MONDAY ECONOMIC REPORT

Manufacturing Production Rebounded in October, Rising 1.2%

By Chad Moutray – Nov. 22, 2021

The Weekly Toplines

- After pulling back in August and September on supply chain disruptions, manufacturing production rebounded in October, rising 1.2%. Output in the auto sector, which has been challenged by the chip shortage and supply chain issues, bounced back 11.0% in October after falling 3.0% and 7.1% in August and September, respectively.

- Manufacturing capacity utilization jumped from 75.8% in September to 76.7% in October, the strongest since January 2019. Overall, manufacturing production has risen 4.5% year-over-year, with a 1.2% increase relative to February 2020's pre-pandemic pace.

- Looking at manufacturing sectors with the largest production gains year to date, the aerospace and miscellaneous transportation equipment sector had the largest gains (up 11.7%). The standout on the below chart, however, is computer and electronic products (up 8.8% year to date, or 32.9% since the beginning of 2015).

- The New York and Philadelphia Federal Reserve Banks both reported accelerating activity in their November manufacturing surveys, with a strong outlook for the coming months despite highly elevated delivery times and pricing pressures.

- In the Philadelphia Federal Reserve release, respondents predict 5.3% growth in prices for the goods and services that they sell over the next four quarters, with compensation rising 4.8%.

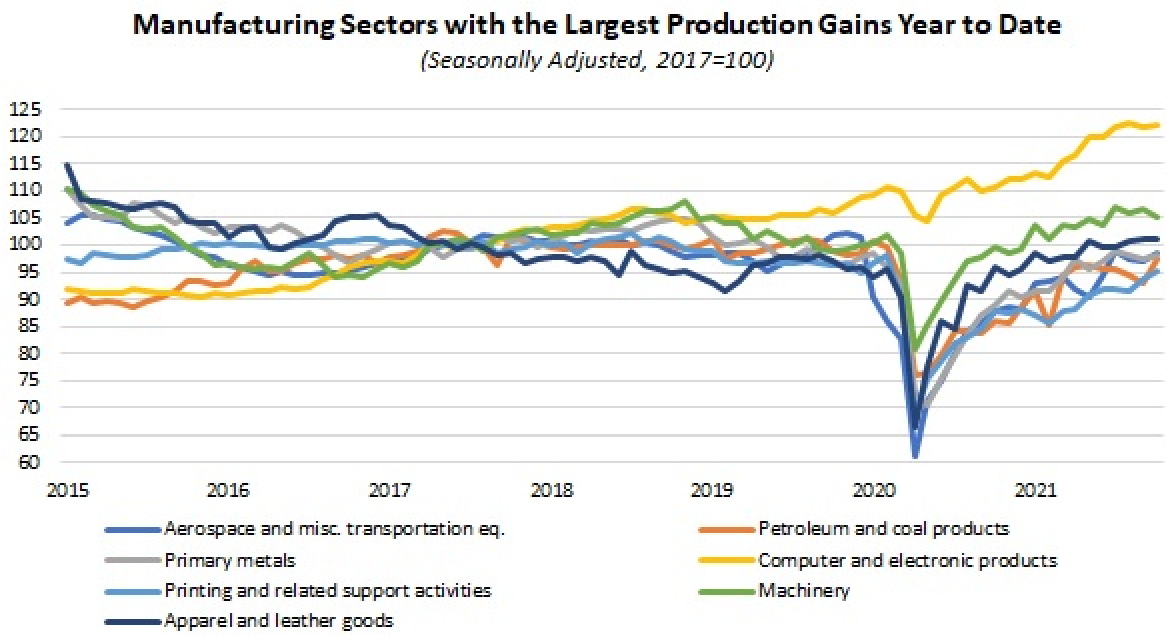
- At the same time, growth in manufacturing activity slowed in the Kansas City Federal Reserve's district, with new orders contracting for the first time since May 2020. The sample comments once again noted supply chain and logistics constraints, workforce shortages and rising input costs.

- Retail sales soared 1.7% in October, an encouraging sign that consumer spending continues to rebound despite concerns about higher prices and lingering supply chain disruptions.

- New residential construction activity declined 0.7% to 1,520,000 units at the annual rate in October, falling for the third time in the past four months. The housing market has been challenged this year by rising construction costs, affordability issues and difficulties in finding workers. Indeed, single-family housing starts dropped 3.9% to a 15-month low in October.

- With that said, builders remained optimistic about growth over the coming months, with sentiment moving higher in the latest [NAHB Housing Market Index] despite ongoing concerns.

- Along those lines, housing permits rose 4.0% from an annualized 1,586,000 units in September to 1,650,000 units in October. Single-family and multifamily permits increased 2.7% and 6.6% in October, respectively, rebounding from declines in the prior release.



Percentage Change in Production, December 2020 to October 2021
Aerospace and miscellaneous transportation equipment (up 11.7%)
Petroleum and coal products (up 10.3%)
Primary metals (up 8.9%)
Computer and electronic products (up 8.8%)
Printing and related support activities (up 7.7%)
Machinery (up 6.2%)
Apparel and leather goods (up 6.0%)

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Nov. 15
New York Fed Manufacturing Survey

Tuesday, Nov. 16
Industrial Production
NAHB Housing Market Index
Retail Sales

Wednesday, Nov. 17
Housing Starts and Permits

Thursday, Nov. 18

This Week's Indicators:

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

Conference Board Leading Indicators
Kansas City Fed Manufacturing Survey
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, Nov. 19
State Employment Report

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

Deeper Dive

- **Conference Board Leading Indicators:** The Leading Economic Index increased 0.9% in October, strengthening after slowing to just 1% growth in September. Over the past six months, the LEI rose 4.6%, with the U.S. economy continuing to rebound solidly despite lingering challenges. Overall, the data point to solid growth over the coming months. New manufacturing orders helped buoy the headline index in October, with building permits, initial unemployment claims, the interest rate spread, lending conditions and stock prices also positive contributors for the month. In contrast, the average workweek and consumer confidence pulled the LEI lower in October.

  Meanwhile, the Coincident Economic Index rose 0.5% in October after being unchanged in September. All four components of the CEI—industrial production, manufacturing and trade sales, nonfarm payrolls and personal income less transfer payments—made positive contributions to the latest data. The CEI increased a very modest 1.7% over the past six months.

- **Housing Starts and Permits:** New residential construction activity declined 0.7% from 1,530,000 units at the annual rate in September to 1,520,000 units in October, falling for the third time in the past four months to the slowest pace since April. Housing construction has been challenged this year by rising construction costs, affordability issues and difficulties in finding workers. Indeed, single-family housing starts dropped 3.9% from 1,081,000 units to 1,039,000 units, a 15-month low. On the other hand, multifamily construction activity, which can be very volatile from month to month, increased 7.1% from 449,000 units to 481,000 units, rebounding from the 7.4% decline in the previous report.

  Since peaking at 1,775,000 units in March, which was the best reading since July 2006, new housing starts have trended lower. Since March, new residential construction has fallen 11.9%, pulled lower by single-family housing starts, which have plummeted 17.2% over the past eight months. In contrast, multifamily construction activity has risen a modest 2.3% over that time frame.

  With that said, builders remained optimistic about growth over the coming months, with sentiment moving higher in the latest NAHB Housing Market Index despite ongoing concerns. (See below.) Along those lines, housing permits rose 4.0% from an annualized 1,586,000 units in September to 1,650,000 units in October. Single-family and multifamily permits increased 2.7% and 6.6% in October, respectively, rebounding from declines in the prior release.

As with starts, housing permits have drifted lower year to date, largely on affordability, workforce and supply chain issues. Since peaking in January at 1,883,000 units, which was the strongest since May 2006, housing permits have dropped 12.4%, even with the increase recorded in October. Single-family and multifamily permitting have decreased 15.7% and 5.5%, respectively, over the past nine months. Yet, the latest permits data suggest that construction should improve somewhat in the coming months.

- **Industrial Production:** After pulling back in August and September on supply chain disruptions, manufacturing production rebounded in October, rising 1.2%. Durable and nondurable goods production both increased 1.3% for the month. The chip shortage has challenged the motor vehicles and parts sector significantly, with output down 3.0% and 7.1% in August and September, respectively. Thankfully, production in the auto sector bounced back 11.0% in October. Even with some recovery in October, motor vehicles and parts production has declined 6.4% since January. Excluding motor vehicles and parts, industrial production increased 0.4% in October.

  Manufacturing capacity utilization jumped from 75.8% in September to 76.7% in October, the strongest since January 2019. Overall, manufacturing production has risen 4.5% year-over-year, with a 1.2% increase relative to February 2020's pre-pandemic pace.

  In October, the underlying data provided mixed results. In addition to motor vehicles and parts, other sectors with significant increases in manufacturing production included petroleum and coal products (up 5.0%), chemicals (up 1.9%), aerospace and miscellaneous transportation equipment (up 1.4%) and printing and related support activities (up 1.4%), among others. At the same time, output weakened in seven major sectors, including electrical equipment, appliances and components (down 1.5%), other manufacturing (down 1.5%), textile and product mills (down 1.5%) and machinery (down 1.3%).

  Eight of the major manufacturing sectors have experienced increased production since February 2020. This included sizable gains in output post-pandemic in aerospace and miscellaneous transportation equipment (up 14.6%), computer and electronic products (up 10.4%), apparel and leather goods (up 5.8%), chemicals (up 5.7%), miscellaneous durable goods (up 4.9%), machinery (up 3.5%), primary metals (up 2.4%) and wood products (up 1.6%).

  Meanwhile, total industrial production rose 1.6% in October, rebounding from the 1.3% decline in September. In addition to manufacturing, output increased for both mining (up 4.1%) and utilities (up 1.2%). On a year-over-year basis, industrial production has increased 5.1%. Total capacity utilization soared from 75.2% in September to 76.4% in October, the best since December 2019.

- **Kansas City Fed Manufacturing Survey:** Growth in manufacturing activity slowed, with the composite index of general business conditions declining from 31 in October to 24 in November. New orders contracted for the first time since May 2020, with production, shipments, hiring and the average employee workweek narrowing somewhat. Exports improved. The sample comments once again noted supply chain and logistics constraints, workforce shortages and rising input costs. Raw material prices remained very elevated in November despite pulling back from record growth in

October.

Meanwhile, respondents continued to feel very upbeat about additional growth over the next six months, with the forward-looking composite index edging up from 34 in October to 35 in November. It remained not far from the record 37 in June. Fifty-seven percent of respondents expect new orders and shipments to rise over the coming months, with half planning for more employment. Pricing pressures and delivery times are seen continuing to rise sharply, but with easing from recent record paces.

- **NAHB Housing Market Index:** The Housing Market Index increased for the third straight month, rising from 80 in October to 83 in November, the strongest reading since May, according to the National Association of Home Builders and Wells Fargo. Several significant challenges continue for builders, including higher building costs and worker shortages, and for potential buyers, affordability has become a major issue. Nonetheless, builders remain upbeat in their assessments of the housing market, and demand remains strong. (Readings greater than 50 suggest that more respondents are positive than negative in their outlook.)

  The index for current single-family homes increased from 86 in October to 89 in November, the best reading since February, with the index for expected single-family sales remaining at 84. These are very solid readings, consistent with a strong outlook for the sector, even with the issues discussed above.

- **New York Fed Manufacturing Survey:** Manufacturing activity accelerated, according to the Empire State Manufacturing Survey, with the composite index rising from 19.8 in October to 30.9 in November. New orders, shipments, employment and the average employee workweek strengthened for the month, with hiring reaching an all-time high. Delivery times remained highly elevated. Input and output costs also moved higher in November, with raw material costs just shy of May's record growth rates and selling prices rising at the fastest pace on record.

  Manufacturers in the region remained upbeat about growth over the next six months, albeit with the forward-looking composite index declining from 52.0 in October to 36.9 in November, the lowest reading since May. Expected growth rates for new orders, shipments, inventories and employment eased somewhat in November, but roughly half of respondents still anticipate higher sales moving forward. Capital and technology spending were seen accelerating. Input costs were expected to rise at the highest level since July 2008.

- **Philadelphia Fed Manufacturing Survey:** The Philadelphia Federal Reserve Bank's composite index of general business conditions jumped from 23.8 in October to 39.0 in November, the strongest reading since April. Growth for new orders, shipments and the average employee workweek accelerated in November, but employment softened slightly (even as hiring remained very solid). The index for prices paid rose in November, remaining just shy of June's pace, which was the highest since October 1980. Likewise, the index for prices received soared in the latest data to the fastest rate since June 1974.

  Meanwhile, the forward-looking composite index increased from 24.2 in October to 28.5 in November, signaling a positive outlook. Expectations for new orders, shipments and hiring strengthened in November, whereas capital spending plans eased slightly. In a special question, respondents predict 5.3% growth in prices for the goods and services that they sell over the next four quarters, with compensation rising

4.8%. Those completing the survey forecast consumer price growth of 3.5% over the next 10 years, up from 3.0% in the August survey.

- **Retail Sales:** Retail sales soared 1.7% in October, building on the 1.2% and 0.8% gains in August and September, respectively. The underlying data were mostly higher, which was an encouraging sign that consumer spending continues to rebound.

  In October, the largest gains in retail spending occurred at nonstore retailers (up 4.0%), gasoline stations (up 3.9%), electronics and appliance stores (up 3.8%), building material and garden supply stores (up 2.8%), miscellaneous store retailers (up 2.8%), department stores (up 2.2%) and motor vehicle and parts dealers (up 1.8%). Consumer spending decreased for clothing and accessories (down 0.7%) and health and personal care stores (down 0.6%), and perhaps disappointingly, sales were unchanged at food services and drinking places.

  Nonetheless, the data suggest that Americans are more than willing to open their wallets as the economy continues to rebound. Retail spending has soared 16.3% over the past 12 months, rising 14.9% with gasoline stations and motor vehicles and parts excluded.

- **State Employment Report:** Michigan created the most net new manufacturing jobs in October, adding 9,900 workers. Other states with notable employment growth for the month included Washington (up 6,000), Indiana (up 5,800), South Carolina (up 4,200), North Carolina (up 3,700) and Tennessee (up 3,700). Thirteen states have notched increased manufacturing employment since February 2020. States with the largest gains post-pandemic include Utah (up 8,600), Indiana (up 6,100), Nebraska (up 1,400), Alaska (up 1,300) and Arkansas (up 1,000). In contrast, the largest declines over that time occurred in big states, such as California (down 57,700), Michigan (down 35,100), Ohio (down 32,800), Illinois (down 27,500), Texas (down 23,300) and Washington (down 21,500).

  The national unemployment rate was 4.6% in October, and the rate fell in 28 states and the District of Columbia in the latest data. California and Nevada had the highest unemployment rates in the country at 7.3%, followed by New Jersey (7.0%) and New York (6.9%). At the other end of the spectrum, the lowest unemployment rates in the United States in October occurred in Nebraska (1.9%), Utah (2.2%), Oklahoma (2.7%), Idaho (2.8%), South Dakota (2.8%), Vermont (2.8%) and New Hampshire (2.9%).

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 268,000 for the week ending Nov. 13, edging down from 269,000 for the week ending Nov. 6 and the lowest level since the week of March 14, 2020. Meanwhile, continuing claims declined from 2,209,000 for the week ending Oct. 30 to 2,080,000 for the week ending Nov. 6. Continuing claims were consistent with 1.5% of the workforce, inching down from 1.6% in the previous report.

  At the same time, 3,184,657 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Oct. 30, up from 2,565,853 for the week ending Oct. 23. The increase stemmed from higher claims for pandemic and state unemployment claims assistance.

If you're part of an NAM member company and not yet subscribed, email us. If you're not an NAM member, become one today!

Interested in becoming a presenter of the *Monday Economic Report*? Email us.

Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.