<

MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – February 10, 2020– SHARE

Labor Force Participation Rate Highest Since June 2013

The Weekly Toplines

- The unemployment rate remained near 50-year lows, even after inching up from 3.5% to 3.6%. Encouragingly, the rise in the unemployment rate stemmed from an acceleration in the labor market participation rate, up from 63.2% to 63.4%, the best reading since June 2013. Nonfarm payrolls increased by a solid 225,000 in January.

- Yet, manufacturing employment fell by 12,000 workers in January, dropping for the third time in the past four months. Indeed, over that four-month time frame, hiring in the sector was essentially stagnant. That suggests that, while there have been some signs of stabilization in other indicators, manufacturing job growth has lagged that progress. We still expect to see improvements moving forward, especially considering greater trade certainty and some economic progress globally.

- Along those lines, the Institute for Supply Management® reported that manufacturing activity rebounded, up from 47.8 in December to 50.9 in January, starting 2020 off on a stronger note after contracting for five straight months at the end of 2019.

- New orders for manufactured goods rose 1.8% in December, skewed by significant gains for both defense aircraft and parts and ships and boats. Excluding defense sales, orders fell 0.6%. New orders for core capital goods—a proxy for capital spending in the U.S. economy—declined 0.8% in December. Nonetheless, core capital goods spending has risen 0.9% over the past 12 months, the best year-over-year reading since June.

- The U.S. trade deficit increased from $43.69 billion in November to $48.88 billion in December. In 2019, the trade deficit averaged $51.40 billion each month, down somewhat from $52.31 billion in 2018 but up from $45.84 billion in 2017. It was the first annual decline since 2013.
- Notably, the Census Bureau reported that petroleum exports registered an all-time high at $17.08 billion in December. The trade surplus was $82 million for petroleum, the fourth consecutive month with a positive reading.
- In non-seasonally adjusted data, U.S.-manufactured goods exports were 2.9% in 2019, weakening after experiencing stronger growth in both 2017 and 2018.
- Private manufacturing construction spending declined 4.1% in the latest data. Despite the softer monthly data, construction activity in the sector has risen 5.8% over the past 12 months.
- Manufacturing production rose 0.2% in December but fell 1.3% over the past 12 months. The sector showed weakness overall last year. Looking at annual averages, manufacturing production declined 0.2% in 2019, pulling back from the 2.3% gain in 2018. In this week's industrial production data, manufacturers will be looking for signs of stabilization in the sector.

Economic Indicators

Last Week's Indicators:

This Week's Indicators:

(Summaries Appear Below)

Monday, February 3
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Tuesday, February 4
Factory Orders and Shipments

Wednesday, February 5
ADP National Employment Report
International Trade Report

Thursday, February 6
Productivity and Costs

Friday, February 7
BLS National Employment Report

Monday, February 10
None

Tuesday, February 11
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, February 12
None

Thursday, February 13
Consumer Price Index

Friday, February 14
Industrial Production
Retail Sales
University of Michigan Consumer Sentiment

Deeper Dive

- **ADP National Employment Report:** Manufacturing employment rose by 10,000 in January, offsetting the decline of 10,000 in December. Since June, manufacturers have lost 5,860 employees on net, seesawing from month to month over that time frame, as the sector grappled with slowing global growth and trade uncertainties. That weakness can also be seen in the year-over-year data. Over the past 12 months, the sector added just 2,920 workers per month, down sharply from the nearly 18,000 additional employees generated in the manufacturing sector per month in 2018. Nonetheless, the job gain in January is a harbinger of better jobs data in 2020.

  Along those lines, total nonfarm private employment jumped by 291,000 in January, the strongest monthly gain since May 2015. Construction; education and health services; leisure and hospitality; and professional and business services accounted for the bulk of the increases in January, with natural resources and mining being the lone sector with a slight decline in employment for the month. Small and medium-sized businesses (i.e., those with fewer than 500 employees) generated 76.3% of the net job creation in January.

- **BLS National Employment Report:** Manufacturing employment fell by 12,000 workers in January, dropping for the third time in the past four months. Indeed, over that four-month time frame, hiring in the sector was essentially stagnant. That suggests that, while there have been some signs of stabilization in other indicators, manufacturing job growth has lagged that progress. We still expect to see improvements moving forward, especially considering greater trade certainty and some economic progress globally.

Manufacturing employment rose by more than 4,800 per month on average in 2019, suggesting that job growth remained positive last year overall despite slowing from the average of 22,000 each month in 2018. Since the end of the Great Recession, manufacturers have added nearly 1.4 million workers.

In the latest figures, durable and nondurable goods employment fell by 11,000 and 1,000, respectively. The durable goods decline was almost entirely due to reduced motor vehicle and parts employment, down by 10,600 in January. Other data provided mixed results. Hiring increased for computer and electronic products; furniture and related products; petroleum and coal products; plastics and rubber products; and textile product mills, among others. In contrast, employment losses occurred in apparel, chemicals, machinery and primary metals.

Average hourly earnings for production and nonsupervisory workers in manufacturing were $22.45 in January, edging up from $22.44 in December. Over the past 12 months, that represented 2.8% growth year-over-year, the same pace as in the previous release but down from 3.4% in July.

In the larger economy, nonfarm payrolls increased by 225,000 in January, up from 147,000 in December and stronger than the consensus estimate of around 185,000 for the release. The unemployment rate remained near 50-year lows, even after inching up from 3.5% to 3.6%. Encouragingly, the rise in the unemployment rate stemmed from an acceleration in the labor market participation rate, up from 63.2% to 63.4%, the best reading since June 2013. As a result, the so-called "real unemployment" rate rose from 6.7%, the record low since the series began in January 1994, to 6.9%.

- **Construction Spending**: Private manufacturing construction spending declined 4.1% in the latest data, down from $77.55 billion at the annual rate in November, the best reading since August 2016, to $74.35 billion in December. Despite the softer monthly data, construction activity in the sector has risen 5.8% over the past 12 months, up from $70.26 billion in December 2018. That is encouraging, but it is worth noting that manufacturing construction activity remains well below the all-time high of $86.65 billion in June 2015.

  Meanwhile, total private construction spending edged down 0.1% in December, with residential construction up 1.4% but nonresidential activity down 1.8%. New single-family construction increased 2.7%, highlighting recent progress in the housing market, but multifamily activity fell 1.8% for the month. On a year-over-year basis, residential construction spending has risen 5.5%, but nonresidential construction activity has been virtually unchanged since December 2018 (down 0.1%).

  At the same time, public-sector construction decreased 0.4% in December, but with 11.5% growth over the past 12 months.

- **Factory Orders and Shipments:** New orders for manufactured goods rose 1.8% in December after declining 1.2% in November. Yet, this was skewed by significant gains for both defense aircraft and parts and ships and boats. Excluding defense sales, orders fell 0.6%. Along those lines, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—declined 0.8% in December. Nonetheless, core capital goods spending has risen 0.9% over the past 12 months, the best year-over-year reading since June.

  Overall, the manufacturing sector was challenged in 2019 as it grappled with global headwinds and trade uncertainties. Factory orders have declined 0.4% since December 2018, but more positively, new orders for manufactured goods excluding transportation rose 1.3% year-over-year. (That could speak as much about the weakness of last year's data as it does to the current figures.)

  Meanwhile, factory shipments increased 0.5% in December, extending the 0.3% rise in November. With transportation equipment excluded, shipments rose 0.6% for the month. Since December 2018, manufactured goods shipments have decreased 0.2%, but with a gain of 1.6% without transportation equipment included. Core capital goods shipments were essentially flat year-over-year (down 0.03%).

- **International Trade Report:** The U.S. trade deficit increased from $43.69 billion in November to $48.88 billion in December. In 2019, the trade deficit averaged $51.40 billion each month, down somewhat from $52.31 billion in 2018 but up from $45.84 billion in 2017. Goods imports have been highly volatile in recent months, rising from $201.10 billion to $207.46 billion in this report. In terms of the trade deficit, the increase in goods imports more than offset the rise in goods exports, which increased from $136.45 billion to $137.75 billion.

  Notably, the Census Bureau reported that petroleum exports registered an all-time high at $17.08 billion in December. The trade surplus was $82 million for petroleum, the fourth consecutive month with a positive reading.

  Digging deeper into the December data, goods exports were higher largely on increased activity for industrial supplies and materials and other goods, counteracting declines in automotive vehicles, parts and engines and consumer goods. At the same time, sizable increases in goods imports occurred for industrial supplies and materials, non-automotive capital goods and other goods, but automotive vehicles, parts and engines imports declined for the month.

  In non-seasonally adjusted data, U.S.-manufactured goods exports totaled $1,125.76 billion in 2019, down 2.93% from $1,159.74 billion in 2018. This suggests that international demand for U.S.-manufactured goods weakened in 2019 after experiencing better data in both 2017 and

2018, as the sector has grappled with slower global growth and trade uncertainties.

- **ISM® Manufacturing Purchasing Managers' Index®:** The Institute for Supply Management® reported that manufacturing activity rebounded in January, starting 2020 off on a stronger note after contracting for five straight months at the end of 2019. The headline index jumped from 47.8 in December to 50.9 in January, led by renewed strength for new orders, production, exports and imports. It was the first expansion of demand and output since July, which was an encouraging sign that the sector has stabilized to some extent, mirroring other indicators. Yet, it is important to note that these data predate recent concerns about the coronavirus globally, and while manufacturing activity has improved somewhat, the sector continues to expand more slowly than preferred.

  Along those lines, employment and inventories remained negative in January. Hiring has now declined for six consecutive months, but the release notes that survey respondents felt "generally positive regarding future employment potential," with the tight labor market still a concern. Likewise, inventories have fallen for eight straight months. The silver lining, however, is that with stockpiles reduced, a pickup in demand would likely necessitate increased production moving forward.

- **Productivity and Costs:** Manufacturing labor productivity fell 1.2% at the annual rate in the fourth quarter, decreasing for the third consecutive quarter. Output declined 1.0%, but with hourly compensation costs rising 4.6%, unit labor costs in the sector increased 5.9%. Labor productivity for durable and nondurable goods manufacturers decreased 0.8% and 2.2% in the fourth quarter, respectively, with output down 1.6% and 0.4%.

  In 2019, labor productivity for manufacturers was flat, down from 0.3% growth in 2018. 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 -0.2% from 2011 to 2019. In contrast, the average growth rate for the sector registered 3.8% and 4.7% in the 1990–2000 and 2000–2008 time frames, respectively, or the two prior economic recoveries.

  Meanwhile, nonfarm business labor productivity rose 1.4% in the fourth quarter, bouncing back from a decline of 0.2% in the third quarter. Output increased a modest 2.5% in the fourth quarter, with unit labor costs up 1.4%. For the year, labor productivity for nonfarm businesses rose 1.7% in 2019, up from 1.3% in 2018 and the strongest annual gain since 2010, which was encouraging. For comparison purposes with manufacturing, nonfarm labor productivity averaged 0.9% between 2011 and 2019, but averaged 1.4% over the past three years. Nonfarm labor productivity growth has also decelerated from past trends, which averaged 2.2% and 2.7% in the 1990-2000 and 2002–2008 periods.

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