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# MONDAY ECONOMIC REPORT

## FOMC Raises Rates, Signals Six More 25-Basis-Point Increases This Year

By Chad Moutray – March 21, 2022

The Weekly Toplines

- The Federal Open Market Committee increased short-term interest rates by 25 basis points at the conclusion of its March 15–16 meeting. The federal rate will now range between 25 and 50 basis points, the first change in interest rates since the pandemic began two years ago. The Federal Reserve is also likely to begin reducing the size of its balance sheet by the summer.

- More importantly, the FOMC is likely to continue raising interest rates over the course of this year, especially given inflationary pressures in the economy. In new economic projections, the median federal funds rate expectation would suggest seven rate hikes this year (including the one just announced), assuming each increase was 25 basis points.

- Producer prices for final demand goods and services rose 0.8% in February. At the same time, producer prices for final demand goods soared 2.4% in February, the largest monthly gain on record for a series dating to November 2009. In February, food and energy costs jumped 1.9% and 8.2%, respectively, with 13.8% and 34.6% growth year-over-year.

- Over the past 12 months, producer prices for final demand goods and services soared 10.1% (seasonally adjusted), unchanged from the prior release and remaining the largest increase on record. Core producer prices increased 6.7% year-over-year in February, pulling back for the second straight month from a record 7.1% in December.

- The February data reflect very rapid growth in producer prices. The war in Ukraine will likely make the inflation picture worse moving forward, especially in the upcoming data for March. On the other hand, the slight deceleration in the core inflation rate over the past two months does provide some comfort, even as the current pace remains just shy of all-time records.

- In the latest NAM Manufacturers' Outlook Survey, 88.8% of respondents felt either somewhat or very positive about their company outlook, up from 86.8% in the fourth quarter, though it's important to note that the survey was conducted Feb. 11–25, which was mostly before the Russian invasion of Ukraine and the resulting crisis and disruption.

- Manufacturers expect full-time employment to rise 3.7% over the next 12 months, just shy of the record in September (3.8%). With that in mind, respondents also anticipate employee wages rising over the next year at 3.9% on average, the fastest pace in the survey's history. Meanwhile, manufacturers expect raw material costs to rise 7.1%, not far from the 7.5% reading in June of last year. Manufacturing companies forecast 6.1% growth in prices for their products over the next 12 months, a record inflation rate for the survey.

- Supply chain challenges topped the list of primary business challenges in the first quarter, cited by 88.1% of respondents. Other top challenges in the first quarter include increased raw material costs (85.7%), the inability to attract and retain a quality workforce (79.0%), transportation and logistics costs (72.7%) and rising health care and insurance costs (48.6%).

- Just 2.6% anticipate supply chain disruptions to end in the first half of 2022, but 40.4% expect them to improve in the second half of this year. Overall, 72.8% of respondents predict that supply chain disruptions will abate by the end of the first half of 2023.

- Following weaker data in December and January, manufacturing production grew by a solid 1.2% in February, the fastest monthly gain since October. These data speak to the resilience of the sector amid still-solid demand despite numerous challenges.

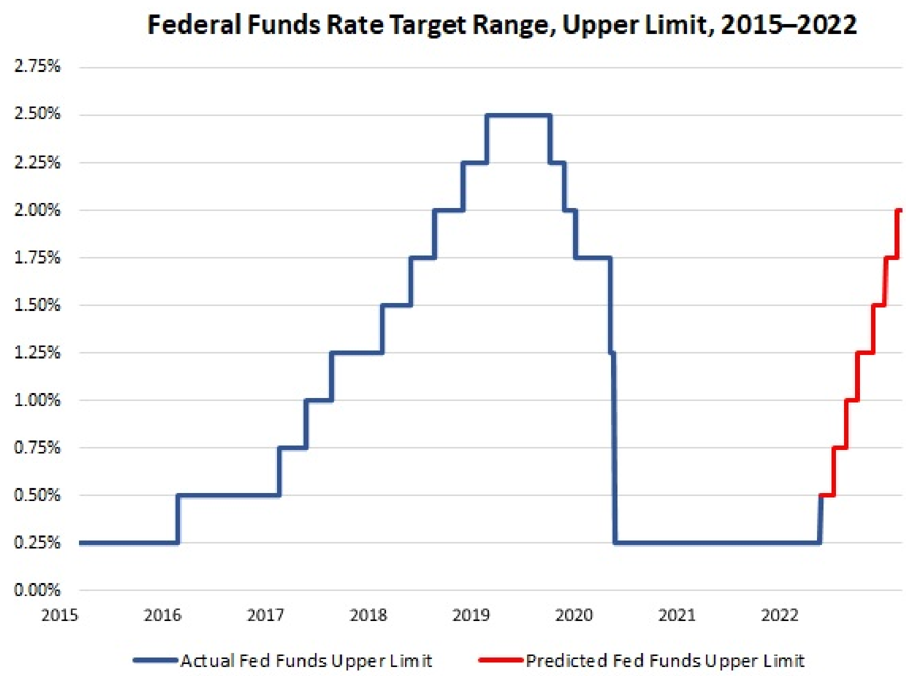
- Manufacturing capacity utilization jumped to 78.0% in February, the strongest reading since September 2018. Overall, manufacturing production has risen 7.4% year-over-year, with 2.9% growth relative to February 2020's pre-pandemic pace.

- New residential construction activity rose 6.8% to 1,769,000 units at the annual rate in February, the fastest pace since June 2006. These data are encouraging, especially given the headwinds in the housing market, which has been challenged by rising building costs, higher mortgage rates, affordability issues and difficulties in finding workers.

- Builders remained optimistic about the coming months, with solid growth in single-family activity, but inflation and affordability have pushed the NAHB Housing Market Index lower over the past few months. Housing permits decreased 1.9% to an annualized 1,859,000 units in February, but the data were consistent with still-healthy growth in housing construction moving forward, speaking to the resilience of the market.

- Retail sales grew just 0.3% in February, slowing from a revised 4.9% increase in January. The January estimate for retail sales growth was originally 3.8%. As such, this provides mixed comfort, with the knowledge that Americans spent more in January than previously thought but with the realization that consumers pulled back on their purchases in February. Indeed, retail spending fell 0.4% in February with motor vehicle and parts and gasoline sales excluded.

- More favorably, retail spending has soared 17.6% year-over-year, or 15.8% with gasoline stations and motor vehicles and parts sales excluded.




## Economic Indicators

**Last Week's Indicators:**
*(Summaries Appear Below)*

**Monday, March 14**
*State Employment Report (January)*

**Tuesday, March 15**
*New York Fed Manufacturing Survey*
*Producer Price Index*

**Wednesday, March 16**
*FOMC Monetary Policy Statement*
*NAHB Housing Market Index*
*Retail Sales*

**Thursday, March 17**
*Housing Starts and Permits*
*Industrial Production*
*NAM Manufacturers' Outlook Survey*
*Philadelphia Fed Manufacturing Survey*
*Weekly Initial Unemployment Claims*

**Friday, March 18**
*Conference Board Leading Indicators*
*Existing Home Sales*

**This Week's Indicators:**

**Monday, March 21**
*Chicago Fed National Activity Index*

**Tuesday, March 22**
*Richmond Fed Manufacturing Survey*

**Wednesday, March 23**
*New Home Sales*

**Thursday, March 24**
*Durable Goods Orders and Shipments*
*IHS Markit Flash U.S. Manufacturing PMI*
*Kansas City Fed Manufacturing Survey*
*Weekly Initial Unemployment Claims*

**Friday, March 25**
*State Employment Report (February)*
*University of Michigan Consumer Sentiment (Revision)*

## Deeper Dive

- **Conference Board Leading Indicators**: The Leading Economic Index increased 0.3% in February, bouncing back somewhat after falling 0.5% in January. Over the past six months, the LEI has risen 2.1%, with the U.S. economy expanding very modestly despite lingering challenges. New orders in the manufacturing sector helped buoy the headline index in February, and other positive contributors included the average employee workweek, initial unemployment claims, interest rate spread and lending conditions. Nonetheless, weaker data for building permits, consumer confidence and stock prices provided drags on the LEI for the month.

Meanwhile, the Coincident Economic Index rose 0.4% in February, increasing for the fifth straight month. All four components of the CEI—industrial production, manufacturing and trade sales, nonfarm payrolls and personal income less transfer payments—made positive contributions in the latest data. The CEI has increased 1.5% over the past six months.

- **Existing Home Sales:** Existing home sales fell 7.2% from 6.49 million units at the annual rate in January to 6.02 million units in February, a six-month low, according to the National Association of Realtors. Supply chain challenges, the lack of inventory, higher mortgage rates and affordability have been issues for the existing home sales market. In February, single-family sales decreased 7.0% from 5.75 million units to 5.35 million units, the weakest reading since August, and condominium and co-op sales fell 9.5% from 740,000 units to 670,000 units. Activity declined in every region of the country. On a year-over-year basis, existing home sales fell 2.4% from the 6.17 million units in February 2021.

  Existing homes on the market in February translated to just 1.7 months of unsold inventory, inching up from January's record low (1.6 months). The median sales price rose from $350,000 in January to $357,300 in February, increasing 15.0% year-over-year from $310,600 in February 2021. It was also not far from the record high median price ($362,900) in June 2021.

- **FOMC Monetary Policy Statement:** As expected, the Federal Open Market Committee increased short-term interest rates by 25 basis points at the conclusion of its March 15–16 meeting. The federal rate will now range between 25 and 50 basis points, the first change in interest rates since the pandemic began two years ago. The Federal Reserve noted overall strength in the U.S. economy, including in the labor market. At the same time, the release noted, "Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices and broader price pressures." Participants also observed that the Russian invasion of Ukraine has created new uncertainties, accelerating inflation and dampening growth.

  More importantly, the FOMC is likely to continue raising interest rates over the course of this year, especially given inflationary pressures in the economy. In new economic projections, the median federal funds rate expectation would suggest seven rate hikes this year (including the just-announced one), assuming each increase was 25 basis points. Note that some participants also desired faster increases. For instance, St. Louis Federal Reserve Bank President James Bullard dissented in the decision to increase the federal funds rate by 25 basis points at this meeting, preferring instead for a hike of 50 basis points. The projections also suggest another three rate increases in 2023.

  The release also noted that the FOMC "expects to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting." There is broad consensus that the size of the Federal Reserve's balance sheet, which has ballooned to roughly $9 trillion, could start to decline beginning in the summer.

Participants predict slower growth in 2022, forecasting 2.8% real GDP growth instead of the 4.0% rate in their December projections. Participants also expect the unemployment rate will fall to 3.5% this year and core inflation in December will be 4.1% year-over-year, or roughly double the Federal Reserve's stated long-term inflation goal.

- **Housing Starts and Permits:** New residential construction activity rose 6.8% from 1,657,000 units at the annual rate in January to 1,769,000 units in February, the fastest pace since June 2006. Single-family housing starts increased from 1,150,000 units to 1,215,000 units, a three-month high, and multifamily construction activity jumped 9.3% from 507,000 units to 554,000 units. These data are encouraging, especially given the headwinds in the housing market, which has been challenged by rising building costs, higher mortgage rates, affordability issues and difficulties in finding workers. On a year-over-year basis, new residential construction has soared 22.3%, with single-family and multifamily housing starts rising 13.7% and 46.6%, respectively.

  Overall, builders remained optimistic about the coming months, with solid growth in single-family activity, but inflation and affordability have pushed the NAHB Housing Market Index lower over the past few months. (See below.) Along those lines, housing permits decreased 1.9% from an annualized 1,895,000 units in January, which was the best reading since May 2006, to 1,859,000 units in February. Despite some easing, these data are consistent with still-healthy growth in housing construction moving forward, speaking to the resilience of the market in the face of numerous challenges.

  Single-family permits declined 0.5% from 1,213,000 units to 1,207,000 units, and multifamily activity fell 4.4% from 682,000 units to 652,000 units. On a year-over-year basis, housing permits have increased by a strong 7.7%, up from 1,726,000 units in February 2021, with single-family and multifamily permits up 5.4% and 12.2%, respectively.

- **Industrial Production:** Following weaker data in December and January, manufacturing production grew by a solid 1.2% in February, the fastest monthly gain since October. Durable and nondurable goods rose 1.3% and 1.1% for the month, respectively. Manufacturers continue to grapple with supply chain bottlenecks, workforce shortages, soaring production costs and COVID-19, and yet, these data speak to the resilience of the sector amid still-solid demand. Manufacturing capacity utilization jumped from 77.1% in January to 78.0% in February, the strongest reading since September 2018. Overall, manufacturing production has risen 7.4% year-over-year, with 2.9% growth relative to February 2020's pre-pandemic pace.

  The underlying manufacturing data were mostly positive. The sectors with the largest production increases in February included nonmetallic mineral products (up 3.5%), aerospace and miscellaneous transportation equipment (up 3.2%), apparel and leather goods (up 3.0%), wood products (up 2.6%) and furniture and related products (up 2.5%), among others. Output in the motor vehicles and parts sector continued to be challenged by supply chain and chip issues, with production falling 3.5% in February and with 10.6% less output over the past 13 months.

  Sixteen of the major manufacturing sectors have experienced increased production since February 2020. These increases included sizable gains in output post-pandemic in aerospace and miscellaneous transportation equipment (up 16.9%), computer and electronic products (up 10.8%), miscellaneous durable goods (up 9.5%), machinery (up 7.6%), chemicals (up 6.4%) and wood products (up 6.3%), among others.

Meanwhile, total industrial production increased 0.5% in February, slowing from the 1.4% gain in January. The industrial production index reached its highest level since December 2018. Mining production edged up 0.1% in February, but output in the utilities sector fell 2.7% on warmer temperatures. On a year-over-year basis, industrial production has increased 7.5%, with mining output up 17.3% but with utilities production down 1.2% over the past 12 months. Total capacity utilization jumped from 77.3% in January to 77.6%, the best reading since May 2019.

- **NAHB Housing Market Index:** The Housing Market Index declined from 81 in February to 79 in March, a six-month low, according to the National Association of Home Builders and Wells Fargo. The index for current single-family homes decreased from 89 to 86, with the index for expected single-family sales dropping from 80 to 70, the lowest reading since June 2020. Readings above 50 are consistent with more builders being positive than negative in their market assessments.

  The traffic for potential buyers (up from 65 to 67) has been strong, buoyed by low inventories of homes for sale. Several significant challenges continued for builders, including higher building costs and worker shortages. For potential buyers, affordability has become a major issue, driven by sharply higher construction costs and increased mortgage rates.

- **NAM Manufacturers' Outlook Survey:** In the latest survey, 88.8% of respondents felt either somewhat or very positive about their company outlook, up from 86.8% in the fourth quarter, though it's important to note that the survey was conducted Feb. 11–25, which was mostly before the Russian invasion of Ukraine and the resulting crisis and disruption. Over the past five quarters, this headline index has averaged 88.1%, a very solid reading. Small manufacturers (those with fewer than 50 employees) remained less upbeat in their outlook, with 80.3% positive, than their medium (50 to 499 employees) and large (500 or more employees) manufacturing counterparts, which were 91.2% and 87.8% positive, respectively. Their expected growth rates for sales, production, employment and capital spending were also lower than their larger peers.

  Manufacturers expect full-time employment to rise 3.7% over the next 12 months, just shy of the record in September (3.8%). With that in mind, respondents also anticipate employee wages rising over the next year at 3.9% on average, the fastest pace in the survey's history, which dates to the fourth quarter of 1997. Meanwhile, manufacturers expect raw material costs to rise 7.1%, which is up from 6.5% in the fourth quarter and not far from the 7.5% reading in June of last year. Manufacturing companies forecast 6.1% growth in prices for their products over the next 12 months, a record inflation rate for the survey.

  Supply chain challenges topped the list of primary business challenges in the first quarter, cited by 88.1% of respondents. Once again, those completing the survey were asked when they expect supply chain disruptions to abate. Just 2.6% anticipate these disruptions to end in the first half of 2022, but 40.4% expect them to improve in the second half of this year. Overall, roughly three-quarters of respondents predict that supply chain disruptions will abate by the end of the first half of 2023. Almost 15% believe that supply chain problems will not get better until at least the second half of 2023 or later, with 9.7% uncertain.

In addition to supply chain issues, other top challenges in the first quarter include increased raw material costs (85.7%), the inability to attract and retain a quality workforce (79.0%), transportation and logistics costs (72.7%) and rising health care and insurance costs (48.6%). Respondents anticipate health insurance costs to rise 7.9% on average over the next year, pulling back from the 8.1% reading in the prior survey, which was the most in four years.

- **New York Fed Manufacturing Survey:** Activity contracted in March in the Empire State Manufacturing Survey, with the composite index falling from 3.1 in February to -11.8 in March, the lowest level since May 2020. It was the second negative reading in the past three months, with the latest decline following the Ukrainian invasion and its aftermath. New orders and shipments decreased in March, and employment and the average employee workweek both slowed. Delivery times have improved but remain very lengthy, consistent with ongoing supply chain woes. Product prices soared at the fastest rate in the survey's history, which dates to July 2001. Input costs decelerated somewhat but remained not far from the record pace in May 2021.

  Interestingly, manufacturers in the region felt more upbeat about growth over the next six months, with the forward-looking composite index rising from 28.2 in February to 36.6 in March. Respondents continued to be positive in their expectations for new orders, shipments, hiring and capital spending growth moving forward. Nonetheless, respondents anticipate raw material prices will increase at a pace not far from January's record rate.

- **Philadelphia Fed Manufacturing Survey:** The Philadelphia Federal Reserve Bank's composite index of general business conditions rose from 16.0 in February to 27.4 in March, a four-month high. New orders, shipments, employment and the average employee workweek each accelerated, with hiring growing at the fastest pace in the survey's history, which dates to May 1968. Raw material costs also picked up solidly in March, expanding at a pace not seen since June 1979. In special questions, 70.7% of respondents said that production in the first quarter was stronger than in the fourth quarter, with 12.2% suggesting that output was weaker. Capacity utilization remained in the 70–80% range. Supply chains (56.1%) and labor supply (39.0%) were the top factors significantly constraining capacity utilization in the current quarter.

  Meanwhile, the forward-looking composite index edged down from 28.1 in February to 22.7 in March. Expected growth in new orders and shipments eased somewhat but continued to expand at healthy rates. Hiring, capital spending, inventories and prices paid are predicted to accelerate over the coming months.

- **Producer Price Index:** Producer prices for final demand goods and services rose 0.8% in February, slowing from the 1.2% gain in January but continuing to increase solidly. At the same time, producer prices for final demand goods soared 2.4% in February, extending the 1.5% increase in January and the largest monthly gain on record for a series dating to November 2009. In February, food and energy costs jumped 1.9% and 8.2%, respectively, with 13.8% and 34.6% growth year-over-year.

  Excluding food and energy, producer prices for final demand goods increased 0.7% in February, matching the pace in January. Meanwhile, producer prices for final demand services were flat in February, but with transportation and warehousing costs up 1.9% for the month.

  Over the past 12 months, producer prices for final demand goods and services jumped 10.1% (seasonally adjusted), unchanged from the prior release and remaining the largest increase on record. (The non-seasonally adjusted figure was 10.0%.) At the same time, core producer prices increased 6.7% year-over-year in February, pulling back for the second straight month from a record 7.1% in December. (Without a seasonal adjustment, year-over-year core PPI growth was 6.6%.) Manufacturers continue to cite soaring raw material costs and supply chain disruptions as their top challenges, with the rapid acceleration in prices in this data over the past year helping to explain why.

The February data reflect very rapid growth in producer prices. The war in Ukraine will likely make the inflation picture worse moving forward, especially in the upcoming data for March. On the other hand, the slight deceleration in the core inflation rate over the past two months does provide some comfort, even as the current pace remains just shy of all-time records.

- **Retail Sales:** Retail sales grew just 0.3% in February, slowing from a revised 4.9% increase in January. The January estimate for retail sales growth was originally 3.8%. As such, this provides mixed comfort, with the knowledge that Americans spent more in January than previously thought but with the realization that consumers pulled back on their purchases in February. Indeed, retail spending fell 0.4% in February with motor vehicle and parts and gasoline sales excluded.

  The year-over-year comparisons were largely favorable, consistent with the opening of the economy and with consumers who have been flush with cash over the past 12 months. Indeed, retail spending has soared 17.6% year-over-year, or 15.8% with gasoline stations and motor vehicles and parts sales excluded.

  Looking at the underlying data, the largest increases in retail spending in February occurred for gasoline stations (up 5.3%), food services and drinking places (up 2.5%), miscellaneous store retailers (up 1.9%), sporting goods and hobby stores (up 1.7%) and department stores (up 1.6%). In contrast, retail sales declined for nonstore retailers (down 3.7%), health and personal care stores (down 1.8%), furniture and home furnishings stores (down 1.0%), electronics and appliance stores (down 0.6%) and food and beverage stores (down 0.5%).

  On a year-over-year basis, the greatest gains in sales since February 2021 occurred at gasoline stations (up 36.4%), food services and drinking places (up 33.0%), clothing and accessories stores (up 30.6%), miscellaneous store retailers (up 25.4%) and department stores (up 22.8%), among others. Note that these data are expressed in nominal terms, and the retail sales growth for gasoline stations mostly reflected higher prices.

- **State Employment Report:** California created the most net new manufacturing jobs in January, adding 3,400 workers. Other states with notable employment growth for the month included Illinois (up 3,200), Missouri (up 3,000), Arkansas (up 1,900), Pennsylvania (up 1,800), Iowa (up 1,700) and Minnesota (up 1,600). Sixteen states have notched increased manufacturing employment since February 2020. States with the largest gains post-pandemic included Indiana (up 11,100), Florida (up 6,200), Arizona (up 4,300), Nevada (up 3,400) and Idaho (up 2,700).

  In the latest data, the U.S. unemployment rate was 4.0% in January, and the rate fell in 19 states. (State data are released with a lag. Note that the national unemployment rate declined to 3.8% in February.) Nebraska and Utah had the lowest unemployment rates nationally, at 2.2%, followed closely by Indiana (2.4%), Kansas (2.6%), Montana (2.7%) and Oklahoma (2.7%). At the other end of the spectrum, the District of

Columbia had the highest unemployment rate in the country at 6.3%. Other states with elevated rates included New Mexico (5.9%), California (5.8%) and Alaska (5.6%).

- **Weekly Initial Unemployment Claims:** The week ending March 12 saw 214,000 initial unemployment claims, down from 229,000 for the week ending March 5. At the same time, the week ending March 5 saw 1,419,000 continuing claims, down from 1,490,000 for the week ending Feb. 26 , which was the lowest level since the week of Feb. 21, 1970. Overall, these data continue to reflect a labor market that has improved significantly over the course of the past year.

Take Action

- The NAM invites you to attend the next Executive Spotlight virtual event on Tuesday, March 22, at 2:00 p.m. EDT. Salesforce Senior Vice President of Manufacturing, Automotive and Energy Industries and NAM Board Member Cindy Bolt will be joined by Snap-on Incorporated Chairman and CEO and NAM Executive Committee Member Nick Pinchuk for a 20-minute hot-seat interview followed by 30 minutes of audience-led Q&A. Click here for more information and to register. for more information and to register.

- NAM Chief Economist Chad Moutray will participate in a quarterly economic webinar for NAM members on Thursday, March 24, at 2:00 pm EDT. He will discuss the latest NAM Manufacturers' Outlook Survey and provide a forecast for the U.S. and global manufacturing economy. To register, click here.

- Join senior leaders of operations, technology, supply chains, sales and revenue, product management, R&D and business system management on Thursday, April 14, for the NAM's Leading Edge Growth Forum at MxD USA in Chicago for a day of networking and discussion on preparing for the future of manufacturing. Topics include transitioning from product to customer experience, embedding 5G into processes with consideration for safety and creating scalable new revenue streams. Click here for more information and to register.

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