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MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE � March 11, 2019 � SHARE

Record Optimism Among Manufacturers Continues

The Weekly Toplines

- Manufacturers continued to report solid growth in activity, with the sector remaining one of the bright spots in the economy. In the latest Manufacturers' Outlook Survey from the NAM, 89.5 percent of respondents felt either somewhat or very upbeat about their company's outlook, up from 88.7 percent in the fourth quarter of 2018. Over the past nine quarters, the headline index has averaged a very robust 91.8 percent, reflecting highly elevated levels of optimism among respondents.

- That said, manufacturers continue to report challenges with finding talent, with 71.3 percent citing workforce challenges as their top concern for the sixth consecutive survey. In addition to attracting and retaining a quality workforce, other major concerns in the latest survey included rising health care and insurance costs (56.5 percent), increased raw material costs (55.8 percent), trade uncertainties (52.6 percent) and transportation and logistics costs (34.3 percent).

- Nonetheless, manufacturers added just 4,000 workers in February, the slowest monthly pace of job growth since July 2017. The overall nonfarm payroll data were also disappointing, off from a solid increase of 311,000 in January to 20,000 in February. Weather might have impacted employment growth negatively in the month. I would not be surprised to see an upward revision in the next release, or at a minimum, a sharp rebound. With that in mind, it is important to not read too much into the data, as the labor market continues to be strong overall.

- The U.S. economy has generated a robust 209,080 jobs on average each month over the past 12 months, with manufacturers hiring more than 20,000 workers per month on average since February 2017. The unemployment rate dropped from 4.0 percent in January to 3.8 percent in February, continuing to be near 50-year lows. The so-called “real unemployment rate” declined from 8.1 percent to 7.3 percent in this report, a rate not seen since March 2001.

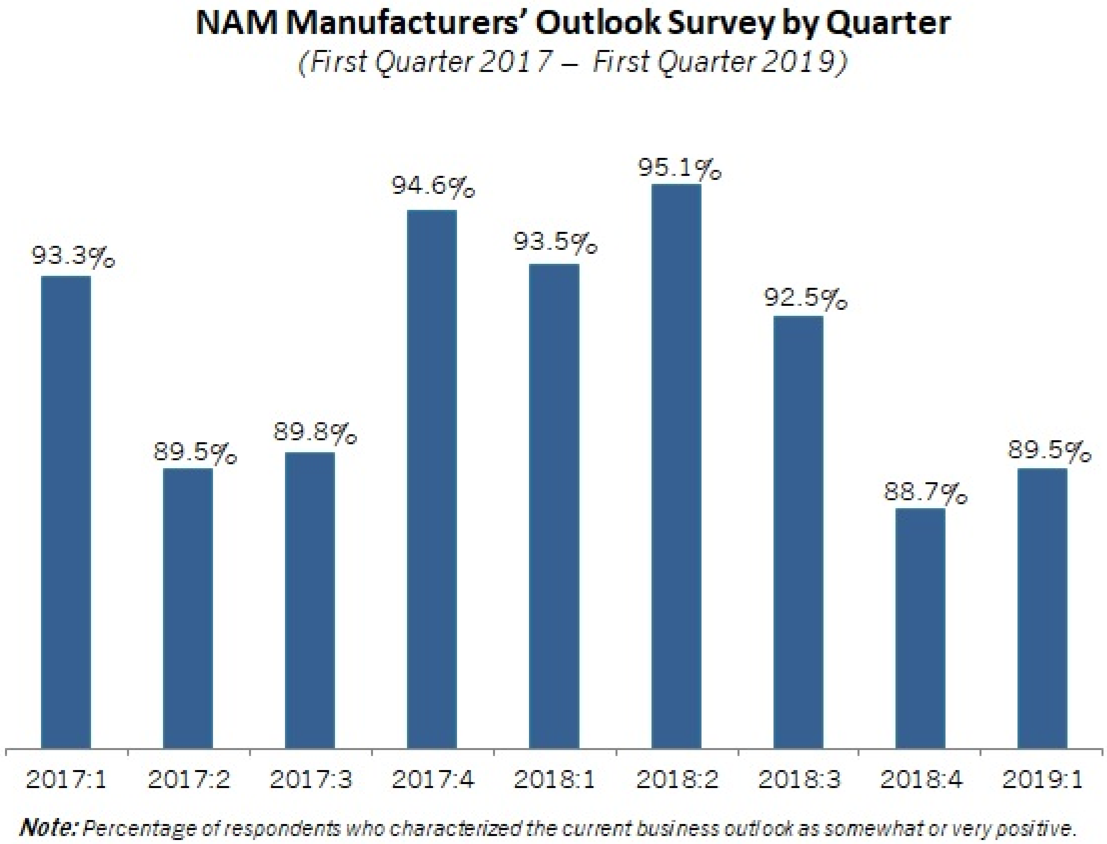
- New housing starts bounced back in January from a disappointing December, up to 1,230,000 units at the annual rate. Encouragingly, single-family activity rose to an eight-month high, likely boosted by improved mortgage rates and stronger economic data. With that said, affordability and workforce issues continue to challenge the housing market, with starts down 7.8 percent year-over-year.

- Encouragingly, housing permits�a proxy of future activity�remain promising, rising to an annualized 1,345,000 units in January, a nine-month high. This provides some hope that residential construction will return to 1.3 million units or more in the coming months. In addition, new home sales were also stronger in December, bouncing back from nearly a three-year low in October.

- U.S.-manufactured goods exports rose 5.6 percent in 2018 to just shy of $1.4 trillion, using new seasonally adjusted data from TradeStats Express. As such, last year’s export pace was not far from the all-time high recorded in 2014, which was just more than $1.4 trillion. That suggests manufacturing exports grew strongly last year, building on the 4.7 percent gain in 2017, despite some headwinds from lingering trade policy uncertainties and a stronger U.S. dollar. �

- Yet, the U.S. trade deficit rose to the highest level since October 2008, up from $50.30 billion in November to $59.77 billion in December. In addition, the goods trade balance jumped to a new all-time high, at $81.54 billion.

- Manufacturing labor productivity grew 2.0 percent in the fourth quarter, expanding for the third straight quarter. Productivity in the sector rose 0.8 percent in 2018, or slightly above the average over the past three years (0.6 percent).



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, March 4
Construction Spending (December)

Tuesday, March 5
NAM Manufacturers' Outlook Survey
New Home Sales (December)

Wednesday, March 6
ADP National Employment Report
International Trade Report

Thursday, March 7
Consumer Credit
Productivity and Costs

Friday, March 8
BLS National Employment Report
Housing Starts and Permits

This Week's Indicators:

Monday, March 11
Retail Sales
State Employment Report

Tuesday, March 12
Consumer Price Index
NFIB Small Business Survey

Wednesday, March 13
Construction Spending (January)
Durable Goods Orders and Shipments
Producer Price Index

Thursday, March 14
Consumer Credit
New Home Sales (January)
Productivity and Costs

Friday, March 15
Industrial Production
Job Openings and Labor Turnover

Survey
New York Fed Manufacturing Survey
University of Michigan Consumer Sentiment

Deeper Dive

- **ADP National Employment Report:** Manufacturers added 17,000 workers in February, according to ADP estimates, extending the gain of 23,000 in January. In addition, the sector has added roughly 17,500 employees per month over the past 12 months, a healthy pace. Meanwhile, total nonfarm private employment increased by 183,000 in February, slowing after January's robust job growth (300,000) but still a solid figure. The labor market has grown robustly overall, with nearly 220,000 employees generated per month on average over the past 12 months. Almost 60 percent of the net new jobs created in February came from small and medium-sized businesses.

- **BLS National Employment Report:** Manufacturers added just 4,000 workers in February, the slowest monthly pace of job growth since July 2017 and pulling back from a gain of 21,000 in January. The overall nonfarm payroll data were also disappointing, off from a solid increase of 311,000 in January to 20,000 in February. Weather might have impacted employment growth negatively in the month, and economists were largely expecting a pullback after the strong figure in January (especially in the aftermath of the partial government shutdown). The consensus estimate was for around 180,000 jobs created, however, not 20,000. I would not be surprised to see an upward revision in the next release, or at a minimum, a sharp rebound.

  With that in mind, it is important to not read too much into the data, as the labor market continues to be strong overall. The U.S. economy has generated a robust 209,080 jobs on average each month over the past 12 months, with manufacturers hiring more than 20,000 workers per month on average since February 2017. The unemployment rate dropped from 4.0 percent in January to 3.8 percent in February, continuing to be near 50-year lows. The so-called "real unemployment rate" declined from 8.1 percent to 7.3 percent in this report, a rate not seen since March 2001.

  The tight labor market is not expected to go away anytime soon. In the most recent NAM Manufacturers' Outlook Survey, the inability to find talent continued to be the top concern for the sixth consecutive quarter. There were 12,834,000 manufacturing workers in February, with almost 1.4 million employees added since the end of the Great Recession. That is the most workers in the sector since December 2008.

- **Construction Spending (December):** Private manufacturing construction spending increased 1.7 percent in the latest data, up from $66.45 billion at the annual rate in November to $67.58 billion in December. After falling to the lowest level since September 2014 in May ($60.77 billion), construction activity has trended higher since then. The upward trend since the spring has been welcome news, and it is consistent largely with strength in the overall outlook. Along those lines, the value of construction put in place in manufacturing has risen 5.7 percent from one year ago, with $63.95 billion in construction spending in the sector in December 2017. Nonetheless, construction in the sector remains well below the all-time high of $82.1 billion in May 2015.

In contrast to the stronger figures in the manufacturing sector in December, total construction spending fell 0.6 percent for the month. Reduced single-family residential and public-sector spending pulled the headline number lower in December. At the same time, private-sector nonresidential construction increased 0.4 percent, with a gain of 3.4 percent year-over-year.

- **Consumer Credit:** U.S. consumer credit outstanding increased 5.1 percent in January, building on the 4.6 percent gain in December. Total consumer credit registered $4.035 trillion in January, with $1.058 trillion in revolving credit and $2.977 trillion in nonrevolving credit. Nonrevolving credit (including auto and student loans) rose 5.9 percent in January, with revolving credit (including credit cards and other lines of credit) up a modest 2.9 percent. Americans seemed less willing to incur more credit card debt in December (up 1.1 percent), but that figure improved in January. Indeed, the overall narrative remains positive. Consumer credit has increased 5.0 percent over the past 12 months, with revolving credit up a solid 5.6 percent year-over-year.

- **Housing Starts and Permits:** New residential construction bounced back in January from a disappointing December. New housing starts increased from an annualized 1,037,000 units in December, the lowest level since March 2015, to 1,230,000 units in January. Encouragingly, single-family activity rose to an eight-month high (up from 740,000 to 926,000), likely boosted by improved mortgage rates and stronger economic data. Multifamily unit starts also increased for the month (up from 297,000 to 304,000). With that said, affordability and workforce issues continue to challenge the housing market. On a year-over-year basis, housing starts fell 7.8 percent, down from 1,334,000 units at the annual rate in January 2018.

  Encouragingly, housing permits�a proxy of future activity�remain promising. Indeed, housing permits inched up from 1,326,000 units at the annual rate in December to 1,345,000 units in January, a nine-month high. While this was buoyed mostly from increased multifamily permitting, it does provide some hope that new residential construction might bounce back in the coming months, returning to a pace near 1.3 million annualized units.

- **International Trade Report:** The U.S. trade deficit rose to the highest level since October 2008, up from $50.30 billion in November to $59.77 billion in December. In addition, the goods trade balance jumped to a new all-time high, at $81.54 billion. This was largely the result of a sizable increase in goods imports that corresponded to a decline in goods exports. To be fair, the data likely reflect some volatility in aircraft orders and reduced petroleum prices for the month. At the same time, imports for automotive vehicles and parts and foods, feeds and beverages also set new highs. For the year, the U.S. trade deficit was $891.25 billion in 2018, up from $807.50 billion in 2017.

Encouragingly, U.S.-manufactured goods exports rose 5.6 percent in 2018 to just shy of $1.4 trillion, using new seasonally adjusted data from TradeStats Express. As such, last year's export pace was not far from the all-time high recorded in 2014, which was just more than $1.4 trillion. That suggests manufacturing exports grew strongly last year, building on the 4.7 percent gain in 2017, despite some headwinds from lingering trade policy uncertainties and a stronger U.S. dollar. �

- **NAM Manufacturers' Outlook Survey:** Manufacturers continued to report solid growth in activity, with the sector remaining one of the bright spots in the economy. In the latest Manufacturers' Outlook Survey from the NAM, 89.5 percent of respondents felt either somewhat or very upbeat about their company's outlook, up from 88.7 percent in the fourth quarter of 2018.

  While that represents the third straight easing in confidence from the all-time high reading in the second quarter of 2018 (95.1 percent), it continues a streak of highly elevated levels of optimism since the end of 2016. Indeed, over the past nine quarters, the headline index has averaged a very robust 91.8 percent. In contrast, it averaged 68.6 percent for the eight quarters in 2015 and 2016, illustrating the bump in confidence more recently. Clearly, manufacturers remain very optimistic about business conditions overall, and that is influenced by the impact of (or expectation of) pro-growth policies like tax reform and regulatory certainty.

  That said, manufacturers continue to report challenges with finding talent, especially with the unemployment rate near 50-year lows and a labor market with more job openings than people looking for work. Accordingly, the survey found that�at 71.3 percent�the inability to attract and retain workers remained respondents' top concern for the sixth consecutive survey. In addition to attracting and retaining a quality workforce, other major concerns in the latest survey included rising health care and insurance costs (56.5 percent), increased raw material costs (55.8 percent), trade uncertainties (52.6 percent) and transportation and logistics costs (34.3 percent).

- **New Home Sales (December):** New single-family home sales rose 3.7 percent in December, bouncing back for the second straight month after falling to the slowest pace since February 2016 in October. There were 621,000 units sold in December, up from 549,000 and 599,000 units in October and November, respectively. December's rate was the best since May (653,000), with increases in every region of the country except for the Midwest. The recent decline in mortgage rates should help boost demand, but the housing market has also been challenged by increased construction costs and worker shortages. As a result, new home sales were off 2.4 percent year-over-year, down from 636,000 units in December 2017. Meanwhile, there were 6.6 months of supply on the market in December, down from 7.2 months in

October. The median sales price was $318,600 in December, down 7.2 percent from one year ago.

- **Productivity and Costs:** Manufacturing labor productivity grew 2.0 percent in the fourth quarter, expanding for the third straight quarter. With that said, output in the sector slowed from 4.4 percent growth in the third quarter to 2.7 percent in the fourth quarter. Unit labor costs rose 2.2 percent, largely on a 4.3 percent increase in hourly compensation costs. Labor productivity for durable and nondurable goods firms increased 3.3 percent and 1.9 percent, respectively, in the fourth quarter, with durable goods output jumping 6.1 percent but nondurable goods output falling 0.7 percent.

  Manufacturing labor productivity in the sector rose 0.8 percent in 2018, or slightly above the average over the past three years (0.6 percent). This remained less than desired. The average growth rate for manufacturing labor productivity registered 3.9 percent and 4.6 percent in the 1990�2000 and 2002�2008 time frames, respectively, or the two prior economic recoveries.

Take Action

- How does your company measure up on diversity and inclusion? Join us on Wednesday, March 13, at 2:00 p.m. EDT for a discussion on D&I. PwC's John Karren will kick off the conversation with a dive into the diversity maturity curve, exploring the levels of maturity and highlighting how successful D&I programs reach maturity. Then, Manufacturing Institute Executive Director Carolyn Lee will sit down with Ingersoll Rand Chief Diversity Officer and Vice President of Global Talent Acquisition Michelle Murphy on the steps Ingersoll Rand followed when it created its differentiated D&I program. To register, click here.

Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.

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