

MONDAY ECONOMIC REPORT



Manufacturing Outlook at Highest in Two Years; Rising Costs Are Top Concern

By Chad Moutray – March 15, 2021

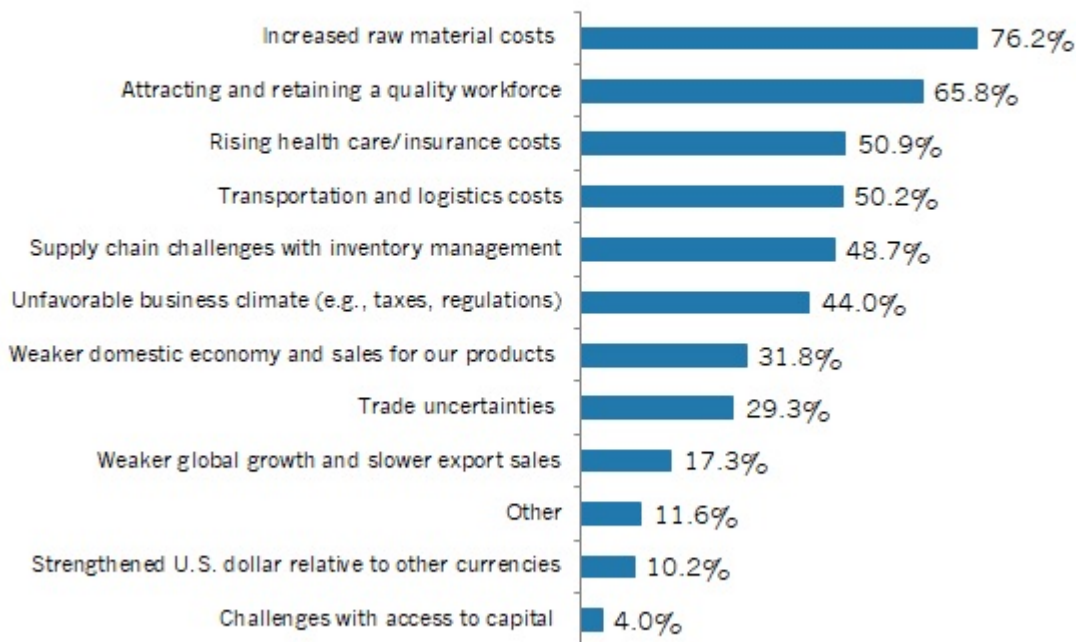
The Weekly Toplines

- In the latest [NAM Manufacturers' Outlook Survey](#), 87.6% of respondents said they feel either somewhat or very positive about their company's outlook, the highest level in two years. The outlook bounced back from the 33.9% reading in the second quarter of 2020, which was the worst reading since the Great Recession. Medium and large manufacturers were more upbeat in their outlook than smaller firms.
- Roughly two-thirds of manufacturers expect to return to pre-pandemic levels of revenue by the end of 2021, with one-third saying that their revenues had recovered by the end of 2022.
- Cited by 76.2% of respondents, rising raw material costs topped the list of primary business challenges in the first quarter. Although 65.8% of those completing the survey consider the inability to attract and retain talent as their top challenge, this issue dropped to second place.
- [Producer prices for final demand goods](#) rose 1.4% in February, matching the record monthly pace seen in January. Excluding food and energy, producer prices for final demand goods increased 0.3% in February. Costs for transportation and warehousing rose 1.1% in February, extending the 1.3% gain seen in January.
- Over the past 12 months, producer prices for final demand goods and services jumped from 1.7% year-over-year in January to 2.8% in February, the biggest increase since October 2018. Likewise, core producer prices have risen 2.2% since February 2020, up from 1.9% in January (seasonally adjusted) and the fastest pace since May 2019.
- While [consumer prices](#) rose 0.4% in February, the fastest monthly gain in six months, pricing pressures at the consumer level have stabilized in recent months. Core inflation increased 1.3% year-over-year in February, down from 1.4% in the prior report. It will be interesting to see how this will impact consumer prices moving forward, at least in the short-term, with raw material costs rising more sharply.
- The January survey reported 515,000 [manufacturing job openings](#). Over the past six months, postings in the sector have averaged more than 505,000 each month, including October's reading, which hit a record high at 545,000. These data offer an encouraging sign that manufacturers are confident enough in the economic outlook for their businesses to post new jobs.

- In the larger economy, nonfarm business job openings increased to 6,917,000 in January, a 12-month high and the best reading since the COVID-19 pandemic began. January's postings translate to 1.46 unemployed workers for every one job opening in the U.S. economy.
- [Consumer confidence](#) rose to a 12-month high, according to the University of Michigan and Thomson Reuters, buoyed by increased vaccinations and a stronger economic outlook.

NAM Manufacturers' Outlook Survey Primary Business Challenges

(First Quarter 2020)



Note: Respondents were able to check all that apply. Therefore, responses exceed 100 percent.

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, March 8
None

Tuesday, March 9
NAM Manufacturers' Outlook Survey
NFIB Small Business Survey

Wednesday, March 10
Consumer Price Index

Thursday, March 11
Job Openings and Labor Turnover Survey

Monday, March 15
NAHB Housing Market Index
New York Fed Manufacturing Survey
State Employment Report

Tuesday, March 16
Industrial Production
Retail Sales

Wednesday, March 17
FOMC Monetary Policy Statement
Housing Starts and Permits

Thursday, March 18
Conference Board Leading Indicators

Friday, March 12

Producer Price Index

University of Michigan Consumer Sentiment

Friday, March 19

None

Deeper Dive

- **Consumer Price Index:** Consumer prices rose 0.4% in February, the fastest monthly gain in six months. Gasoline prices, which rose 6.4% in February, helped lift energy costs, which rose 3.9% for the month. Food prices increased 0.2% in February. Overall, food and energy prices were 3.6% and 2.4% higher than one year ago. Excluding food and energy, consumer prices edged up by 0.1% in February after being flat in the previous two months. The underlying data yielded mixed results. Prices for medical care and shelter increased in the latest data and buoyed the headline index. In contrast, costs for apparel, household furnishings and supplies, new and used vehicles and transportation services fell in February.

Over the past 12 months, the consumer price index has risen 1.7%, up from 1.4% in the previous release and the fastest rate since February 2020 (pre-pandemic). Meanwhile, core inflation (which excludes food and energy) increased by 1.3% year-over-year, down from 1.4% in the prior report. Overall, consumer prices have stabilized in recent months, particularly at the core level, despite the increase in costs seen in the top-line figure. Manufacturers continue to cite rising raw material costs as a concern. (See the NAM survey below.) It will be interesting to see how this will impact consumer prices moving forward, at least in the short-term.

- **Job Openings and Labor Turnover Survey:** The January survey reported 515,000 manufacturing job openings, up from 479,000 in December. Over the past six months, postings in the sector have averaged more than 505,000 each month, including October's reading, which hit a record high at 545,000. In the latest figures, job openings rose for both durable (up from 271,000 to 296,000) and nondurable goods (up from 209,000 to 219,000) firms. Overall, these data offer an encouraging sign that manufacturers are confident enough in the economic outlook for their businesses to post new jobs. These data also coincide with manufacturers' lingering challenges finding enough talent. (See the NAM outlook survey below.)

In the larger economy, nonfarm business job openings increased from 6,752,000 in December to 6,917,000 in January, a 12-month high and the best reading since the COVID-19 pandemic began. January postings reported 10,130,000 Americans unemployed, which translates to 1.46 unemployed workers for every one job opening in the U.S. economy, down from 1.59 in December. That figure peaked at 4.99 unemployed workers for every one job opening in April 2020, reflecting significant progress since then. At the same time, the labor market was very tight pre-pandemic, with just 0.82 unemployed workers for every one job opening in Feb. 2020.

In January, manufacturers hired 351,000 workers, softening for the second straight month for both durable and nondurable goods. At the same time, total separations also eased, down from 387,000 in December to 358,000 in January. Therefore, net hiring (or hiring minus separations) was -7,000 in January, the first decline in six months.

Layoffs in the manufacturing sector declined from 120,000 in December to 94,000 in January, the lowest reading since November 2019. Nonfarm business layoffs pulled

back from 1,823,000 to 1,687,000, a four-month low.

- **[NAM Manufacturers' Outlook Survey](#)**: In the latest release, 87.6% of respondents said they feel either somewhat or very positive about their company's outlook. It was the survey's third straight quarterly increase in optimism. The outlook bounced back from the 33.9% reading in the second quarter of 2020, which was the worst reading since the Great Recession. More importantly, these results suggest that manufacturers now have the most optimistic outlook in two years, since the first quarter of 2019. Medium and large manufacturers were more upbeat in their outlook than smaller firms.

Respondents were asked when they expect revenues to return to pre-pandemic levels. Nearly 33% said that their revenues had recovered by the end of 2020. An additional 6.3% reported their revenues will return to pre-pandemic levels by the end of the first quarter of 2021 (the current quarter). Overall, 67.6% of manufacturers completing this survey anticipate that their revenues will be back to pre-pandemic levels by the end of 2021, while 85.7% anticipate a return to pre-pandemic levels by the end of 2022.

Cited by 76.2% of respondents, rising raw material costs topped the list of primary business challenges in the first quarter. In addition, manufacturers predict 6.2% growth on average for input costs over the next 12 months, the fastest pace since the question was added to the survey in the second quarter of 2018. Respondents expect product prices to rise 3.9% between now and this time next year, a new record in the more than 23 years that this survey has existed.

Although 65.8% of those completing the survey consider the inability to attract and retain talent as their top challenge, this issue dropped to second place. This issue was the primary concern in 11 of the past 13 quarters prior to this release, speaking to the structural skills mismatches that many manufacturers face regarding employment. Other top worries include rising health care and insurance costs (50.9%), transportation and logistics costs (50.2%), supply chain challenges with inventory management (48.7%) and an unfavorable business climate, including taxes and regulations (44.0%). It was the highest reading for the business climate since the fourth quarter of 2017, or since Congress enacted tax reform.

- **[NFIB Small Business Survey](#)**: The National Federation of Independent Business said that the Small Business Optimism Index ticked up from 95.0 in January to 95.8 in February. It was the third straight month with a reading below 100, traditionally the threshold indicating growth for small businesses. This reading suggests that small business owners remain anxious about the economy and political landscape. Indeed, the percentage of respondents saying that the next three months would be a "good time to expand" dropped from 8% to 6%, the lowest level since May 2020. The net percentage expecting greater sales over the next three months declined from -6% to -8%, a reading not seen since August 2011.

On the other hand, strength in the labor market data would seem to indicate greater optimism than the headline index might suggest. For instance, the percentage of respondents planning to increase hiring over the next three months inched up from 17% to 18%. The percentage suggesting they had job openings they were unable to fill jumped from 33% to 40%, a new record. Respondents once again cited difficulties in obtaining enough labor as the top "single most important problem," followed by concerns with taxes and government regulations.

Regarding capital spending, 57% of small firms have made an investment over the past six months, up from 55% in the previous survey and the best reading since March 2020. The percentage of respondents planning to make a capital investment over the next three to six months edged up from 22% to 23%.

- **Producer Price Index:** Producer prices for final demand goods and services rose 0.5% in February, slowing from the 1.3% gain seen in January, which was the largest monthly gain since the series began in December 2009. Yet, producer prices for final demand goods rose 1.4% in February, matching the record monthly pace seen in January. Energy prices soared 6.0% in February, extending the 4.9% and 5.1% increases in December and January, respectively. Food costs increased by 1.3% in February, a four-month high. Excluding food and energy, producer prices for final demand goods increased 0.3% in February, easing from the 0.8% rise seen in January.

At the same time, producer prices for final demand services edged up 0.1% for the month. Costs for transportation and warehousing rose 1.1% in February, extending the 1.3% gain seen in January.

Over the past 12 months, producer prices for final demand goods and services jumped from 1.7% year-over-year in January to 2.8% in February, the biggest increase since October 2018. Likewise, core producer prices have risen 2.2% since February 2020, up from 1.9% in January (seasonally adjusted) and the fastest pace since May 2019.

Manufacturing leaders continue to cite supply chain disruptions as a key challenge. With that in mind, the jump in raw material prices was not a surprise. Hopefully, these increases will be transitory and, at least for now, the Federal Reserve appears to be more focused on stimulating economic growth than on inflationary worries. Still, manufacturers say that rising raw material costs are their top concern right now. (See the NAM outlook information above.)

- **University of Michigan Consumer Sentiment:** Consumer confidence rose from 76.8 in February, a 6-month low, to 83.0 in March, a 12-month high, according to preliminary data from the University of Michigan and Thomson Reuters. The release states, "Consumer sentiment rose in early March to its highest level in a year due to the growing number of vaccinations as well as the widely anticipated passage of Biden's relief measures." Encouragingly, the expectations for consumer spending over the next 12 months were also stronger, particularly for services, as Americans begin to contemplate a return to normal later this year.

Despite such gains, it is also clear that improvements have not been as broad-based as might be preferred, with many households continuing to worry about finances. In the February data, the University of Michigan noted that households with incomes below \$75,000 tended to be more concerned about economic prospects, for instance. Final data will be released on March 26.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 712,000 for the week ending March 6, down from 754,000 for the week ending Feb. 27 and the lowest since the week ending Nov. 7 (711,000). Meanwhile, continuing claims declined from 4,337,000 for the week ending Feb. 20 to 4,144,000 for the week ending Feb. 27. Although this figure represents the lowest level since the week ending March 21, 2020, it is still too high and consistent with 2.9% of the workforce.

At the same time, 20,116,302 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Feb. 20. That figure rose from 18,028,926 for the week ending Feb. 13 and reflects sizable increases in pandemic assistance claims.

- The NAM will host a webinar, “Quarterly Economic Update for Manufacturers,” on Thursday, March 25, at 2:00 p.m. ET. The first quarter NAM Manufacturers’ Outlook Survey showed a rise in optimism to the highest point in two years (see above). Explore the other results from the survey as well as the current economic indicators and the outlook. To register, click [here](#).

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