MONDAY ECONOMIC REPORT

Initial Unemployment Claims Fell to the Lowest Level Since 1969

By Chad Moutray – Nov. 29, 2021

The Weekly Toplines

- Initial unemployment claims totaled 199,000 for the week ending Nov. 20, the lowest level since the week of Nov. 15, 1969. Meanwhile, the 2,049,000 continuing claims for the week ending Nov. 13 marked a post-pandemic low. In addition, total unemployment insurance payments dropped to $45.2 billion in October, the lowest level since February 2020, after peaking at $1,395.8 billion in June 2020.

- New orders for durable goods pulled back for the second straight month. However, excluding transportation equipment, new durable goods sales rose 0.5% in October. Demand for nondefense capital goods excluding aircraft—a proxy for capital spending in the U.S. economy—increased 0.6% to a record $78.6 billion in October.

- Overall, the durable goods data continue to reflect a strong upward trend, even as manufacturers struggle with supply chain bottlenecks, worker shortages and soaring costs.

- After slipping to 52.1 in October, the slowest pace of growth since March, the IHS Markit Flash U.S. Manufacturing PMI inched up to 53.9 in November. Respondents continued to signal optimism in the outlook for the next six months despite ongoing concerns.

- In the IHS Markit survey, supplier delivery times remained near historic levels despite narrowing slightly in November. Input prices grew at the fastest rate in the survey’s history. Output prices pulled back from their record pace, although they remained very elevated.

- Manufacturing activity expanded for the second straight month in the Richmond Federal Reserve Bank’s district. Inflation remained a significant challenge, even with some easing in the latest data.

- The Index of Consumer Sentiment declined to 67.4 in November, the lowest level since November 2011, according to the University of Michigan and Thomson Reuters, largely on worries about higher prices.

- The PCE deflator rose 0.6% in October, the fastest monthly gain since April. Food and energy prices increased 0.8% and 4.9% for the month, respectively. Excluding food and energy prices, the PCE deflator increased 0.4% in October, up from 0.2% in September.

- Overall, the PCE deflator has risen 5.0% year-over-year, the greatest increase since November 1990. Core inflation has increased 4.1% since October 2020, the fastest pace of inflation since January 1991. With that said, the current forecast is for the core PCE deflator to be 2.5% year-over-year by the end of 2022.

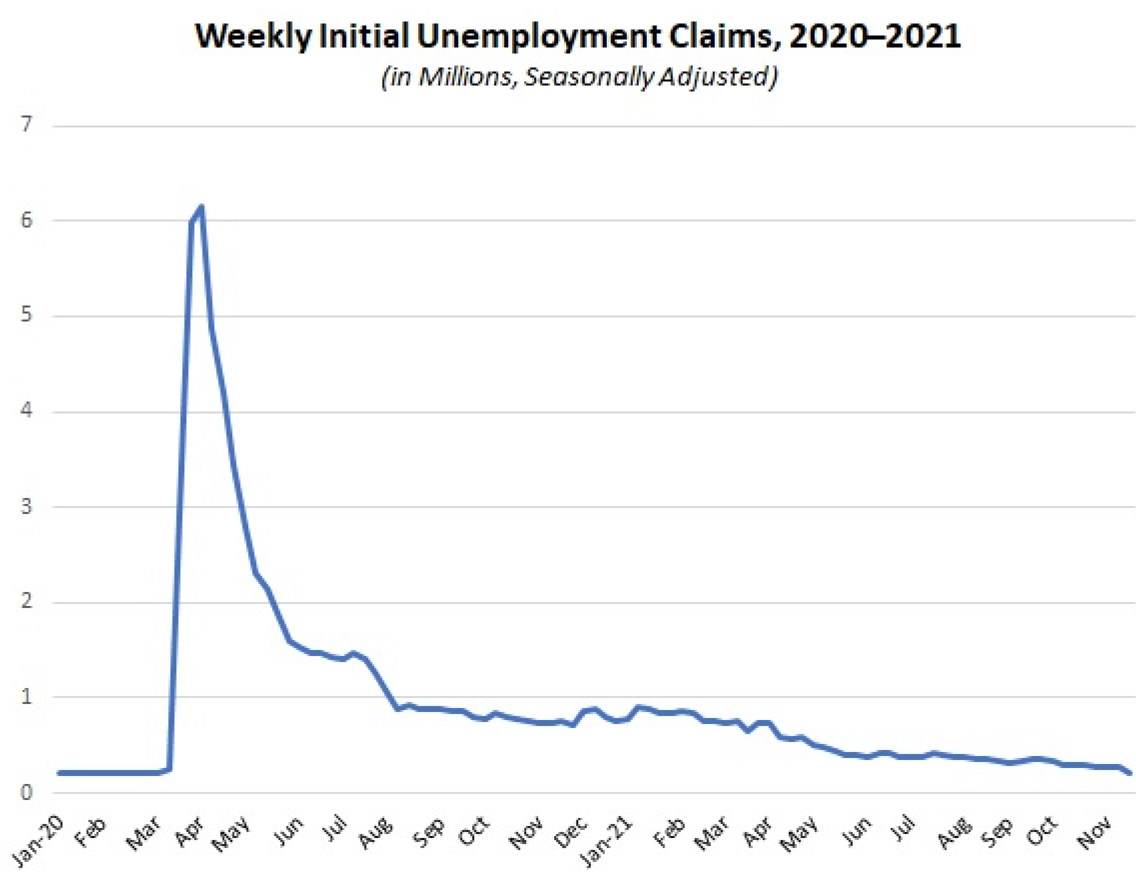
- For its part, the Federal Reserve has started tapering its asset purchases, and there is an expectation that the rise in inflation will force them to accelerate the pace of the tapering. In addition, the Federal Open Market Committee is likely to increase short-term interest rates by mid-2022.

- Personal consumption expenditures jumped 1.3% in October, and personal income rose 0.5%. Total manufacturing wages and salaries also rose by 0.8% from $996.9 billion in September to $1,055.2 billion in October. More importantly, total wages and salaries have increased 9.8% year-over-year, with manufacturing data up 9.6% since October 2020.

- The personal saving rate decreased to 7.3% in October, the lowest level since December 2019, suggesting that Americans were dipping into their savings to make purchases for the month.

- The U.S. economy grew 2.1% at the annual rate in the third quarter, the slowest pace of growth since the pandemic began and little changed from the previous estimate of 2.0% growth.

- Real GDP should rebound in the fourth quarter, with 6.0% growth expected. For 2021, the forecast is for 5.6% growth. For 2022, the current estimate is for 4.3% growth. The U.S. economy is now 1.4% larger than at the end of 2019, or before the COVID-19 pandemic began.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Nov. 22
Chicago Fed National Activity Index
Existing Home Sales

Tuesday, Nov. 23
IHS Markit Flash U.S. Manufacturing PMI
Richmond Fed Manufacturing Survey

Wednesday, Nov. 24
Durable Goods Orders and Shipments
Gross Domestic Product (Revision)
International Trade in Goods (Preliminary)
New Home Sales
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)
Weekly Initial Unemployment Claims

Thursday, Nov. 25
THANKSGIVING DAY HOLIDAY

Friday, Nov. 26
None

This Week's Indicators:

Monday, Nov. 29
Dallas Fed Manufacturing Survey

Tuesday, Nov. 30
Conference Board Consumer Confidence

Wednesday, Dec. 1
ADP National Employment Report
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Thursday, Dec. 2
Weekly Initial Unemployment Claims

Friday, Dec. 3
BLS National Employment Report
Factory Orders and Shipments

Deeper Dive

- **Chicago Fed National Activity Index:** After contracting in September for the first time since April, the U.S. economy rebounded in October, according to the Chicago Federal Reserve Bank. The National Activity Index jumped from -0.18 in September to 0.76 in October, while the three-month moving average showed little change, declining from 0.22 to 0.21. Positive index readings suggest that the U.S. economy is growing above trend. As such, the three-month moving average suggests that the national economy continues to expand overall despite ongoing challenges with supply chain disruptions, workforce shortages and soaring costs.

  Improvements in the manufacturing sector helped to buoy the economy, with production-related indicators adding 0.44 to the NAI in October after subtracting 0.35 in September. Manufacturing production rose 1.2% in October, bouncing back from declines in both August and September. Employment also strengthened, with nonfarm payroll and manufacturing employment increasing by 531,000 and 60,000, respectively, and the unemployment rate dropping to 4.6%.

- **Durable Goods Orders and Shipments:** New orders for durable goods pulled back for the second straight month, declining from a record $262.3 billion in August to

$261.3 billion in September to $260.1 billion in October. The latest data reported sizable decreases in defense and nondefense aircraft and parts orders, which can be highly volatile from month to month. Yet, sales rose 4.8% for motor vehicles and parts, a sector that has been hit hard by the chip shortage and supply chain issues this year. Excluding transportation equipment, new durable goods orders increased 0.5% in October.

In addition to automobiles, demand strengthened in October for primary metals (up 1.7%), electrical equipment and appliances (up 1.2%), computer and electronic products (up 0.7%), other durable goods (up 0.7%) and fabricated metal products (up 0.4%). New orders of machinery goods were lower for the month, down 0.9%. Demand for nondefense capital goods excluding aircraft—a proxy for capital spending in the U.S. economy—rose 0.6% from $78.1 billion in September to a record $78.6 billion in October.

Overall, the durable goods data continue to reflect a strong upward trend, even as manufacturers struggle with supply chain bottlenecks, worker shortages and soaring costs. Orders rose 9.5% year to date, or 10.3% with transportation equipment excluded. Similarly, core capital goods orders have grown 9.7% through the first three quarters of 2021.

Meanwhile, durable goods shipments rose 1.5% from $257.5 billion in September to a record $261.5 billion in October. Shipments of motor vehicles and parts jumped 4.3% in October, lifting transportation equipment shipments by 3.2%. With transportation equipment excluded, shipments of durable goods increased 0.9% in October to a new all-time high ($186.2 billion). So far this year, durable goods shipments have risen 7.0%, or 11.1% excluding transportation equipment. In addition, core capital goods shipments increased 0.3% from $75.8 billion to $76.0 billion, an all-time high, with 8.6% growth year to date.

- **Existing Home Sales:** Existing home sales rose 0.8%, increasing from 6.29 million units in September at the annual rate to 6.34 million units in October, the strongest pace since January, according to the National Association of Realtors. Strong growth in the Midwest led all regions, with sales weaker in the Northeast. Overall, existing home sales have drifted lower since peaking at 6.73 million units in October 2020, which was the strongest pace since March 2006. However, the latest data reflect a healthy rebound from recent weaknesses. Affordability and inventory issues have challenged the housing market this year. Despite these ongoing concerns, NAR Chief Economist Lawrence Yun noted “resilience” in home sales in October.

  In October, single-family sales increased 1.3% from 5.59 million units to 5.66 million units, the best reading since January. In contrast, condominium and co-op sales declined 2.9% from 700,000 units to 680,000 units. Existing home sales have fallen 5.8% since October 2020.

  There were 2.4 months of unsold inventory for existing homes on the market in October, the same pace as in September. Inventories remain historically low overall despite rising from a record low of 1.9 months of supply on the market in December 2020 and January. The median sales price for existing homes has jumped 13.1% year-over-year, up to $353,900.

- **Gross Domestic Product (Revision):** The U.S. economy grew 2.1% at the annual rate in the third quarter, the slowest pace of growth since the pandemic began and little changed from the previous estimate of 2.0% growth. While real GDP grew 6.7%

in the second quarter, the third quarter deceleration stemmed from supply chain disruptions and the spread of the delta variant, and consumer and business spending eased significantly. Durable goods purchases fell for the first time since the second quarter of 2020, led by sizable declines in spending for motor vehicles and parts due to the ongoing chip shortage. Nonresidential fixed investment and net exports were also notable drags on growth in the third quarter. However, at $19.469 billion, real GDP in the third quarter was 1.4% above the pace seen at the end of 2019, or before the COVID-19 pandemic began.

Overall, real GDP should rebound in the fourth quarter, with 6.0% growth expected. For 2021, the forecast is for 5.6% growth. For 2022, the current estimate is for 4.3% growth.

- **IHS Markit Flash U.S. Manufacturing PMI:** After slipping to 52.1 in October, the slowest pace of growth since March, the IHS Markit Flash U.S. Manufacturing PMI inched up to 53.9 in November. Manufacturers in the U.S. continued to cite supply chain bottlenecks and workforce shortages as significant challenges to growth, and the data reflect those challenges, even with modest improvement in November. Indeed, the headline index has decelerated since peaking at a record 63.4 in July. In the latest survey, new orders (up from 57.1 to 58.1), output (up from 52.1 to 53.9), future output (up from 70.1 to 73.3) and exports (up from 50.4 to 51.6) improved, but employment (down from 52.7 to 52.2) slowed somewhat. Respondents continued to signal optimism in the outlook for the next six months despite ongoing concerns.

  Supplier delivery times (up from 16.8 to 18.3) remained near historic levels despite narrowing slightly in November. Input prices (up from 86.9 to 87.8) grew at the fastest rate in the survey's history. At the same time, output prices (down from 76.4 to 74.3) pulled back from their record pace, although they remained very elevated.

  Meanwhile, the IHS Markit Flash Eurozone Manufacturing PMI edged up from 58.3 in October to 58.6 in November, averaging 58.5 from September through November. Manufacturing activity has decelerated on supply chain disruptions, with the headline index averaging 62.7 from March through August. November reports noted slight improvement in most key measures, including new orders, output, future output, exports and hiring. Manufacturers also remained optimistic about production over the next six months. On the topic of supply constraints, delivery times continued to be very long, and input and output prices both soared at record paces.

  Data for the three countries releasing preliminary data for November were mixed. Sentiment edged higher in both France and, outside the Eurozone, the United Kingdom . However, activity expanded in November in Germany at the slowest pace since January. Countries continued to grapple with supply chain and inflationary issues, with growth in input costs hitting an all-time high in Great Britain and hovering near record levels in both France and Germany.

- **International Trade in Goods (Preliminary):** After hitting a record $97.03 billion in September, skewed by supply chain disruptions, the goods trade deficit dropped to $82.89 billion in October, a one-year low. In October, goods exports soared from $142.19 billion to a record $157.45 billion. That was more than enough to outweigh the increase in goods imports from $239.22 billion to $240.34 billion.

  In the latest data, the jump in goods exports was led by significant increases for industrial supplies (up $6.14 billion), capital goods (up $3.03 billion), foods, feeds and beverages (up $1.99 billion), automotive vehicles (up $1.58 billion) and consumer goods (up $1.58 billion). At the same time, goods imports were higher on strength in automotive vehicles (up $1.47 billion), consumer goods (up $584 million) and foods, feeds and beverages (up $295 million). Goods imports were lower for industrial supplies (down $712 million) and capital goods (down $619 million). Final data, which will also include the service-sector trade surplus, will be released Dec. 7.

- **New Home Sales:** New single-family home sales edged up 0.4% from 742,000 units at the annual rate in September to 745,000 units in October, the best pace since April. In the latest figures, sales were robust in the Midwest and just enough to offset declines in the Northeast and West. Despite improving in the past two months, these data have trended lower since peaking at 993,000 units in January, which was the strongest pace since December 2006, largely on affordability issues, supply chain challenges and workforce shortages. With weaker data since January, new single-family home sales declined 23.1% year-over-year, down from 969,000 units in October 2020.

  October inventories recorded 6.3 months of supply on the market, up from 6.1 months in September and, more importantly, better than the 3.6 months seen in January. The median sales price for new homes was $407,700, a new record and up 17.5% from $346,900 one year ago. (The previous record was $407,600 in August.)

- **Personal Consumption Expenditures Deflator:** The PCE deflator rose 0.6% in October, the fastest monthly gain since April. Food and energy prices increased 0.8% and 4.9% for the month, respectively. Excluding food and energy prices, the PCE deflator increased 0.4% in October, up from 0.2% in September. Overall, the PCE deflator has risen 5.0% year-over-year, the greatest increase since November 1990. Core inflation has increased 4.1% since October 2020, the fastest pace of inflation since January 1991.

  Rising raw material costs continue to be a major concern for manufacturers, especially with supply chain disruptions and soaring pent-up demand in the marketplace. Indeed, core inflation is likely to remain elevated, even if there is some stabilization over the coming months. The current forecast is for the core PCE deflator to be 2.5% year-over-year by the end of 2022.

  For its part, the Federal Reserve has started tapering its asset purchases, and there is an expectation that the rise in inflation will force them to accelerate the pace of the tapering. In addition, the Federal Open Market Committee is likely to increase short-term interest rates by mid-2022.

- **Personal Income and Spending:** Personal consumption expenditures jumped 1.3% in October, accelerating from the 0.6% gain seen in September. Durable and nondurable goods rose 3.3% and 1.6% in October, respectively, with the former likely boosted by rebounding auto sales.

  Service-sector expenditures increased 0.9% in October, continuing to improve as more Americans get out and about. On a year-over-year basis, personal spending has increased a solid 12.0%, with durable and nondurable goods soaring 15.7% and 15.1%, respectively, and with service-sector purchases up 10.3% since October 2020.

  Meanwhile, personal income rose 0.5% in October, rebounding after falling by 1.0% in September. Over the past 12 months, personal income has risen 5.9%. Wages and salaries increased 0.8% for the month, with total manufacturing wages and salaries also rising by 0.8% from $996.9 billion in September to $1,055.2 billion in October.

More importantly, total wages and salaries have increased 9.8% year-over-year, with manufacturing data up 9.6% since October 2020. Of note in the latest data, total unemployment insurance dropped to $45.2 billion in October, the lowest level since February 2020, after peaking at $1,395.8 billion in June 2020.

The personal saving rate decreased from 8.2% in September to 7.3% in October, the lowest level since December 2019, suggesting that Americans were dipping into their savings to make purchases for the month. More importantly, the saving rate—which hit 33.8% in April 2020—has drifted down closer to the annual average in 2019 (7.6%), or before the COVID-19 pandemic.

- **Richmond Fed Manufacturing Survey:** Manufacturing activity expanded for the second straight month in the Richmond Federal Reserve Bank's district. The composite index of general business activity was little changed, edging down from 12 in October to 11 in November. New orders, shipments and capital spending eased somewhat, but capacity utilization declined to neutral for the month. Employment continued to expand strongly, with that measure unchanged from the prior survey. Wage growth pulled back for the second straight month from August's record pace, although it remained very elevated. Companies continued to be challenged by supplier issues, and inventories remained very low. Nonetheless, the forward-looking indicators continued to be encouraging, with manufacturers in the district expecting continued solid growth in activity over the next six months.

  Inflation remained a significant challenge, even with some easing in the latest data. Raw material costs soared 12.28% in November and continued to be very elevated, although they slipped from 14.01% and 13.04% in September and October, respectively. Firms reported that the prices received for their goods and services increased 7.59% in November, down from 9.42% in October. Likewise, respondents anticipated an annualized 6.33% increase in costs six months from now, down from 6.49% in the prior release. Manufacturers in the district expected prices received would increase 5.80%, or slightly above the 5.73% predicted in the October report.

- **University of Michigan Consumer Sentiment (Revision):** The Index of Consumer Sentiment declined from 71.7 in October to 67.4 in November, the lowest level since November 2011, according to the University of Michigan and Thomson Reuters. That was a slight improvement from the previous estimate of 66.8. The reduction was largely based on worries about higher prices. The release states, "One-in-four consumers cited inflationary erosions of their living standards in November."

  The headline index has pulled lower since April's reading of 88.3. In the latest survey, Americans were less upbeat in their assessments of both current and future economic conditions. The concern here is that the sharp reduction in consumer confidence since the spring will translate to some hesitance in terms of spending. With that said, recent data on retail sales and personal spending (see above) have reflected stronger, not weaker, consumer sales.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 199,000 for the week ending Nov. 20, down from 270,000 for the week ending Nov. 13 and the lowest level since the week of Nov. 15, 1969. Meanwhile, continuing claims declined from 2,109,000 for the week ending Nov. 6 to 2,049,000 for the week ending Nov. 13, a post-pandemic low. Continuing claims were consistent with 1.5% of the workforce, inching down from 1.6% in the previous report.

  At the same time, 2,432,281 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Nov. 6, up from 3,184,671 for the week ending Oct. 30. The decrease stemmed from reduced claims for pandemic and state unemployment claims assistance.

Take Action

- If you have not already done so, please take a moment to complete the latest NAM Manufacturers' Outlook Survey. This survey will help gauge how manufacturing sentiment has changed since the third-quarter survey. In addition, this survey includes some special questions on supply chain disruptions, workforce shortages, tax policy and infrastructure spending. To complete the survey, click here. Responses are due by Friday, Dec. 3, at 5:00 p.m. EST. As always, all responses are anonymous.