MONDAY ECONOMIC REPORT

Labor Force Participation Rises to Highest Rate Since March 2020

By Chad Moutray – Feb. 7, 2022

The Weekly Toplines

- Manufacturing employment rose by 13,000 in January, and nonfarm payrolls increased a surprisingly strong 467,000, well above consensus estimates. The unemployment rate edged up from 3.9% to 4.0%, with the labor force participation rate rising from 61.9% to 62.2%, the best since March 2020. Average hourly earnings for production workers in manufacturing rose 5.2% year-over-year in January, matching the pace in June and August last year, all of which were the fastest since September 1982.

- Despite the encouraging numbers, omicron and supply chain issues likely impacted these data and others. For instance, 8.8 million Americans were out sick themselves with COVID-19 or caring for someone with the virus at the end of December and beginning of January. Perhaps the Federal Reserve says it best when it notes that the outlook depends on the "path of the virus" and increased vaccinations.

- Meanwhile, there were 856,000 manufacturing job openings in December. It was the ninth straight month with openings that have exceeded 800,000, with job postings remaining well above pre-pandemic levels. Nonfarm business job openings rose from 10,775,000 in November to 10,925,000 in December, which was not far from the record set in July, which was 11,098,000.

- There were 6,319,000 unemployed Americans in December, which translated into 57.8 unemployed workers for every 100 job openings in the U.S. economy. Nonfarm business layoffs or other discharges fell to 1,169,000 in December, the fewest in the history of the series. Quits also remained not far from record levels.

- The ISM® Manufacturing Purchasing Managers' Index® declined from 58.8 in December to 57.6 in January, with supply chain, workforce, COVID-19 and price issues weighing heavily on sentiment despite solid (but slowing) demand. The index for prices rose and remained very elevated despite decelerating from June's pace, which was the fastest since July 1979.

- New orders for manufactured goods declined 0.4% in December, pulled lower by steep declines in aircraft and parts sales, which can be highly volatile from month to month. Excluding transportation equipment, manufacturing orders edged up 0.1% in December, rising for the 10th 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 factory orders soaring 13.3% year to date.

- Private manufacturing construction spending declined 1.9% from $87.63 billion in November, the strongest since October 2015, to $85.96 billion in December. Yet, private construction activity in the sector has trended strongly higher since bottoming out at $65.92 billion in December 2020, jumping 30.4% year-over-year since that point.

- Manufacturing labor productivity fell 0.8% in the fourth quarter at the annual rate, but output rose 4.8% in the fourth quarter, continuing to reflect solid growth in demand for goods despite ongoing challenges with supply chain and workforce issues. For 2021, manufacturing labor productivity increased 3.1%, the strongest annual increase since 2010, another year with strong rebounds in activity.

- At the same time, nonfarm business labor productivity soared 6.6% in the fourth quarter, bouncing back from the 5.0% decline in the third quarter. Output grew 9.2% for the quarter, and the number of hours worked rose 2.4%. Real hourly compensation declined 1.2%, and unit labor costs ticked up 0.3%.

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Jan. 31
Dallas Fed Manufacturing Survey

This Week's Indicators:

Monday, Feb. 7
Consumer Credit

Tuesday, Feb. 8

Tuesday, Feb. 1
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®
Job Openings and Labor Turnover Survey

Wednesday, Feb. 2
ADP National Employment Report

Thursday, Feb. 3
Factory Orders and Shipments
Productivity and Costs
Weekly Initial Unemployment Claims

Friday, Feb. 4
BLS National Employment Report

International Trade Report
NFIB Small Business Survey

Wednesday, Feb. 9
None

Thursday, Feb. 10
Consumer Price Index
Weekly Initial Unemployment Claims

Friday, Feb. 11
University of Michigan Consumer Sentiment

Deeper Dive

- **ADP National Employment Report:** Manufacturing employment fell by 21,000 in January, the first decline in 11 months, according to ADP estimates. Likewise, the U.S. economy lost 301,000 employees in January, decreasing for the first time since December 2020. In January, the data were mostly lower across the board. Leisure and hospitality (down 154,000) and trade, transportation and utilities (down 62,000) led the declines in employment.

  These data reflect the negative impacts of the omicron variant. The most recent Household Pulse Survey, for instance, found that 8.8 million Americans were out of work in late December and early January either with COVID-19 themselves or in caring for someone who did have the virus. As a result, manufacturers and other businesses struggled to maintain their workforces with many of their employees out sick—a problem exacerbated by an extremely tight labor market.

Looking more closely at the data, manufacturing employment growth had been solid prior to January, with 347,000 additional workers in the sector over the past 12 months, according to ADP. Despite progress, manufacturing employment remains down by 230,000 since February 2020. In addition, private nonfarm payrolls have risen by more than 5,635,000 year-over-year, but with more than 4,000,000 fewer workers post-pandemic.

- **BLS National Employment Report:** Manufacturing employment rose by 13,000 in January, slowing from the gain of 32,000 in December but expanding for the ninth straight month. In January, durable and nondurable goods employment increased by 8,000 and 5,000, respectively.

  Omicron and supply chain issues likely impacted these data, and there were expectations that job growth might have been negative, especially given the number of people who were out sick with COVID-19 earlier in the month. Indeed, one cannot help but think that job growth might have been stronger without those factors. Perhaps the Federal Reserve says it best when it notes that the outlook depends on the "path of the virus" and increased vaccinations. Manufacturers will continue to watch the productivity numbers closely as they are another indication of how supply chain disruptions and the pandemic affect manufacturing operations, both for the coming months and over the long run.

  On the positive side, the Bureau of Labor Statistics revised the employment data higher for previous months as well. The sector added 358,000 workers in calendar year 2021, the most since 1994, and in January, there were 12,559,000 manufacturing employees. There remained 226,000 fewer manufacturing employees relative to pre-pandemic levels, with 12,785,000 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 $24.37 in December to $24.48 in January, up from $23.27 in January 2021. That represented a 5.2% year-over-year increase over the past 12 months, matching the pace in June and August last year, all of which were the fastest since September 1982.

  Meanwhile, nonfarm payroll employment increased by 467,000 in January, well above the consensus estimate of 150,000. Moreover, the BLS revised the jobs numbers for November and December, with 647,000 and 510,000 in employment gains, respectively (up from prior estimates of 249,000 and 199,000).

  The unemployment rate edged up from 3.9% to 4.0%, with the labor force participation rate rising from 61.9% to 62.2%, the best 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 7.3% to 7.1%, the lowest since February 2020.

  In January, the largest increases in manufacturing employment occurred in food manufacturing (up 5,200), fabricated metal products (up 5,000), machinery (up 3,600), nonmetallic mineral products (up 3,300), computer and electronic products (up 2,000) and wood products (up 2,000). At the other end of the spectrum, there were fewer employees for the month for transportation equipment (down 9,500, including 4,900 from motor vehicles and parts), printing and related support activities (down 2,500), petroleum and coal products (down 1,800), furniture and related products (down 1,500) and textile product mills (down 800).

Seven major manufacturing sectors have exceeded their pre-pandemic employment levels as of January: chemicals (up 27,000), miscellaneous nondurable goods (up 13,200), wood products (up 13,000), food manufacturing (up 8,000), plastics and rubber products (up 7,000), electrical equipment and appliances (up 5,000) and miscellaneous durable goods (up 3,000).

- **Construction Spending:** Private manufacturing construction spending declined 1.9% from $87.63 billion in November, the strongest since October 2015, to $85.96 billion in December. Despite the pullback in the latest data, private construction activity in the sector has trended strongly higher since bottoming out at $65.92 billion in December 2020, jumping 30.4% year-over-year since that point.

  Total private nonresidential construction spending was flat in December, but with activity rising 9.1% over the past 12 months. In addition, total private construction spending increased 0.7% in December, buoyed by the 1.1% gain for private residential construction. Private single-family and multifamily construction rose 2.1% and 0.4%, respectively, in December. Overall, total private construction has soared 12.7% since December 2020, with private residential activity up a robust 15.0%. Meanwhile, public construction spending declined 1.6% in December, falling 2.9% year-over-year.

- **Dallas Fed Manufacturing Survey:** Manufacturing activity slowed once again in January, with the composite index of general business conditions declining from 7.8 in December to 2.0 in January, the weakest reading since July 2020. New orders accelerated slightly in January, but most of the other key measures eased, including production, shipments, capacity utilization, employment and capital spending. On the other hand, the labor market remained very tight, with wage growth reaching a new record, for a data series dating to June 2004. At the same time, while input costs remained elevated, the index for raw material prices decelerated to the lowest figure in 12 months. The sample comments continued to note ongoing challenges with supply chain disruptions, COVID-19, long delivery times, workforce shortages and inflation.

  Looking ahead, manufacturers in the Texas district remained positive in their outlook for the next six months, despite ongoing challenges, with the forward-looking composite measure increasing from 14.6 to 16.5. Survey respondents predicted hiring to increase at a record pace.

- **Factory Orders and Shipments:** New orders for manufactured goods declined 0.4% from $533.1 billion in November to $530.7 billion in December. Durable and nondurable goods orders fell 0.7% and 0.2% in December, respectively. Transportation equipment decreased 3.7% in December, largely from steep declines in aircraft and parts sales, which can be highly volatile from month to month. Motor vehicles and parts orders also weakened, down 1.1% for the month. Excluding transportation equipment, manufacturing orders edged up 0.1% in December, rising for the 10th 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 13.3% year to date. At the same time, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—rose 0.3% from $78.97 billion in November to $79.18 billion in December. Core capital goods orders increased a solid 10.6% year-over-year.

Meanwhile, factory shipments increased 0.4% from $526.9 billion in November to $528.9 billion in December, an all-time high. On a year-to-date basis, factory shipments have risen 11.3%, a very strong figure, or 13.3% with transportation equipment excluded. In addition, core capital goods shipments increased 1.3% from $76.3 billion in November to a record $77.4 billion in December, with 10.4% growth over the past 12 months.

- **ISM® Manufacturing Purchasing Managers' Index®:** Manufacturing activity decelerated in January, with supply chain, workforce, COVID-19 and price issues weighing heavily on sentiment despite solid (but slowing) demand. Omicron's advance continues to place a significant weight on manufacturing operations and on the economy, raising the real concern that a stubbornly high rate of unvaccinated individuals will continue to hold us back. The ISM® Manufacturing Purchasing Managers' Index® declined from 58.8 in December to 57.6 in January, with eased growth for new orders (down from 61.0 to 57.9), production (down from 59.4 to 57.8) and inventories (down from 54.6 to 53.2). Encouragingly, employment (up from 53.9 to 54.5) improved for the fifth straight month, and exports (up from 53.6 to 53.7) strengthened marginally.

  Cost pressures continued to be highly elevated, with the index for prices rising from 68.2 in December to 76.1 in January. This measure peaked at 92.1 in June, when price growth was the fastest since July 1979, but continues to expand at an extraordinary pace. Inflation remained the number-one concern in the most recent NAM Manufacturers' Outlook Survey. The index for supplier deliveries (down from 64.9 to 64.6) improved slightly in the latest ISM® survey, but continued to reflect long wait times for deliveries, consistent with supply chain challenges seen over much of the past year.

- **Job Openings and Labor Turnover Survey:** There were 856,000 manufacturing job openings in December, inching up from 853,000 in November but down from a record 955,000 in October. More importantly, it was the ninth straight month with openings that have exceeded 800,000, averaging 883,000 over that time frame. In December, nondurable goods job openings increased, up from 346,000 to 377,000, but postings for durable goods slipped from 507,000 to 479,000. Overall, job postings remain well above pre-pandemic levels, as companies ramp up activity and need more workers to meet the additional capacity.

  In the larger economy, nonfarm business job openings rose from 10,775,000 in November to 10,925,000 in December, which was not far from the record set in July, which was 11,098,000. There were 6,319,000 unemployed Americans in December, which translated into 57.8 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 433,000 workers in December, down from 463,000 in November, with fewer hires from both durable and nondurable goods firms. Total separations increased from 411,000 to 426,000. Therefore, net hiring (or hiring minus separations) was 7,000 in December, slowing from a robust 52,000 in November. Net hiring has averaged 40,140 over the past eight months.

There were 1,169,000 nonfarm business layoffs or other discharges in December, the fewest in the history of the series, which dates to December 2000. That translated into just 0.8% of total employment. For manufacturers, there were 95,000 layoffs in December, picking up somewhat from 84,000 in November, which was the lowest since February 2014. It was also 0.8% of total manufacturing employment.

In addition, total quits in the nonfarm business economy pulled back from a record 4,499,000 in November to 4,338,000 in December, which remained the third-highest reading in the survey's history and speaks to the high degree of "churn" in the labor market, exacerbating the workforce difficulties that companies are experiencing. For manufacturers, the number of quits rose from 294,000 in November to 308,000 in December, remaining highly elevated and not far from the all-time high of 324,000 recorded in September.

- **Productivity and Costs:** Manufacturing labor productivity fell 0.8% in the fourth quarter at the annual rate, extending the 2.6% decline in the third quarter. With that said, output rose 4.8% in the fourth quarter, continuing to reflect solid growth in demand for goods despite ongoing challenges with supply chain and workforce issues. However, real hourly compensation decreased 4.5% in the fourth quarter, pulling the headline figure lower. Unit labor costs for manufacturers increased 4.2% in the fourth quarter. For 2021, manufacturing labor productivity increased 3.1%, the strongest annual increase since 2010, another year with strong rebounds in activity.

  Labor productivity for durable goods increased 0.8% in the fourth quarter, with output rising 3.9% but with real hourly compensation declining 3.8%. At the same time, labor productivity for nondurable goods decreased 3.7% in the fourth quarter, with output jumping 5.7% but with real hourly compensation dropping 5.1%. Unit labor costs for durable and nondurable goods rose 3.3% and 6.7% in the fourth quarter, respectively.

  Meanwhile, nonfarm business labor productivity soared 6.6% in the fourth quarter, bouncing back from the 5.0% decline in the third quarter. Output grew 9.2% for the quarter, and the number of hours worked rose 2.4%. Real hourly compensation declined 1.2%, and unit labor costs ticked up 0.3%.

- **Weekly Initial Unemployment Claims:** The week ending Jan. 29 saw 238,000 initial unemployment claims, declining for the second straight report, down from 261,000 for the week ending Jan. 22. Meanwhile, there were 1,628,000 continuing claims for the week ending Jan. 22, down from 1,672,000 for the week ending Jan. 15. Overall, these data continue to reflect a labor market that has improved mightily over the course of the past year.

Take Action

- Manufacturing leaders understand the overarching impact and importance of cybersecurity on their bottom line. As manufacturing embraces the digital transformation, new technologies bring increased risk, and manufacturing leaders need to build the business case for internal support to protect their company and establish the non-negotiables when it comes to cybersecurity. Join fellow CISOs, CIOs, CTOs and other technology and cybersecurity leaders from manufacturing organizations at the **NAM's Leading Edge Cybersecurity Executive Forum at Space Center Houston on Thursday, Feb. 24,** to discuss this topic. Hear from your peers and industry experts, including Matt Gorham, managing director, Cyber &

Privacy Innovation Institute at PwC; Michael Olive, managing counsel for digital and privacy at BP; and Daniel Stuart, CIO/SVP of Southwire. Find other speakers, session descriptions and registration information here.

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