MONDAY ECONOMIC REPORT

Stimulus Payments and Pent-Up Demand Boosted Retail Sales in March

By Chad Moutray – April 19, 2021

The Weekly Toplines

- Fueled by stimulus payments and pent-up demand, consumer spending at retailers jumped 9.8% in March, the largest monthly gain in 10 months. Excluding gasoline and motor vehicle sales, retail spending rose 8.2% in March.

- More than anything, the data speak to the increased willingness of Americans to leave their homes—thanks to increased vaccination rates—and to spend much of the additional dollars in their pockets from stimulus checks. That growth should be largely sustained in the coming months, with the U.S. economy expected to continue rebounding very strongly.

- Consumer confidence rose from 84.9 in March to 86.5 in April, a 13-month high, according to final data from the University of Michigan and Thomson Reuters, with Americans reflecting on stronger economic and labor market growth.

- After falling 3.7% in February, largely on supply chain disruptions and weather, manufacturing production rebounded somewhat in March, rising 2.7%. While challenges continue in the supply chain and with rising costs, the manufacturing sector continues to expand strongly overall, with production down just 2.1% since the COVID-19 pandemic began in February 2020. Output in the sector would be expected to return to pre-pandemic levels by the third quarter of this year.

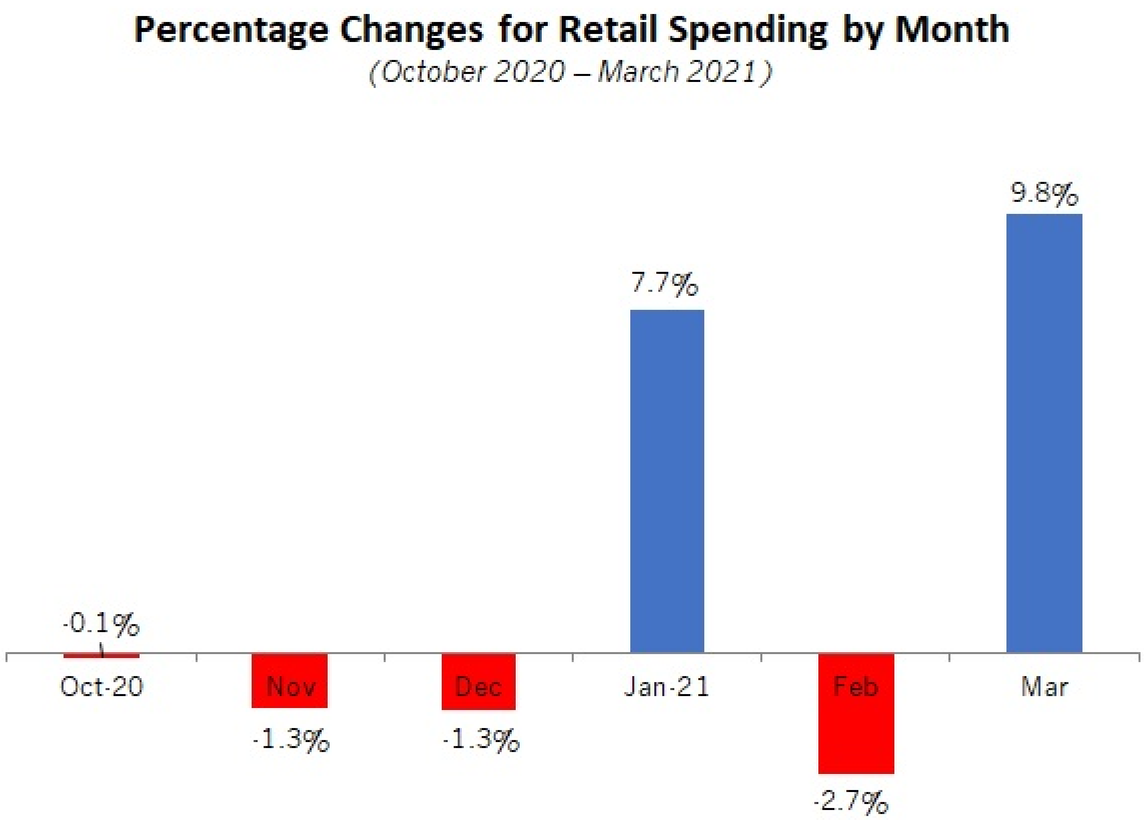
- Manufacturing activity expanded robustly in both the New York and Philadelphia Federal Reserve Bank districts, but respondents continued to cite supply chain challenges and rapidly rising costs as concerns. Respondents in both regions felt very positive in their outlook for the next six months.

- Consumer prices rose 0.6% in March, the fastest monthly pace since August 2012, fueled in part by sharply higher gasoline prices. Core inflation increased 0.3% for the month. The consumer price index has risen 2.6% year-over-year, the fastest rate since August 2018, but excluding food and energy costs, consumer inflation has increased a more modest 1.6% over the past 12 months.

- New residential construction rebounded in March, jumping 19.4% to an annualized 1,739,000 units, the fastest pace since June 2006, after pulling back in February largely on weather issues. New housing starts have grown 11.0% over the past 13 months, with permits rising 20.6% over that time frame.

- As such, the housing market remains a bright spot. Builders complain about sharply higher construction costs, worker shortages and a lack of available lots, but they remain upbeat in their outlook for sales over the next six months.

- [Initial unemployment claims] totaled 576,000 for the week ending April 10, the lowest since the week of March 14, 2020.



Economic Indicators

Last Week's Indicators:
(Summaries appear below)

Monday, April 12
None

Tuesday, April 13
Consumer Price Index
NFIB Small Business Survey

Wednesday, April 14
None

Thursday, April 15
Industrial Production
NAHB Housing Market Index

This Week's Indicators:
(Summaries appear below)

Monday, April 19
None

Tuesday, April 20
None

Wednesday, April 21
None

Thursday, April 22
Chicago Fed National Activity Index
Conference Board Leading Indicators

New York Fed Manufacturing Survey
Philadelphia Fed Manufacturing Survey
Retail Sales
Weekly Initial Unemployment Claims

Friday, April 16
Housing Starts and Permits
State Employment Report
University of Michigan Consumer Sentiment (Preliminary)

Existing Home Sales
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, April 23
IHS Markit Flash U.S. Manufacturing PMI
New Home Sales

Deeper Dive

- **Consumer Price Index** : Consumer prices rose 0.6% in March, up from 0.4% in February and the fastest monthly pace since August 2012. Energy prices increased strongly for the fourth straight month, rising 5.0% in March, with gasoline costs jumping 9.1% for the month. Food costs edged up 0.1% in March. Overall, food and energy prices were 3.5% and 13.2% higher than one year ago. Excluding food and energy, consumer prices increased 0.3% in March, a seven-month high. Consumer prices for medical care commodities and services, household furnishings and supplies, shelter, transportation services and used cars and trucks rose in March, with costs for apparel lower. Prices for new vehicles were flat for the month.

  Over the past 12 months, the consumer price index has risen 2.6%, up from 1.7% in the previous release and the fastest rate since August 2018. Meanwhile, core inflation (which excludes food and energy) increased 1.6% year-over-year, up from 1.3% in the prior report. It is important to note that the year-over-year rates will seem larger starting with this release, as current prices will be compared to deflationary pressures last year at the beginning of the COVID-19 pandemic.

  Still, it is also clear that pricing pressures have accelerated. For their part, manufacturers continue to cite rising raw material costs as a primary concern. At the same time, the Federal Reserve welcomes some price growth in the short run, as it remains more worried about below-trend economic growth. For now, core consumer price growth was a respectable 1.6% year-over-year, although, as noted, that figure is likely to rise in the coming months.

- **Housing Starts and Permits**: After pulling back in February, largely on poor weather, new residential construction rebounded in March, jumping 19.4% from an annualized 1,457,000 units to 1,739,000 units, the fastest pace since June 2006. Housing starts increased sharply in every region except for the West in March. Single-family starts rose 15.3% from 1,074,000 units to 1,238,000 units, a three-month high, and multifamily construction activity soared from 383,000 units to 501,000 units, the best reading in 13 months (or since the pandemic began).

  On a year-over-year basis, new housing starts soared 37.0% relative to the 1,269,000 units observed in March 2020, but that is somewhat misleading as construction activity plummeted 12 months ago as the economy started to grapple with the COVID-19 pandemic. A better measure would be the growth since February 2020, with a still robust 11.0% growth rate in that 13-month time frame. As such, the housing market remains a bright spot. Builders complain about sharply higher construction costs, worker shortages and a lack of available lots, but they remain upbeat in their outlook for sales over the next six months (see the NAHB Housing Market Index blurb below).

In the latest data, housing permits rose 2.7% from 1,720,000 units at the annual rate in February to 1,766,000 units in March. While that remains below the 1,886,000-unit pace in January, which was the best since May 2006, these data continue to reflect an upbeat assessment of future activity in the housing market. Housing permits have risen 30.2% year-over-year, or 22.8% since February 2020. Single-family permitting has increased 20.6% over the past 13 months, but multifamily activity has declined 5.8% in that time period.

- **Industrial Production** : After falling 3.7% in February, largely due to supply chain disruptions and weather, manufacturing production rebounded somewhat in March, rising 2.7%. Durable and nondurable goods production rose 3.0% and 2.6%, respectively. While challenges continue in the supply chain and with rising costs, the manufacturing sector continues to expand strongly overall, with production down just 2.1% since the COVID-19 pandemic began in February 2020. Output in the sector would be expected to return to pre-pandemic levels by the third quarter of this year. Likewise, manufacturing capacity utilization jumped from 71.9% in February to 73.8% in March. This remained below January's pace (74.6%), and capacity in the sector continues to be 1.8% below where it was 13 months ago, but March's gain was impressive, nonetheless.

  In March, every manufacturing sector had increased production except for plastics and rubber products (down 1.1%) and other manufacturing (unchanged). The largest output gains occurred in petroleum and coal products (up 5.7%), aerospace and miscellaneous transportation equipment (up 4.3%), fabricated metal products (up 4.2%), chemicals (up 4.1%) and nonmetallic mineral products (up 3.9%).

  Seven of the major manufacturing sectors experienced increased production over the past 13 months, or since the COVID-19 pandemic began: aerospace and miscellaneous transportation equipment (up 5.8%), food, beverage and tobacco products (up 2.4%), machinery (up 2.2%), apparel and leather products (up 1.0%), computer and electronic products (up 0.9%), wood products (up 0.8%) and miscellaneous durable goods (0.2%). The biggest declines since February 2020 occurred in other manufacturing (down 15.9%), printing and related support activities (down 12.8%), furniture and related products (down 9.5%), motor vehicles and parts (down 8.1%), petroleum and coal products (down 6.0%) and nonmetallic mineral products (down 5.9%).

  Meanwhile, total industrial production increased 1.4% in March, recovering some of the 2.6% loss in February. Mining production rose 5.7% in March, but output for utilities dropped 11.4%. Over the past 12 months, industrial production increased 1.0%, but with mining and utilities production down 8.8% and 0.2% year-over-year, respectively. Total capacity utilization rose from 73.4% in February to 74.4% in March. That remains 3.3% below the pre-pandemic pace.

- **NAHB Housing Market Index**: The National Association of Home Builders and Wells Fargo reported that confidence edged up from 82 in March to 83 in April. While the Housing Market Index remains highly elevated, with builders still very upbeat in their overall assessments despite easing from November's all-time high (90), builders have a number of concerns on their minds. Respondents continue to cite higher construction costs, supply shortages, low inventories and increased delivery times as challenges. Mortgage rates have also started to drift higher, albeit at still low rates historically.

  The HMI improved in April in the South and West but eased in the Midwest and Northeast. The index for current single-family home sales ticked up from 87 in March to 88 in April, but the index for expected single-family sales eased from 83 to 81. These are very solid readings, and as such, builders continued to be extremely optimistic about increased sales moving forward despite the challenges mentioned above.

- **New York Fed Manufacturing Survey** : In April, manufacturing activity expanded in the New York Federal Reserve Bank's district at the fastest pace since October 2017. The composite index rose from 17.4 in March to 26.3 in April, buoyed by stronger growth in new orders, shipments, inventories, employment and the average employee workweek. More troublesome, input costs accelerated at the fastest rate since July 2008, mirroring other indicators and consistent with supply chain challenges seen in the sector nationally. At the same time, selling prices hit a record high, suggesting that a fair share of those additional costs is being passed along.

  Meanwhile, manufacturers in the Empire State Manufacturing Survey remain upbeat about stronger activity over the next six months, with the forward-looking composite index increasing from 36.4 in March to 39.8 in April, a seven-month high. Roughly 58% of respondents forecasted new orders and shipments expanding moving forward, with 46.1% and 39.0% anticipating more hiring and capital spending, respectively. Those completing the survey predicted that raw material prices will continue to grow strongly, with the index for expected prices paid also rising to the highest level since March 2011.

- **NFIB Small Business Survey**: The National Federation of Independent Business reported that the Small Business Optimism Index rose from 95.8 in February to 98.2 in March, a four-month high. Small business owners felt more positive in their outlook, but also remained anxious about the economy and the political landscape. The percentage of respondents saying that the next three months would be a "good time to expand" increased from 6% to 11%, also the best since November, and the net percentage expecting greater sales over the next three months improved from -8% in February to zero in March.

  The labor market data were very solid. For instance, the percentage of respondents planning to increase hiring over the next three months inched up from 18% to 22%. The percentage suggesting that they had job openings they were unable to fill rose from 40% to 42%, 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, 59% of small firms have made an investment over the past six months, up from 57% in the previous survey and the best reading in one year. Yet, the percentage of respondents planning to make a capital investment over the next three to six months eased from 23% to 20%.

As with other surveys, pricing pressures have picked up. In March, the net percentage of respondents reporting higher prices today than three months ago edged up from 25% to 26%, the highest since August 2008. In addition, the net percentage planning a price increase over the next three months was unchanged at 34%, remaining the best since July 2008.

- **Philadelphia Fed Manufacturing Survey** : Manufacturing activity soared at the fastest pace since April 1973, with the composite index rising from 44.5 in March to 50.2 in April, boosted by strength in shipments, inventories, employment and hours worked. New orders eased slightly, but demand growth remained very solid. More than 49% of manufacturers reported higher sales for the month, with just 13.1% citing declines. Delivery times remained quite elevated, with supply chain disruptions, and the prices paid for input costs continued to expand robustly despite easing slightly from the fastest rate of growth since November 1980.

  Manufacturers in the district remained very positive in their outlook, with the forward-looking composite index rising from 59.1 to 66.6, the best reading since October 1991. At least 65% of business leaders in the region expect new orders and shipments to rise over the next six months, with 56.1% and 40.1% predicting more hiring and capital spending, respectively. Survey respondents anticipated raw material prices to accelerate at rates not seen since January 1989.

- **Retail Sales**: Fueled by stimulus payments and pent-up demand, consumer spending at retailers jumped 9.8% in March, the largest monthly gain in 10 months. Excluding gasoline and motor vehicle sales, retail spending rose 8.2% in March. More than anything, the data speak to the increased willingness of Americans to leave their homes—thanks to increased vaccination rates—and to spend much of the additional dollars in their pockets from stimulus checks. That growth should be largely sustained in the coming months, with the U.S. economy expected to continue rebounding very strongly.

  The underlying data increased sharply across the board, led by soaring sales volumes at sporting goods and hobby stores (up 23.5%), clothing and accessories stores (up 18.3%), motor vehicle and parts dealers (up 15.1%), food services and drinking places (up 13.4%), department stores (up 13.0%), building materials and garden supply stores (up 12.1%), gasoline stations (up 10.9%) and electronics and appliance stores (up 10.5%).

  The year-over-year contributions are unprecedented, speaking as much to the drastic pullbacks in activity seen in March 2020 at the beginning of the COVID-19 pandemic as to the phenomenal strength in the current data. Over the past 12 months, retail sales have soared 27.7%, or 17.9% with gasoline and motor vehicles excluded. The largest year-over-year gains included clothing and accessory stores (up 101.1%), sporting goods and hobby stores (up 73.5%), motor vehicles and parts dealers (up 71.1%), furniture and home furnishings stores (up 46.8%), food services and drinking places (up 36.0%) and gasoline stations (up 34.8%), among others. These are eye-opening rates of growth that look more like typos than reality. Nonstore retailers had sales jump 28.7% over the past year, with spending rising 6.0% to $93.1 billion in March, a new record.

- **State Employment Report** : Texas created the most net new manufacturing jobs in March, adding 7,500 workers. Other states with notable employment growth for the month included North Carolina (up 4,300), Pennsylvania (up 4,200) and Missouri (up 3,100). Over the past 13 months, just four states have notched increased manufacturing employment since February 2020, or since the pandemic began. Those states were Utah (up 4,100), Arkansas (up 900), Montana (up 400) and Idaho (up 100). The largest declines over that time period occurred in big states, such as California (down 78,000), Michigan (down 45,500), Texas (down 42,800), Ohio (down 34,600), Illinois (down 33,200) and New York (down 32,700).

  The national unemployment rate was 6.0% in March, and the unemployment rate fell in 20 states and the District of Columbia in the latest data. Hawaii had the highest unemployment rate in the country at 9.0%, followed by New York (8.5%), California (8.3%), Connecticut (8.3%), New Mexico (8.3%) and Nevada (8.1%). At the other end of the spectrum, the lowest unemployment rates in the United States in March occurred in Nebraska, South Dakota, Utah and Vermont, each with 2.9%. New Hampshire and Idaho had unemployment rates of 3.0% and 3.2%, respectively.

- **University of Michigan Consumer Sentiment (Preliminary)** : Consumer confidence rose from 84.9 in March to 86.5 in April, a 13-month high, according to final data from the University of Michigan and Thomson Reuters. Americans felt more positive about current economic conditions, with consumers reflecting on stronger economic and labor market growth. Increased vaccinations, economic stimulus payments and pent-up demand have helped lift spirits. There was some concern about rising prices in the short term, but respondents felt encouraged by expectations of further reductions in unemployment.

  More importantly, the report predicts strong consumer spending moving forward, albeit somewhat guardedly. “Overall, the data support an ongoing surge in consumer spending, but given persistent uncertainty about the course of COVID-19 and inflation, cautious drawdowns of savings can be anticipated. This shift has increased the reliance of the recovery in consumer spending on actual gains in job[s] and incomes.”

- **Weekly Initial Unemployment Claims**: Initial unemployment claims totaled 576,000 for the week ending April 10, down from 769,000 for the week ending April 3 and the lowest since the week of March 14, 2020. Meanwhile, continuing claims changed little, edging up from 3,727,000 for the week ending March 27 to 3,731,000 for the week ending April 3. That pace remains highly elevated, consistent with 2.7% of the workforce.

  At the same time, 16,934,061 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending March 27. That figure declined somewhat from 18,169,917 for the week ending March 20, largely on reduced pandemic and state assistance claims.

Take Action

- The Manufacturing Institute and Deloitte will host a webinar, “Beyond Reskilling in Manufacturing: Creating Pathways for Tomorrow’s Workforce Today,” on Thursday, May 6, at 1:00 p.m. EDT in conjunction with an updated release of the skills gap study. Deloitte Human Capital Practice Managing Director Victor Reyes will join MI Executive Director Carolyn Lee for a discussion of the highlights of the report and current and future labor force conditions for manufacturers. Chad Moutray, the MI’s director for the Center for Manufacturing Research, will also provide an economic overview. Click here for more information and to register.

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