nondurable goods manufacturing productivity increased 3.2 percent and 3.5 percent, respectively. Yet, output growth was much stronger in the durable goods sector, up 6.3 percent, relative to 2.0 percent growth for nondurable goods firms. Compensation costs also differed. Real hourly compensation rose 1.6 percent for nondurable goods manufacturers, with these costs down 0.3 percent for durable goods entities. The output and compensation differences accounted for the varied unit labor costs results. Unit labor costs were off 2.3 percent for durable goods, but down just 0.9 percent for nondurable goods.

In the larger economy, nonfarm labor productivity increased for the second straight quarter, up 1.8 percent in the third quarter. This was also lower than the original estimate, which was for 2.0 percent growth. Output rose 4.9 percent, and unit labor costs fell 1.2 percent. Looking at the year-over-year figures, nonfarm labor productivity has increased 1.0 percent since the third quarter of 2013, with output and unit labor costs up 3.1 percent and 1.2 percent, respectively.

Questions or comments?

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