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MONDAY ECONOMIC REPORT



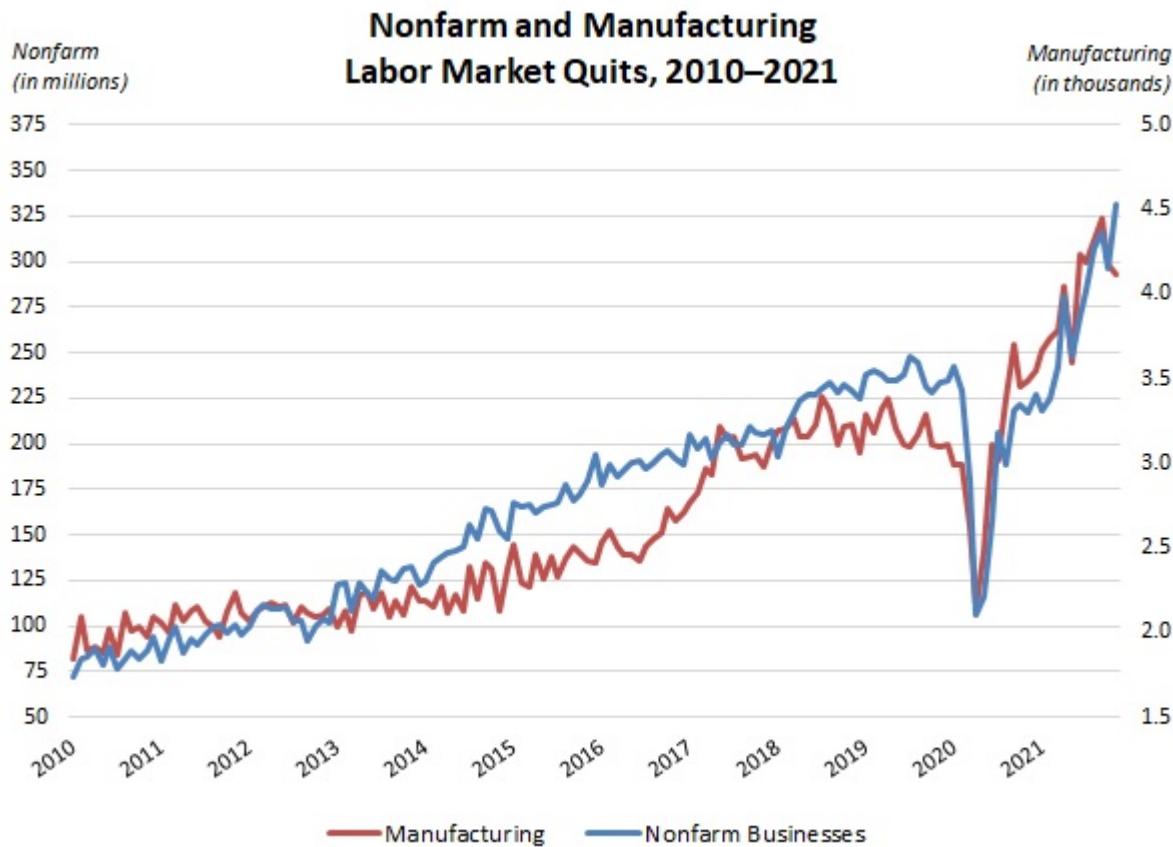
The Great Resignation: Labor Market Quits Hit Record High

By Chad Moutray – Jan. 10, 2022

The Weekly Toplines

- There were 858,000 [manufacturing job openings](#) in November, down from a record 955,000 in October. While the pace of job postings decelerated somewhat, it was the eighth straight month with openings that have exceeded 800,000, averaging 887,000 over that time frame.
- Nonfarm business job openings eased from 11,091,000 in October, which was the second highest on record, to 10,562,000 in November. There were 6,877,000 unemployed Americans in November, translating into 65 unemployed workers for every 100 job openings in the U.S. economy.
- Total nonfarm business quits jumped to 4,527,000 in November, a new all-time high. This speaks to the high degree of “churn” in the labor market, and it exacerbates the workforce difficulties that companies are experiencing.
- Turning to the latest jobs numbers, [manufacturing employment](#) rose by 26,000 in December, increasing for the eighth straight month with solid growth. There were 349,000 workers added in the sector in 2021, the most since 1994, but there remained 219,000 fewer manufacturing employees in December relative to pre-pandemic levels.
- Average hourly earnings of production and nonsupervisory workers in manufacturing increased 0.5% to \$24.33 in December. That represented a 5.2% increase over the past 12 months, the fastest year-over-year rate of wage growth in the sector since September 1982.
- Meanwhile, nonfarm payroll employment increased by just 199,000 in December, down from 249,000 in November and the slowest monthly gain in 12 months. Nonetheless, the unemployment rate dropped to 3.9% in December, a post-pandemic low.
- The [ISM® Manufacturing Purchasing Managers' Index®](#) declined from 61.1 in November to 58.7 in December, expanding at the slowest pace since last January. Even with some easing, new orders and production ended the year with solid growth, and hiring rose at the fastest rate since April. Measures of delivery times and cost pressures continued to reflect a challenging environment but have pulled back from recent records.
- [New orders for manufactured goods](#) rose 1.6% to a new record level in November. Overall, the manufacturing sector continues to expand strongly—despite lingering supply chain, workforce and pricing pressures—with new orders soaring 13.6% year to date.

- [Private manufacturing construction spending](#) rose 0.9% to the strongest pace since October 2015 and increasing for the fifth straight month. Encouragingly, private construction activity in the sector has trended higher since bottoming out at \$65.92 billion in December 2020.
- The U.S. [trade deficit](#) jumped to \$80.17 billion in November, which was just shy of the all-time high of \$81.44 billion recorded in September. The goods trade deficit soared to a record \$98.99 billion in November, with goods imports also hitting new heights. At the same time, U.S.-manufactured goods exports totaled \$1,033.11 billion through the first 11 months of 2021, soaring 18.94% from \$868.54 billion year to date in 2020.
- The [minutes](#) from the Dec. 14–15 Federal Open Market Committee meeting suggest a willingness among many participants to speed up a possible interest rate hike in light of inflationary pressures, perhaps as soon as the March 15–16, 2022, meeting. That is earlier than many market participants had expected. (I had previously written that I expected the tapering of asset purchases to end in March, with a rate hike as soon as the May 3–4 meeting.)



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Jan. 3
Construction Spending

This Week's Indicators:

Monday, Jan. 10
None

Tuesday, Jan. 4

*ISM® Manufacturing Purchasing Managers' Index®
Job Openings and Labor Turnover Survey*

Wednesday, Jan. 5

ADP National Employment Report

Thursday, Jan. 6

*Factory Orders and Shipments
International Trade Report
Weekly Initial Unemployment Claims*

Friday, Jan. 7

BLS National Employment Report

Tuesday, Jan. 11

NFIB Small Business Survey

Wednesday, Jan. 12

Consumer Price Index

Thursday, Jan. 13

*Producer Price Index
Weekly Initial Unemployment Claims*

Friday, Jan. 14

*Industrial Production
Retail Sales
University of Michigan Consumer Sentiment*

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Deeper Dive

- **ADP National Employment Report:** Manufacturing employment jumped by 74,000 in December, the strongest monthly gain since September 2020, according to ADP estimates. The sector added 384,000 employees in 2021, a very solid pace of job growth. At the same time, nonfarm private payrolls increased by 807,000 in December, up from 505,000 in November. The U.S. economy generated roughly 514,000 new workers per month on average in 2021, according to ADP.

Leisure and hospitality (up 246,000) once again led employment growth in December. In addition to manufacturing, hiring also strengthened in trade, transportation and utilities (up 138,000), professional and business services (up 130,000), education and

health services (up 85,000) and construction (up 62,000), among others. Small and medium-sized businesses (i.e., those with fewer than 500 employees) added 418,000 workers in December, or nearly 52% of net job creation for the month.

Despite notable progress, private nonfarm payrolls have fallen by roughly 3,737,000 since February 2020, with manufacturing employment down more than 202,000 over that time frame.

- **BLS National Employment Report:** Manufacturing employment rose by 26,000 in December, increasing for the eighth straight month with solid growth. In December, durable and nondurable goods employment increased by 20,000 and 6,000, respectively. There were 349,000 workers added in the sector in calendar year 2021, with 12,580,000 employees in December. That was the highest annual rate of job creation in manufacturing since 1994, which had 402,000 more workers in that year. With that said, there remained 219,000 fewer manufacturing employees relative to pre-pandemic levels, with 12,799,000 workers in the sector in February 2020.

There continued to be significant upward pressure on wages, with manufacturers citing difficulties in finding workers. The average hourly earnings of production and nonsupervisory workers in manufacturing rose 0.5% from \$24.22 in November to \$24.33 in December, up from \$23.12 in December 2020. That represented a 5.2% increase over the past 12 months, the fastest year-over-year rate of wage growth in the sector since September 1982.

Meanwhile, nonfarm payroll employment increased by just 199,000 in December, down from 249,000 in November and the slowest monthly gain in 12 months. It was a disappointing figure, as the consensus was for a gain of around 420,000. Despite the miss, the U.S. economy has generated 6,448,000 net new jobs in 2021, a healthy pace, even as nonfarm payrolls remain down 3,572,000 today relative to pre-pandemic levels in February 2020.

Much like in November, there was a split between the two different employment surveys, providing mixed news on the health of the labor market. The nonfarm payroll estimate comes from the “Establishment Survey.” The separate “Household Survey” showed employment growth of 651,000 for the month, and that stronger figure is likely a more accurate depiction of the current strength of the labor market.

The unemployment rate (which is derived from the Household Survey) dropped from 4.2% in November to 3.9% in December, a post-pandemic low, with the number of unemployed workers dropping from 6,802,000 to 6,319,000. The labor force participation rate was unchanged at 61.9% in December for the second straight month, remaining the strongest since March 2020. While the participation rate has bounced back from a low of 60.2% in April 2020, it remains well below pre-pandemic levels, with 63.3% in February 2020. The so-called “real unemployment rate”—a term that refers to those marginally attached to the workforce, including discouraged workers and the underemployed—declined from 7.7% to 7.3%, the lowest since February 2020.

In December, the largest increases in manufacturing employment occurred in machinery (up 7,700), transportation equipment (up 3,900, including 4,200 from motor vehicles and parts), chemicals (up 2,300), nonmetallic mineral products (up 2,100), miscellaneous durable goods (up 2,000) and plastics and rubber products (up 2,000), among others. In contrast, there were fewer employees for the month in paper and paper products (down 1,500), computer and electronic products (down 900),

fabricated metal products (down 600), food manufacturing (down 200) and petroleum and coal products (down 100) sectors.

Six major manufacturing sectors have exceeded their pre-pandemic levels of employment as of December: miscellaneous durable goods (up 18,900), miscellaneous nondurable goods (up 15,000), plastics and rubber products (up 14,000), chemicals (up 11,000), computer and electronic products (up 9,000) and wood products (up 4,000).

- **Construction Spending**: Private manufacturing construction spending rose 0.9% from \$82.48 billion in October to \$83.22 billion in November, the strongest pace since October 2015 and increasing for the fifth straight month. Encouragingly, private construction activity in the sector has trended higher since bottoming out at \$65.92 billion in December 2020, with 22.4% growth year-over-year from \$67.99 billion in November 2020.

Total private nonresidential construction spending edged up 0.1% in November, with activity rising 6.7% over the past 12 months. In addition, private construction spending increased 0.6% in November, buoyed by the 0.9% gain for private residential construction. Private single-family construction rose 1.2% in November, but multifamily activity fell 0.3%. Overall, total private construction has soared 12.5% since November 2020, with private residential activity up by a very robust 16.3%. Meanwhile, public construction spending declined 0.2% in November, falling 0.9% year-over-year.

- **Factory Orders and Shipments**: New orders for manufactured goods rose 1.6% from \$523.4 billion in October to a record \$531.8 billion in November, increasing for the seventh straight month. Transportation equipment orders jumped 6.5% in November, buoyed by a sharp rise in nondefense aircraft and parts sales, which can be highly volatile from month to month. Excluding transportation equipment, manufacturing orders increased 0.8% in November, up for the ninth consecutive month to another all-time high.

Overall, the manufacturing sector continues to expand strongly—despite lingering supply chain, workforce and pricing pressures—with new orders soaring 13.6% year to date. Nonetheless, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—was essentially flat, inching down from a record \$78.82 billion in October to \$78.80 billion in November. With that said, core capital goods orders have risen 10.0% through the first 11 months of 2021.

Meanwhile, factory shipments increased 0.7% from \$523.5 billion in October to \$527.0 billion in November, an all-time high. On a year-to-date basis, factory shipments have risen 10.9%, a very solid figure, or 13.1% with transportation equipment excluded. At the same time, core capital goods shipments increased 0.3% from \$76.0 billion in October to a record \$76.3 billion in November. Core capital goods shipments have increased 8.9% year to date.

- **International Trade Report**: The U.S. trade deficit jumped from \$67.16 billion in October to \$80.17 billion in November, which was just shy of the all-time high of \$81.44 billion recorded in September. These data have been skewed over the course of 2021 by supply chain disruptions and the chip shortage, but higher petroleum costs have also had an impact. The [average price per barrel of imported crude oil](#) was \$72.33 in November, up from \$68.77 in October and the highest since December 2014.

The goods trade deficit soared from \$83.86 billion in October to \$98.99 billion in November, a record high. Goods imports rose from \$242.67 billion to \$254.93 billion, an all-time high, but goods exports pulled back from a record \$158.82 billion to \$155.94 billion. At the same time, the service-sector trade surplus improved from \$16.70 billion to \$18.82 billion, the best in five months.

In November, goods exports were mostly lower, led by declines in non-automotive capital goods (down \$1.24 billion), industrial supplies and materials (down \$891 million) and consumer goods (down \$634 million). In contrast, exports for foods, feeds and beverages rose \$716 million for the month. Meanwhile, sharp increases in goods imports occurred for industrial supplies and materials (up \$5.90 billion), consumer goods (up \$2.97 billion), automotive vehicles, parts and engines (up \$1.24 billion) and foods, feeds and beverages (up \$546 million).

Looking at longer-term trends, U.S.-manufactured goods exports totaled \$1,033.11 billion through the first 11 months of 2021, soaring 18.94% from \$868.54 billion year to date in 2020.

- **ISM® Manufacturing Purchasing Managers' Index®**: Manufacturing activity expanded at the slowest pace in December since last January, with supply chain, workforce and price issues weighing heavily on sentiment despite strong demand. The ISM® Manufacturing Purchasing Managers' Index® declined from 61.1 in November to 58.7 in December, with eased growth for both new orders (down from 61.5 to 60.4) and production (down from 61.5 to 59.2). Encouragingly, employment (up from 53.3 to 54.2) improved to the best reading since April.

Indices for the backlog of orders (up from 61.9 to 62.8), supplier delivery times (down from 72.2 to 64.9) and customers' inventories (up from 25.1 to 31.7) were consistent with still-significant bottlenecks in the sector, even with some progress in the latter two for the month.

Cost pressures decelerated notably in December but remained highly elevated, with the index for prices declining from 82.4 to 68.2. This measure peaked at 92.1 in June, when price growth was the fastest since July 1979, and the sample comments note some slowing for the month. Yet, inflation remained the number-one concern in the most recent [NAM Manufacturers' Outlook Survey](#).

- **Job Openings and Labor Turnover Survey**: There were 858,000 manufacturing job openings in November, down from a record 955,000 in October. While the pace of job postings decelerated somewhat, it was the eighth straight month with openings that have exceeded 800,000, averaging 887,000 over that time frame. In November, both durable (down from 552,000 to 522,000) and nondurable (down from 402,000 to 336,000) goods firms pulled back from record paces in the previous month but remained elevated.

Overall, job postings remain well above pre-pandemic levels, as companies ramp up activity and need more workers to meet the additional capacity. Of particular note, 85.2% of respondents to the latest [NAM Manufacturers' Outlook Survey](#) said they had open positions that they were unable to fill, and nearly 45% noted that their companies were unable to take on new business and had lost revenue opportunities.

In the larger economy, nonfarm business job openings eased from 11,091,000 in October, which was the second highest on record, to 10,562,000 in November. There

were 6,877,000 unemployed Americans in November, which translated into 65 unemployed workers for every 100 job openings in the U.S. economy. That number speaks to the extreme tightness of the labor market, with more job openings than people looking for work.

Manufacturers hired 472,000 workers in November, down from 482,000 in October, with some eased hiring from nondurable goods firms. Durable goods hiring was unchanged. Total separations were flat at 420,000. Therefore, net hiring (or hiring minus separations) was a robust 52,000 in November, averaging 45,860 over the past seven months.

In addition, total quits in the nonfarm business economy jumped from 4,157,000 in October to 4,527,000 in November, a new all-time high. This speaks to the high degree of “churn” in the labor market, and it exacerbates the workforce difficulties that companies are experiencing. For manufacturers, the number of quits declined from 298,000 in October to 293,000 in November but continued to remain highly elevated.

- **Weekly Initial Unemployment Claims:** There were 207,000 initial unemployment claims for the week ending Jan. 1, up slightly from 200,000 for the week ending Dec. 25. Initial claims fell sharply over the course of last year, down from 781,000 for the week ending Jan. 2, 2021. Meanwhile, continuing claims remained near pre-pandemic levels despite rising from 1,718,000 for the week ending Dec. 18 to 1,754,000 for the week ending Dec. 25. To put that in perspective, there were 5,240,000 continuing claims for the week ending Jan. 2, 2021, representing a sizable improvement for the year.

Take Action

- Please join me for a webinar on “Successfully Navigating Current Supply Chain Disruptions” on Thursday, Jan. 27, at 2:00 p.m. EST. This webinar will discuss the action industry leaders can take to improve their supply chain visibility, resilience and a sufficient workforce to secure supply and successfully navigate the risk of future disruptions. Panelists include Debijit Banerjee (PwC), Dennis Hoeg (Nexteer Automotive) and Ernest Nicolas, Jr. (Rockwell Automation). To register, click [here](#).

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