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MONDAY ECONOMIC REPORT

Manufacturing Employment Fell in January for First Time Since April

By Chad Moutray – Feb 8, 2021 – SHARE

The Weekly Toplines

- Manufacturing employment fell in January for the first time since April, with the sector losing 10,000 workers to begin the new year. This suggests that broader macroeconomic weaknesses related to the continued spread of COVID-19 have extended to the manufacturing sector, which had been a bright spot in recent months. Over the past 12 months, manufacturing employment has fallen by 575,000 workers.

- The U.S. economy added 49,000 workers in January, bouncing back somewhat after declining by 227,000 in December. There are 9,603,000 fewer nonfarm payrolls today than one year ago. The unemployment rate fell from 6.7% in December to 6.3% in January.

- In the latest data, private nonfarm employment remains 93.5% of what was experienced at the beginning of the recession in February 2020. The current recession is much deeper than in recent downturns, with nonfarm payrolls plummeting 14.7% in the first two months (see chart).

- The ISM® Manufacturing Purchasing Managers' Index® slowed in January but continued to expand solidly, declining from 60.5 in December to 58.7 in January. New orders and production growth remained robust, but respondents cited lingering supply chain disruptions, and raw material costs rose at the fastest pace since April 2011.

- Factory orders rose 1.1% in December, increasing for the eighth straight month but declining 0.8% year-over-year. At the same time, durable goods have rebounded strongly since the pandemic. Over the past 12 months, new orders for durable goods have risen 1.9%, but with transportation equipment excluded, sales increased a solid 7.0% year-over-year.

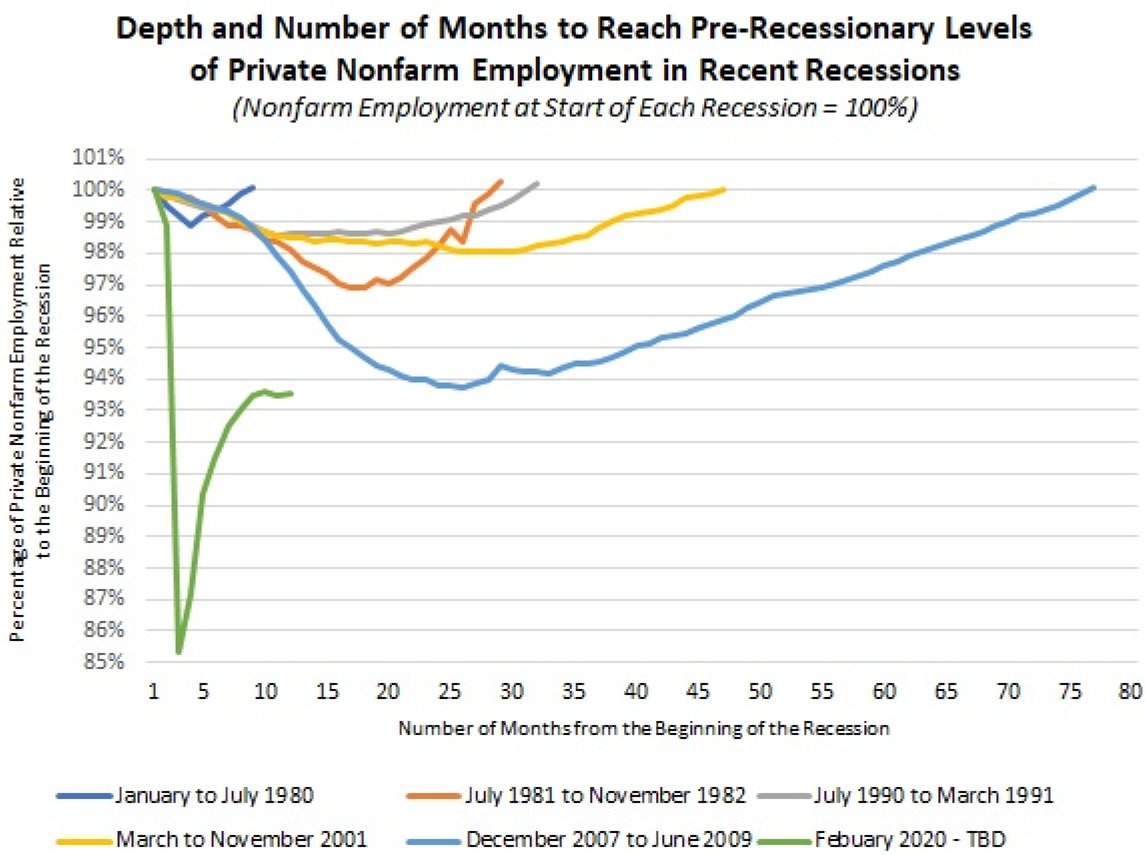
- Encouragingly, new orders for core capital goods—a proxy for capital spending in the U.S. economy—rose 0.7% to $72.0 billion in December, a new record. More importantly, core capital goods orders have risen a robust 8.0% over the past 12 months.

- The U.S. trade deficit declined from $69.01 billion in November, an all-time high, to $66.61 billion in December, with the increase in goods exports outstripping the gain in goods imports.

- Trade volumes were notably lower in 2020 as COVID-19 and a recession battered the global economy. U.S.-manufactured goods exports dropped roughly 15% in 2020 relative to 2019.

- The [Private manufacturing construction spending] dropped 5.6% in December to the lowest level since September 2014. These data fell in every month of the second half of 2020, and private construction spending in the sector plummeted 17.6% year-over-year.

- [Manufacturing labor productivity] rose 3.0% at the annual rate in the fourth quarter, boosted by continued rebounds in output. Yet, labor productivity in the sector edged down 0.2% in 2020 overall, with manufacturing output down 6.5% and unit labor costs up 7.4%.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, February 1
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

This Week's Indicators:
(Summaries Appear Below)

Monday, February 8
None

Tuesday, February 9

Tuesday, February 2
None

Wednesday, February 3
ADP National Employment Report

Thursday, February 4
Factory Orders and Shipments
Productivity and Costs
Weekly Initial Unemployment Claims

Friday, February 5
BLS Employment Report
International Trade Report

Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, February 10
Consumer Price Index

Thursday, February 11
Weekly Initial Unemployment Claims

Friday, February 12
University of Michigan Consumer Sentiment

Deeper Dive

- ADP National Employment Report: Manufacturing employment edged up 1,000 in January, stabilizing after declining by 14,000 in December, according to ADP estimates. Overall, the labor market bounced back somewhat, rising by 174,000 in January following the decrease of 78,000 in December. The sectors with the largest increases in January included education and health services (up 54,000), professional and business services (up 40,000), leisure and hospitality (up 35,000), construction (up 18,000) and trade, transportation and utilities (up 16,000).

- BLS National Employment Report Manufacturing employment fell in January for the first time since April, with the sector losing 10,000 workers to begin the new year. There were 7,000 additional workers among nondurable goods firms in January, but durable goods employment declined by 17,000. This suggests that broader macroeconomic weaknesses related to the continued spread of COVID-19 have extended to the manufacturing sector, which had been a bright spot in recent months. Over the past 12 months, manufacturing employment has fallen by 575,000 workers, with 12,217,000 Americans employed in the sector in January, down from 12,792,000 one year ago.

- Construction Spending Private manufacturing construction spending dropped 5.6% from $67.38 billion in November to $63.62 billion in December, the lowest level since September 2014. These data fell in every month of the second half of 2020, as economic weaknesses due to the COVID-19 pandemic took a toll on activity. On a year-over-year basis, private construction spending among manufacturers has plummeted 17.6% from $77.22 billion in December 2019. Total private nonresidential spending declined 1.7% in December, with a decrease of 9.8% over the past 12 months. Every major segment of private nonresidential construction spending experienced year-over-year decreases in activity in the latest figures.

- Factory Orders and Shipments New orders for manufactured goods rose 1.1% in December, increasing for the eighth straight month. Durable and nondurable goods sales increased 0.5% and 1.7% in December, respectively. Despite notable gains since the spring from COVID-19 disruptions, new orders in the manufacturing sector have fallen 0.8% since December 2019. With transportation equipment excluded, factory sales increased 1.4% in December, with a gain of 0.5% year-over-year.

Encouragingly, the durable goods data have rebounded strongly since the pandemic. Over the past 12 months, new orders for durable goods have increased 1.9%, but with transportation equipment excluded, sales rose a solid 7.0% year-over-year. Similarly, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—rose 0.7% to $72.0 billion in December, a new record. More importantly, core capital goods orders have risen a robust 8.0% over the past 12 months.

Meanwhile, factory shipments increased 1.7% in December, with durable and nondurable goods also increasing by that rate for the month. Since December 2019, manufactured goods shipments have inched up 0.1%, but with transportation equipment excluded, durable goods shipments fell 0.3% year-over-year. At the same time, core capital goods shipments rose 0.7% to a record $70.3 billion in December, jumping 6.4% over the past 12 months.

- International Trade Report: The U.S. trade deficit declined from $69.01 billion in November, an all-time high, to $66.61 billion in December. The reduction stemmed from an increase in goods exports (up from $127.54 billion to $133.50 billion—the strongest reading since February 2020) that outstripped the gain in goods imports (up from $214.53 billion to $217.65 billion—the best since October 2018). Overall, trade volumes were notably lower in 2020 as COVID-19 and a recession battered the global economy. Here are the reductions in trade volumes last year: goods exports (down from $1,652.44 billion in 2019 to $1,434.77 billion in 2020), goods imports (down from $2,516.77 billion to $2,350.56 billion), service-sector exports (down from $875.83 billion to $697.13 billion) and service-sector imports (down from $588.36 billion to $460.08 billion).

In December, goods exports were higher for industrial supplies and materials (up $1.80 billion), foods, feeds and beverages (up $1.36 billion, mainly from corn and soybeans), non-automotive capital goods (up $1.10 billion), automotive vehicles, parts and engines (up $852 million) and consumer goods (up $349 million). At the same time, goods imports were boosted by strength in industrial supplies and materials (up $2.71 billion), automotive vehicles, parts and engines (up $1.97 billion) and non-automotive vehicles and parts (up $630 million). Imports were lower for consumer goods (down $1.90 billion, mainly from cell phones) and foods, feeds and beverages (down $444 million).

According to the latest data, U.S.-manufactured goods exports totaled $956.31 billion in 2020, using non-seasonally adjusted data, dropping roughly 15% from $1,125.55 billion in 2019.

- ISM® Manufacturing Purchasing Managers' Index®: The Institute for Supply Management® reported that manufacturing activity slowed in January but continued to expand solidly, with the headline index declining from 60.5 in December to 58.7 in January. New orders (down from 67.5 to 61.1) and production (down from 64.7 to 60.7) expanded for the eighth consecutive month but remained robust. Exports (down from 57.5 to 54.9) also decelerated somewhat, but employment (up from 51.7 to 52.6) strengthened for the second straight month. Some respondents noted ongoing difficulties in finding talent.

Continued hints of lingering supply chain disruptions remain. Indeed, the index for supplier deliveries (up from 67.7 to 68.2) noted slower delivery times in January. (Readings above 50 are consistent with slower deliveries.) Timothy Fiore, chair of the ISM® Manufacturing Business Survey Committee, said, "Suppliers continue to struggle to deliver, with deliveries slowing at a faster rate compared to the previous month. Transportation challenges and challenges in supplier labor markets are still constraining production growth." He added, "Supplier labor and transportation constraints are not expected to diminish in the near-to-moderate term due to COVID-19 impacts."

Meanwhile, inventories (down from 51.0 to 50.8) expanded for the fourth consecutive month, but customers' inventories (down from 37.9 to 33.1) remained very low, with that index falling to the weakest reading since December 2009. This suggests that additional production would be necessary if demand strengthens further. In addition, prices (up from 77.6 to 82.1) increased robustly, rising at the swiftest rate since April 2011, highlighting strengthening raw material costs in light of increased economic activity and—as noted above—lingering supply chain constraints.

- Productivity and Costs: Manufacturing labor productivity rose 3.0% at the annual rate in the fourth quarter. Output jumped 11.2% in the fourth quarter after soaring by 56.7% in the third quarter, as the sector continues to recover from the 5.5% and 46.4% COVID-19-related declines seen in the first and second quarters, respectively. Unit labor costs fell 2.4% in the latest data.

For the year overall, manufacturing labor productivity edged down 0.2%, pulling back after increasing by 0.4% and 0.1% in 2018 and 2019, respectively. Output fell 6.5% in the manufacturing sector in 2020, with unit labor costs up 7.4%. One of the larger economic concerns has been sluggishness of productivity growth since the Great Recession. Indeed, output per worker in the manufacturing sector averaged -0.1% from 2011 to 2020. In contrast, the average growth rate for the sector registered 3.8% and 4.8% in the 1990–2000 and 2000–2008 time frames, respectively, or the two prior economic recoveries.

Meanwhile, nonfarm business labor productivity fell 4.8% in the fourth quarter, the largest quarterly decline since the second quarter of 1981. Output rose sharply, up 5.3% in the fourth quarter, but the number of hours worked increased more, up 10.7%. As a result, unit labor costs rose 6.8%. In 2020 as a whole, nonfarm labor productivity increased 2.6%, up from 1.7% in 2019 and the best annual reading since 2010.

- Weekly Initial Unemployment Claims: Initial unemployment claims totaled 779,000 for the week ending Jan. 30, pulling back for the third straight release, down from 812,000 claims for the week ending Jan. 23. It was the lowest level since the week ending Nov. 28. Despite overall progress, particularly since last spring, the pace of first-time unemployment insurance claims remains highly elevated, illustrating continuing pain in labor markets.

Meanwhile, continuing claims declined from 4,785,000 for the week ending Jan. 16 to 4,592,000 for the week ending Jan. 23, the lowest level since the week ending March 28, 2020, but still too high and consistent with 3.2% of the workforce.

At the same time, 17,835,525 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Jan. 16, down from 18,321,930 for the week ending Jan. 9. The decline came largely on reduced state and pandemic assistance, but more individuals received extended benefits, reflecting new legislation passed at year's end.

Overall, total private construction spending increased 1.2% in December, with 6.5% growth since last year. The data were buoyed by strength in the private residential construction market, which rose 3.1% in December. Single-family construction increased 5.8%, with multifamily activity edging up 0.1% for the month. Over the past 12 months, single-family and multifamily construction jumped 23.5% and 17.8%, respectively. Meanwhile, public construction spending rose 0.5% in December, with a gain of 3.0% from one year earlier.

In January, manufacturing employment rose in just six major sectors: chemicals (up 10,500), food (up 2,200), computer and electronic products (up 1,300), wood products (up 1,300), miscellaneous durable goods (up 1,300) and textile product mills (up 400). This was more than offset, however, by declining employment for nonmetallic mineral products (down 6,400), fabricated metal products (down 4,100), electrical equipment and appliances (down 3,200), transportation equipment (down 3,200) and apparel (down 2,500), among others.

All the major sectors continued to experience reduced employment year-over-year in January. The following sectors experienced the largest decreases over the past 12 months: transportation equipment (down 127,800), fabricated metal products (down 87,900), machinery (down 60,500) and printing and related support services (down 48,500). At the other end of the spectrum, chemicals (down 3,100), petroleum and coal products (down 6,800), plastics and rubber products (down 7,400) and wood products (down 7,700) fared better, with the smallest declines in employment since January 2020.

Meanwhile, the U.S. economy added 49,000 workers in January, bouncing back somewhat after declining by 227,000 in December. The underlying data were mixed by sector. Increased employment for government, information, professional and business services and wholesale trade, for instance, were offset by reductions for leisure and hospitality, retail trade and transportation and warehousing, among others. Overall, there are 9,603,000 fewer nonfarm payrolls today than 12 months ago.

The unemployment rate fell from 6.7% in December to 6.3% in January, with the number of unemployed workers dropping slightly from 10,736,000 to 10,130,000. 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 11.7% to 11.1%. The labor force participation rate ticked down from 61.5% to 61.4%, but for comparison purposes, the participation rate registered 63.4% one year ago.

Job growth slowed at year's end due to rising COVID-19 cases and new restrictions. Over the past 12 months, private nonfarm payrolls have fallen by more than 9,600,000, with manufacturing employment down 586,000 year-over-year.

Meanwhile, small- and medium-sized businesses (i.e., those with fewer than 500 employees) added 135,000 workers in January, or 77.6% of net job creation for the month.

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