MONDAY ECONOMIC REPORT

IHS Markit: U.S. Manufacturing Activity Expanded at Record Pace in April

By Chad Moutray – April 26, 2021

The Weekly Toplines

- The IHS Markit Flash U.S. Manufacturing PMI expanded at a record pace in April, buoyed by new orders growth that was the best since April 2010 and by exports rising at an all-time high for the series. Output and hiring strengthened for the month, but lingering supply chain disruptions in the sector limited production growth. Yet, raw material costs soared once again, growing at the fastest rate since the question was added in May 2007.

- According to the Kansas City Federal Reserve Bank, manufacturing activity expanded at the fastest pace in the survey's history, which dates to July 2001. While manufacturers in the district remain very upbeat in their outlook, 60% of respondents cited supply chain issues and the lack of qualified workers as their biggest risks to growth over the next year.

- The good news was not limited to U.S. manufacturing. There were also all-time highs reported for the U.S. services sector and for manufacturing in the Eurozone , according to preliminary survey data from IHS Markit. Outside the Eurozone, the United Kingdom's manufacturing sector expanded at rates not seen since July 1994.

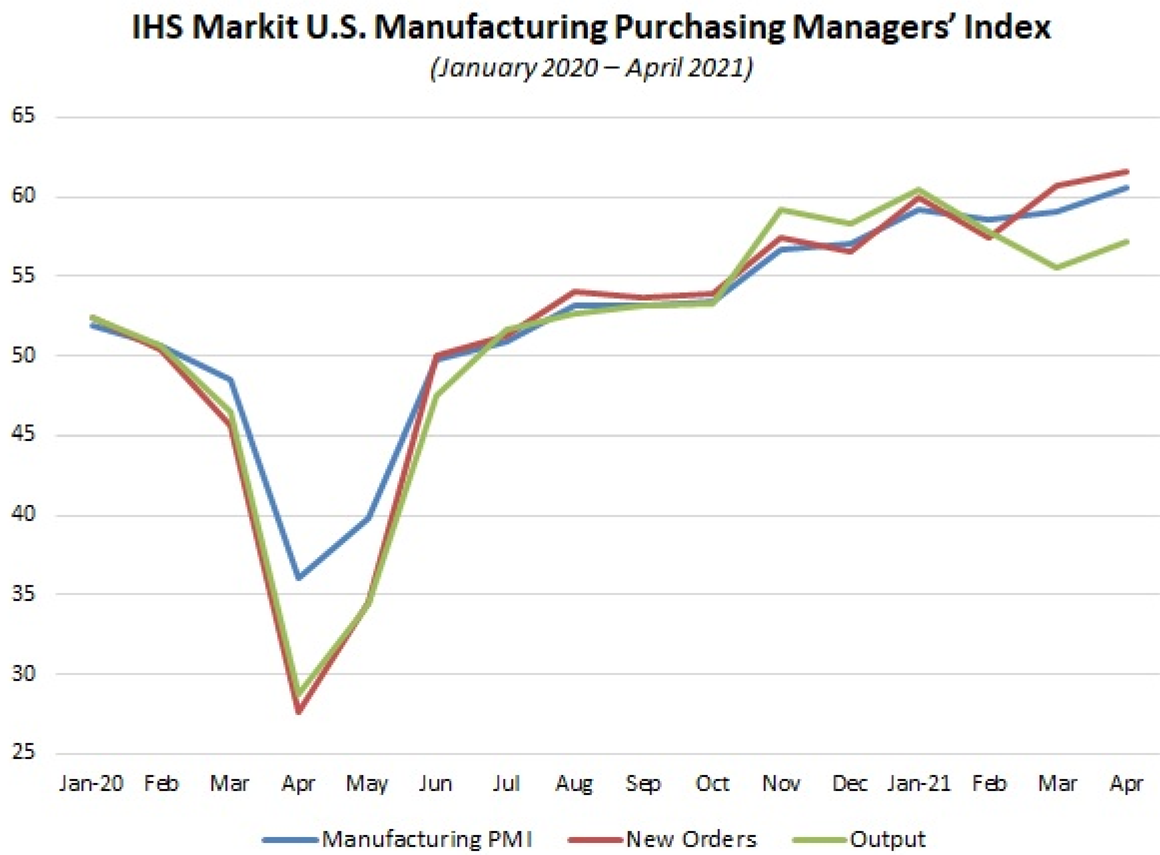
- The housing market data released last week provided mixed results. On the one hand, new home sales rebounded strongly in March, with single-family activity jumping to 1,021,000 units at the annual rate, the best reading since August 2006. Inventories of new homes for sales remain just shy of all-time lows.

- At the same time, existing home sales fell for the second straight month in March, with affordability issues remaining a significant challenge. Inventories are also near historic lows for existing home sales, which is also dampening growth in the market. Despite the weaker activity, the housing market remains a bright spot in the economy, and existing home sales have risen 5.4% over the past 13 months.

- One thing that should help residential construction activity: the average interest rate on a 30-year fixed-rate mortgage dropped below 3% for the first time in eight weeks, according to Freddie Mac, at 2.97% last week.

- Initial unemployment claims totaled 547,000 for the week ending April 17, the lowest since the week of March 14, 2020. Meanwhile, continuing claims changed little, edging down to 3,674,000 for the week ending April 10.

- This will be a busy week on the economic front, with the first reading on GDP for the first quarter, which is likely to jump by an annualized 7–8%. In addition, the Federal Open Market Committee will meet, with observers looking for clues about rising prices and future monetary policy shifts. Other highlights will be updates on consumer confidence, durable goods orders and personal income and spending.



Economic Indicators

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

Friday, April 23

This Week's Indicators:

Monday, April 26
Dallas Fed Manufacturing Survey
Durable Goods Orders and Shipments

Tuesday, April 27
Conference Board Consumer Confidence
Richmond Fed Manufacturing Survey

Wednesday, April 28
Business Employment Dynamics
FOMC Monetary Policy Statement
International Trade in Goods (Preliminary)

Thursday, April 29
Gross Domestic Product (First Quarter)
Weekly Initial Unemployment Claims

Friday, April 30
Employment Cost Index
Personal Consumption Expenditures

IHS Markit Flash U.S. Manufacturing PMI	*Deflator*
New Home Sales	*Personal Income and Spending*
	University of Michigan Consumer Sentiment (Revision)

Deeper Dive

- **Chicago Fed National Activity Index:** After dropping for the first time in 10 months in February, largely on weather and supply chain disruptions, the U.S. economy rebounded in March, according to the Chicago Federal Reserve Bank. The National Activity Index rose from -1.20 in February to 1.71 in March, the strongest reading since July 2020. The three-month moving average increased from 0.07 to 0.54. Readings above zero are consistent with the U.S. economy expanding above its historical trend and vice versa.
  The data were buoyed by recoveries in housing, industrial production and consumer spending. Output in the manufacturing sector rose 2.7% in March after declining 3.7% in February. As a result, production-related indicators added 0.63 to the NAI in March. Personal consumption and housing indicators also rebounded, contributing 0.63 to the headline index, with retail sales jumping 9.8% and housing starts soaring 19.4% in March.

- **Conference Board Leading Indicators:** The Leading Economic Index increased 1.3% in March, rebounding strongly after edging down 0.1% in February. More importantly, the LEI was just 0.2% lower than in February 2020, nearly recovering from the sharp decline seen from the COVID-19 pandemic. New manufacturing orders data contributed 0.31 to the headline index in March, with the sector continuing to be a bright spot in the economy. The underlying data increased across the board, including positive contributions to the March LEI from the average workweek of production workers, building permits, consumer confidence, initial unemployment claims, the interest rate spread, lending conditions and the stock market.

  Meanwhile, the Coincident Economic Index rose 0.6% in March after declining 0.1% in February. Despite progress since last spring, the measure remained down 3.3% from the pre-pandemic pace seen 13 months ago. In March, manufacturing production rebounded by 2.7% despite lingering challenges in the supply chain and with rising costs. All four of the subcomponents were positive contributors to the CEI in March, including industrial production, manufacturing and trade sales, nonfarm payrolls and personal income less transfer payments.

- **Existing Home Sales:** The National Association of Realtors reported that existing home sales fell for the second straight month, down 3.7% from 6.24 million units in February to 6.01 million units in March, a seven-month low. NAR Chief Economist Lawrence Yun attributed the decline to low inventory, but issues with affordability have also played a significant factor. The March data weakened in every region of the country. Single-family sales declined for the third consecutive month, down from 5.54 million units in February to 5.30 million units in March, but condominium and co-op sales edged up from 700,000 units to 710,000 units.

  Despite the disappointing data, the housing market continues to be a bright spot, and the outlook remains encouraging. Existing home sales have risen 12.3% over the past 12 months, up from 5.35 million units in March 2020, with single-family and condo/co-op sales rising 10.4% and 29.1% year-over-year, respectively. (With March 2020 being a challenging month at the beginning of the COVID-19 pandemic, it might also be important to note that existing home sales have risen 5.4% over the past 13 months, or since February 2020.)

Inventories of existing homes for sales have risen from a record low of 1.9 months of supply on the market in December and January to 2.0 months in February and 2.1 months in March, but the supply of homes on the market remains historically low overall. The median sales price for existing homes has jumped 17.2% year-over-year, up to $329,100 in March.

- **IHS Markit Flash U.S. Manufacturing PMI:** Manufacturing activity in the U.S. expanded at a record pace, according to "flash" data from IHS Markit, with the headline index rising from 59.1 in March to 60.6 in April. The data were buoyed by growth in new orders (up from 60.7 to 61.6), which expanded at the best pace since April 2010, and exports (up from 53.5 to 57.2) rose to an all-time high, with that series dating to May 2007. Output (up from 55.6 to 57.2) and hiring (up from 54.5 to 55.7) also strengthened for the month, but lingering supply chain disruptions in the sector limited production growth. The index for future output (down from 75.7 to 75.3) slipped slightly but continued to signal very optimistic assessments in the outlook for future production. Yet, raw material costs (up from 74.8 to 78.0) soared once again, growing at the fastest rate since the question was added in May 2007.

  Encouragingly, the good news was not limited to manufacturing, with the service sector also experiencing rebounding activity as more Americans are getting vaccinated and with COVID-19 restrictions being lifted in many areas. The IHS Markit Flash U.S. Services Business Activity Index improved from 60.4 to 63.1, the best reading on record, for the series dating to October 2009.

  Meanwhile, the IHS Markit Flash Eurozone Manufacturing PMI jumped from 62.5 in March to 63.3 in April, a record high for the series dating to June 1997. The expansions for new orders and output also reached all-time highs in April, with employment rising at the fastest pace since February 2018. Exports slowed somewhat but continued to rise sharply for the month, and respondents continued to feel very upbeat in their assessments of future output. Input costs soared once again at rates not seen since March 2011.

  Manufacturing activity in France and Germany continued to expand at very solid paces, according to preliminary PMI results from IHS Markit, but eased slightly in April in both markets. Outside the Eurozone, the United Kingdom's manufacturing sector expanded at rates not seen since July 1994, as the economy rebounds on some easing in COVID-19 restrictions in England and Wales.

- **Kansas City Fed Manufacturing Survey:** Manufacturing activity expanded at the fastest pace in the survey's history, which dates to July 2001, with the composite index of general business conditions rising from 26 in March to 31 in April. Growth in shipments, production, exports, hiring and the average employee workweek each strengthened in April, but the pace of new orders slowed somewhat. The sample comments noted supply chain and logistics constraints, workforce recruitment challenges and rising raw material costs, but respondents also cited strength in the overall marketplace. On the topic of costs, the index for raw materials prices jumped from 66 in March to a record 73 in April, suggesting that input costs are still expanding at a very elevated pace.

  Respondents continued to feel upbeat about additional growth over the next six months, albeit with the forward-looking composite index pulling back marginally from the best reading since June 2018. Respondents expected solid expansions for new orders, production, hiring and capital spending, with modest growth for exports. Raw material costs are anticipated to rise at the fastest pace since December 2010 moving forward. In special questions, 60% of respondents cited supply chain issues and the lack of qualified workers as their biggest risks to growth over the next year.

- **New Home Sales**: After declining sharply in February, largely on poor weather, new single-family home sales rebounded strongly in March, rising 20.7% from 846,000 units at the annual pace to 1,021,000 units, the strongest rate since August 2006. Sales jumped in every region of the country except the West, and overall, the housing market remains a bright spot in the economy. New single-family home sales have soared 42.6% over the past 13 months, up from 716,000 units in February 2020. (The year-over-year comparison was 66.8%, but activity plummeted one year ago at the start of the COVID-19 pandemic, making pre-pandemic differences perhaps more relevant.)

  There were 3.6 months of supply on the market in March, with inventories of new homes for sale remaining not far from the all-time lows recorded in both August and October 2020.

- **Weekly Initial Unemployment Claims**: Initial unemployment claims totaled 547,000 for the week ending April 17, down from 586,000 for the week ending April 10 and the lowest since the week of March 14, 2020. Meanwhile, continuing claims changed little, edging down from 3,708,000 for the week ending April 3 to 3,674,000 for the week ending April 10. That pace remains highly elevated, consistent with 2.6% of the workforce.

  At the same time, 17,405,094 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending April 3. That figure rose from 16,913,420 for the week ending March 27, largely on increased pandemic 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.