MONDAY ECONOMIC REPORT

Hitting a Roadblock: New Factory Orders Stalled in Past Three Months

By Chad Moutray – October 11, 2022

The Weekly Toplines

- New orders for manufactured goods were essentially flat in the latest data, with 0.2% growth with transportation equipment sales excluded. More importantly, new factory orders appear to have stalled over the past three months, rising 0.7%, or just 0.1% with transportation equipment excluded.

- However, there were also signs of surprising resilience once again in the data despite numerous challenges in the U.S. and global economy. New orders for core capital goods—a proxy for capital spending in the U.S. economy—rose 1.4% to a record $75.72 billion in August. In addition, new factory orders have soared 11.2% year-over-year, or 10.5% with transportation equipment excluded, illustrating that the longer-term picture remained more reassuring.

- Manufacturing activity expanded just slightly, with the ISM® Manufacturing Purchasing Managers' Index® dropping from 52.8 in August to 50.9 in September, the lowest reading since May 2020. The underlying data were mixed but weak overall. Of interest to the Federal Reserve, prices (down from 52.5 to 51.7) decelerated once again in September, with that reading growing at the slowest pace since June 2020.

- After hitting an all-time high in June at $97.13 billion, private manufacturing construction spending slipped for the second straight month. Despite some easing, private construction activity in the sector remained not far from its record pace and has trended strongly higher since bottoming out in February 2021. Over the past 12 months, activity has jumped 21.6%.

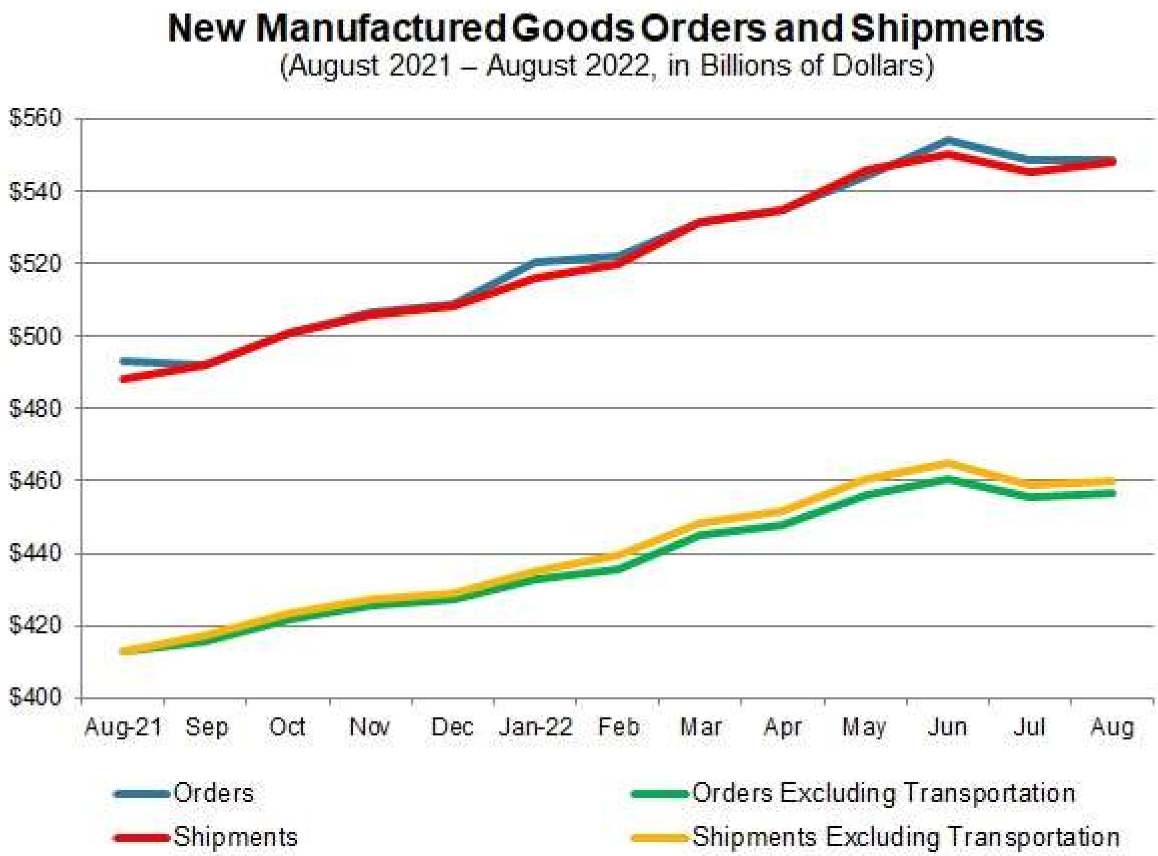
- The U.S. trade deficit fell to $67.40 billion in August, the lowest since May 2021 and declining for the fifth straight month from the record $106.92 billion reading in March. The goods trade deficit ($87.64 billion) was the lowest since October 2021.

- Meanwhile, manufacturing employment increased by 22,000 in September, continuing to rise solidly. Through the first three quarters of 2022, the sector hired 325,000 employees, building on the 365,000 workers added in calendar year 2021, the most since 1994. Currently, the manufacturing sector has 12,880,000 employees, the most since November 2008.

- The average hourly earnings of production and nonsupervisory workers in manufacturing rose 0.4% from $25.11 in August to $25.22 in September, up 4.6% from one year ago.

- Nonfarm payroll employment increased by 263,000 in September, and the unemployment rate declined from 3.7% in August to 3.5% in September, matching the rate in July as the labor force participation rate edged down from 62.4% to 62.3%.

- There were 795,000 manufacturing job openings in August, averaging roughly 860,000 over the past 12 months, well above pre-pandemic levels.
- In the larger economy, nonfarm business job openings dropped from 11,170,000 in July to 10,053,000 in August. This suggests that the pace of job openings has begun to cool, with sizable declines in most of the key sectors (including manufacturing) despite continuing to be elevated. Nonfarm business layoffs have picked up somewhat, rising from 1,390,000 in July to 1,460,000 in August, the most since March 2021.
- Meanwhile, there were 6,014,000 unemployed Americans in August, which translated into 59.8 unemployed workers for every 100 job openings in the U.S. economy. As such, there continues to be more job openings than people actively looking for work.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Oct. 3
Construction Spending
ISM® Manufacturing Purchasing Managers'

This Week's Indicators:

Monday, Oct. 10
None

Index®

Tuesday, Oct. 4
Factory Orders and Shipments
Job Openings and Labor Turnover Survey

Wednesday, Oct. 5
ADP National Employment Report
International Trade Report

Thursday, Oct. 6
Weekly Initial Unemployment Claims

Friday, Oct. 7
BLS National Employment Report

Tuesday, Oct. 11
NFIB Small Business Survey

Wednesday, Oct. 12
Producer Price Index

Thursday, Oct. 13
Consumer Price Index
Weekly Initial Unemployment Claims

Friday, Oct. 14
Retail Sales
University of Michigan Consumer Sentiment (Preliminary)

Deeper Dive

- **ADP National Employment Report:** Total private employment increased by 208,000 in September, up from a revised 185,000 in August, according to the ADP Research Institute and the Stanford Digital Economy Lab. Employment in the manufacturing sector declined 13,000 in September.

  Among those who stayed in their jobs, the median change in annual pay in manufacturing was 7.8%, matching the median annual change for job-stayers in all industries. Among those who changed jobs in any sector, the median annual change was 15.7%, suggesting that those who left benefited significantly from the switch.

  The underlying data were mixed. Strength in trade, transportation and utilities (up 147,000), professional and business services (up 57,000), education and health services (up 38,000) and leisure and hospitality (up 31,000) led the increases in employment in September. In addition to manufacturing, other sectors with decreased net hiring for the month included information (down 19,000), financial activities (down 16,000) and natural resources and mining (down 16,000). Small and medium-sized enterprises accounted for 71.2% of the net new job gains in September, adding 148,000 workers.

- **BLS National Employment Report:** Manufacturing employment increased by 22,000 in September, slowing from 27,000 in August but continuing to rise solidly. Hiring in the durable and nondurable goods sectors rose by 16,000 and 6,000, respectively. The labor market remained a bright spot in an economy that has seen softening in other areas. Through the first three quarters of 2022, the sector hired 325,000 employees, building on the 365,000 workers added in calendar year 2021, the most since 1994. Currently, the manufacturing sector has 12,880,000 employees, the most since November 2008.

  The average hourly earnings of production and nonsupervisory workers in manufacturing rose 0.4% from $25.11 in August to $25.22 in September, up 4.6% from one year ago. The year-over-year pace of wage growth has moderated from the 5.7% pace seen in March and April, which had been the fastest pace since August 1982, with average hourly earnings continuing to jump at highly elevated rates. For their part, manufacturers continued to cite difficulties in attracting and retaining workers.

Meanwhile, nonfarm payroll employment increased by 263,000 in September, a healthy figure despite being down from 315,000 in August. The U.S. economy has added a healthy net number of new employees for the year to date: 3,778,000. The unemployment rate declined from 3.7% in August to 3.5% in September, matching the rate in July as the labor force participation rate edged down from 62.4% to 62.3%. The participation rate remained below pre-pandemic levels, with 63.4% in February 2020. The "real unemployment rate"—a term that refers to those marginally attached to the workforce, including discouraged workers and the underemployed—decreased from 7.0% to 6.7%, matching the rates in June and July.

In September, the manufacturing employment data were mixed by sector. The largest increases occurred in transportation equipment (up 8,400, including 8,300 from motor vehicles and parts), food manufacturing (up 7,800), fabricated metal products (up 6,300), chemicals (up 3,400) and electrical equipment and appliances (up 3,000). In contrast, sectors with declining employment in September included printing and related support activities (down 4,000), machinery (down 1,700), nonmetallic mineral products (down 1,500) and plastics and rubber products (down 1,400), among others.

On a year-over-year basis, employment increased in all of the major manufacturing sectors, which was encouraging. The strongest hiring growth over the past 12 months occurred in the following manufacturing sectors: food manufacturing (up 72,700), transportation equipment (up 72,600, including 47,100 from motor vehicles and parts), fabricated metal products (up 57,300), chemicals (up 40,300) and machinery (up 33,900).

- **Construction Spending:** After hitting an all-time high in June at $97.13 billion, private manufacturing construction spending slipped for the second straight month, down 0.5% from $97.10 billion at the annual rate in July to $96.65 billion in August. Despite some easing, private construction activity in the sector remained not far from its record pace and has trended strongly higher since bottoming out at $72.46 billion in February 2021. Over the past 12 months, activity has jumped 21.6%. As such, these data speak to the strength and resilience of the manufacturing sector and the need to increase capacity to meet demand, even with recent easing.

  Total private nonresidential construction spending edged down 0.1% in August, but with activity rising 5.5% over the past 12 months. In August, total private construction spending fell for the second straight month, down 0.6%, with a 0.9% decline for private residential construction. Private single-family construction dropped 2.9% in August, but new multifamily activity rose 0.4% for the month. On a year-over-year basis, total private construction has soared 9.9% since August 2021, with private residential activity up 12.5%. Private, single-family residential construction was flat over the past 12 months, however.

  Meanwhile, public construction spending fell 0.8% in August, with activity up 3.3% year-over-year.

- **Factory Orders and Shipments:** New orders for manufactured goods were essentially flat in the latest data, edging down from $548.45 billion in July to $548.42 billion in August. Nondurable goods orders rose 0.2% in August but were effectively offset by a decrease of 0.2% in new durable goods demand. With that said, August's report also recorded a sizable decrease in nondefense aircraft and parts sales, which pulled back following a steep jump in July related to the Farnborough International Airshow. There data are often highly volatile from month to month. As a result, new durable goods orders excluding transportation increased 0.3%, rising from $180.22

billion in July to a record $180.71 billion in August.

In addition, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—rose 1.4% from $74.71 billion to a record $75.72 billion.

As such, these data provide mixed comfort. There are areas where demand continues to be surprisingly resilient, setting new records despite numerous challenges in the U.S. and global economy. Yet, there are also signs that activity is cooling in the face of those hurdles. Indeed, new factory orders have risen 0.7% over the past three months, but excluding transportation, sales have inched up just 0.1%.

Of course, the longer-term picture looks better. New factory orders have soared 11.2% year-over-year, or 10.5% with transportation equipment excluded. Similarly, core capital goods orders have increased a solid 8.9% over the past 12 months. It is also notable that these figures are in nominal terms, with higher prices likely inflating some of this growth.

Meanwhile, factory shipments increased 0.5% from $545.28 billion in July to $547.94 billion in August. Excluding transportation equipment, shipments for manufactured goods rose 0.2% from $458.93 billion to $459.86 billion. Much like with new orders, factory shipments have risen only 0.4% over the past three months, but shipments have edged down 0.2% since May with transportation equipment excluded.

More encouragingly, on a year-to-date basis, factory shipments rose 12.2%, a very strong figure. At the same time, core capital goods shipments increased 0.4% from $73.95 billion to a record $74.25 billion, with 11.1% growth over the past 12 months.

- **International Trade Report:** The U.S. trade deficit fell from $70.46 billion in July to $67.40 billion in August, the lowest since May 2021 and declining for the fifth straight month from the record $106.92 billion reading in March. These data have been skewed year to date by supply chain disruptions, petroleum prices and slowing global growth. The reduced trade deficit in August stemmed from a decrease in goods imports (down from $274.23 billion to $270.14 billion) that was enough to offset a decline in goods exports (down from $183.16 billion to $182.50 billion). The goods trade deficit ($87.64 billion) was the lowest since October 2021. At the same time, the service-sector trade surplus edged down from $20.62 billion to $20.24 billion.

  Reduced activity for industrial supplies and materials (down $2.23 billion) and automotive vehicles, parts and engines (down $1.05 billion) pulled goods exports lower in August. Exports increased in August for consumer goods (up $1.30 billion), non-automotive capital goods (up $275 million) and foods, feeds and beverages (up $205 million). Strength in pharmaceutical preparations and civilian aircraft engines, among other items, fueled the increases in goods exports in August.

  Meanwhile, reduced oil imports (in nominal terms) drove the sharp reduction in industrial supplies and materials imports (down $4.67 billion). Imports of non-automotive capital goods (down $1.12 billion) also fell, mainly on semiconductors, civilian aircraft and computers. In contrast, goods imports rose for automotive vehicles, parts and engines (up $1.08 billion) and foods, feeds and beverages (up $422 million).

  U.S.-manufactured goods exports totaled $859.96 billion through the first eight months of 2022, using non-seasonally adjusted data, soaring 16.20% from $740.08 billion year to date in 2021. Likewise, manufactured goods imports grew 17.89% year to date from $1,586.44 billion in 2021 to $1,870.29 billion for the same period in 2022.

- **ISM® Manufacturing Purchasing Managers' Index®:** Manufacturing activity expanded just slightly, with the ISM® Manufacturing Purchasing Managers' Index® dropping from 52.8 in August to 50.9 in September, the lowest reading since May 2020. The underlying data were mixed but weak overall. New orders (down from 51.3 to 47.1) contracted for the third time in the past four months, with hiring (down from 54.2 to 48.7) and exports (down from 49.4 to 47.8) also challenged once again. With that said, production (up from 50.4 to 50.6) and inventories (up from 53.1 to 55.5) strengthened for the month. More importantly, prices (down from 52.5 to 51.7) decelerated once again in September, with that reading growing at the slowest pace since June 2020.

  The index for supplier deliveries (down from 55.1 to 52.4) registered its best reading since December 2019, which indicates that the long wait times that have become prevalent over the past year have started to wane. Nonetheless, customer inventories (up from 38.9 to 41.6) remained too low, albeit with notable improvement.

  Overall, manufacturing activity expanded once again in September, but only slightly and with sentiment remaining at post-pandemic lows, consistent with other surveys (including the NAM Manufacturers' Outlook Survey). Manufacturers remained challenged by supply chains, workforce shortages, soaring costs and economic and geopolitical uncertainties. Yet, the sample comments revealed a surprising strength in demand in some sectors, which is notable given the slower global economy and the challenges noted above.

- **Job Openings and Labor Turnover Survey:** The August report recorded 795,000 manufacturing job openings, down from 910,000 in July but remaining highly elevated. Job postings at both durable and nondurable goods firms declined in August. Yet, over the past 12 months, job openings in the sector have averaged roughly 860,000, remaining well above pre-pandemic levels.

  Manufacturers hired 452,000 workers in August, up from 428,000 in July, with increased activity for both durable and nondurable goods firms. Total separations ticked up from 414,000 to 417,000 for the month. Therefore, net hiring (or hiring minus separations) totaled 35,000 in August. Overall, net hiring has averaged a solid 31,417 over the past 12 months.

  In the larger economy, nonfarm business job openings dropped from 11,170,000 in July to 10,053,000 in August. This suggests that the pace of job openings has begun to cool, with sizable declines in most of the key sectors (including manufacturing) despite continuing to be elevated. Meanwhile, there were 6,014,000 unemployed Americans in August, which translated into 59.8 unemployed workers for every 100 job openings in the U.S. economy. There were 50.8 unemployed Americans for every 100 job postings in July, signifying a notable shift for the month, even if there continues to be more job openings than people actively looking for work.

  Total quits in the manufacturing sector totaled 285,000 in August, off slightly from 287,000 in July. The labor market continued to experience significant churn, even as manufacturing quits have slowed from a record 362,000 in March. Similarly, the nonfarm business sector reported 4,158,000 quits in August, up from 4,058,000 in July. November saw a record 4,510,000 quits in the economy, and the current pace remains well above pre-pandemic levels.

Nonfarm business layoffs have picked up somewhat, rising from 1,390,000 in July to 1,460,000 in August, the most since March 2021. At the same time, manufacturing layoffs changed little, up from 97,000 to 100,000, averaging 102,750 year to date.

- **Weekly Initial Unemployment Claims:** The week ending Oct. 1 saw 219,000 initial unemployment claims, up from 190,000 for the week ending Sept. 24. In addition, the week ending Sept. 24 saw 1,361,000 continuing claims, up from 1,346,000 for the week ending Sept. 17. While both of these measures rose following multiweek lows the previous week, the labor market remains solid, despite challenges in the economy overall.

Take Action

- **Be Part of Manufacturing's Premier Workforce Event**
  The Manufacturing Institute—the workforce development and education partner of the NAM—invites you to its inaugural Workforce Summit on Oct. 18–20 at the Hyatt Regency in Cincinnati, Ohio, where manufacturers, thought leaders, educators, business association leaders and human resource and workforce development professionals will convene to discuss innovations in workforce development and the future of manufacturing. Click here for more information and to register.

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