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MONDAY ECONOMIC REPORT

Manufacturing Hourly Earnings Have Jumped 4.5% Since Pandemic Began

By Chad Moutray – June 7, 2021

The Weekly Toplines

- Manufacturing employment rebounded somewhat, rising by 23,000 in May after falling by a downwardly revised 32,000 in April. There remained 509,000 fewer manufacturing employees relative to pre-pandemic levels, with 12,290,000 employees in May. Despite job growth for the month, businesses continue to cite difficulties in finding enough talent. There is optimism for continued growth moving forward, with job openings continue to soar (see graph).

- The average hourly earnings of production and nonsupervisory workers in manufacturing rose to $23.52 in May, with a 3.3% increase year-over-year but jumping 4.5% since February 2020.

- Nonfarm payroll employment rose by 559,000 workers in May, essentially doubling the increase of 278,000 in April, but the consensus was for a gain of roughly 700,000. The U.S. economy continues to have 7,629,000 fewer workers today than in February 2020. The unemployment rate declined from 6.1% in April to 5.8% in May, a 14-month low.

- Initial unemployment claims fell to a post-pandemic low of 385,000 for the week ending May 29 but continuing claims increased. There were 15,435,982 Americans receiving some form of unemployment insurance benefit for the week ending May 15.

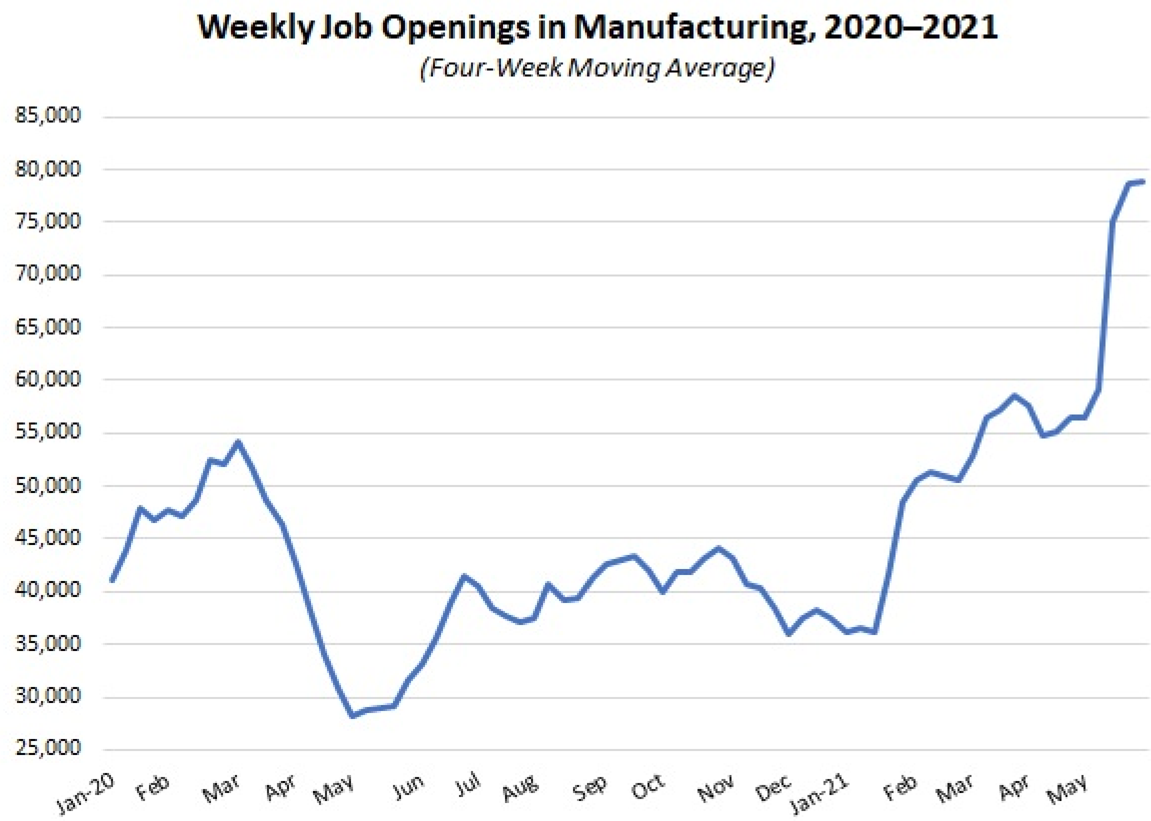
- The ISM® Manufacturing Purchasing Managers' Index® edged up from 60.7 in April to 61.2 in May, buoyed by stronger demand. With ongoing supply chain disruptions and workforce challenges, supplier deliveries were the slowest since April 1974, with indices for the backlog of orders and customer inventories notching unfortunate new records. In addition, prices rose at the fastest rate since July 2008.

- The Dallas Federal Reserve Bank's May manufacturing survey also reported solid expansions in activity and in the outlook, even as raw material costs soared at the fastest pace on record.

- New orders for manufactured goods fell 0.6% in April, but excluding transportation equipment, factory orders rose 0.5%. Overall, the manufacturing sector continues to expand strongly, increasing 4.8% since February 2020, or 7.8% with transportation equipment excluded.

- New orders for core capital goods—a proxy for capital spending in the U.S. economy —increased 2.2% in April to a new record high, with a robust 15.5% growth rate over the past 14 months.

- Private manufacturing construction spending rose 0.4% in April, increasing to the best reading since July 2020 and providing some optimism in the construction outlook. With that said, private manufacturing construction has fallen 6.0% since February 2020.



Source: Burning Glass Technologies, Labor Insights (Data obtained on June 1, 2021)

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, May 31
MEMORIAL DAY HOLIDAY

Tuesday, June 1
Construction Spending
Dallas Fed Manufacturing Survey
ISM® Manufacturing Purchasing Managers' Index®

Wednesday, June 2
None

Thursday, June 3
ADP National Employment Report
Productivity and Costs (Revision)
Weekly Initial Unemployment Claims

This Week's Indicators:

Monday, June 7
Consumer Credit

Tuesday, June 8
International Trade Report
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, June 9
None

Thursday, June 10
Consumer Price Index
Weekly Initial Unemployment Claims

Friday, June 11
University of Michigan Consumer Sentiment

Friday, June 4
BLS National Employment Report
Factory Orders and Shipment

Deeper Dive

- **ADP National Employment Report:** Manufacturing employment increased by 52,000 in May, extending the 45,000-worker gain in April and the best reading in eight months, according to ADP estimates. The sector has added 138,000 employees over the past three months, a solid pace of job growth. At the same time, nonfarm private payrolls increased by 978,000 in May, up from 654,000 in April and the fastest monthly growth in 11 months. Overall, the data continue to reflect an economy that is recovering strongly. The May report noted large increases for leisure and hospitality (up 440,000), education and health services (up 139,000), trade, transportation and utilities (up 118,000), professional and business services (up 68,000) and construction (up 65,000).

  Despite notable progress over the past year, private nonfarm payrolls have fallen by nearly 7,382,000 since February 2020, with manufacturing employment down 447,000 over the past 15 months.

  Meanwhile, small and medium-sized businesses (i.e., those with fewer than 500 employees) added 671,000 workers in May, or 68.6% of net job creation for the month.

- **BLS National Employment Report:** Manufacturing employment rebounded somewhat, rising by 23,000 in May after falling by a downwardly revised 32,000 in April. The previous estimate for April was a decline of 18,000 and was largely the function of supply chain disruptions (which continue to linger), especially in the motor vehicles and parts sector. In May, durable and nondurable goods firms added 18,000 and 5,000 workers, respectively. There remained 509,000 fewer manufacturing employees relative to pre-pandemic levels, with 12,290,000 employees in May. There were 12,799,000 employees in the sector in February 2020.

  While it was encouraging that employment increased in May, there was also a sense that job growth could have been faster if not for other factors. Nonfarm payroll employment rose by 559,000 workers in May, essentially doubling the increase of 278,000 in April, but the consensus was for a gain of roughly 700,000. The U.S. economy continues to have 7,629,000 fewer workers today than in February 2020. At the same time, businesses continue to cite difficulties in finding enough talent.

  The unemployment rate declined from 6.1% in April to 5.8% in May, a 14-month low, with the number of unemployed workers falling from 9,812,000 to 9,316,000. The labor force participation rate inched down from 61.7% to 61.6%. For comparison purposes, the participation rate registered 63.3% in February 2020. More encouragingly, the so-called “real unemployment rate”—a term that refers to those marginally attached to the workforce, including discouraged workers and the underemployed—dropped from 10.4% to 10.2%, albeit still at a very elevated pace.

  In May, the manufacturing data provided mixed results. The largest increases in employment in the sector occurred in transportation equipment (up 9,000, including a rise of 24,800 in motor vehicles and parts), miscellaneous nondurable goods (up 4,100), fabricated metal products (up 3,500), miscellaneous durable goods (up 3,400), computer and electronic products (up 2,800) and electrical equipment and appliances (up 2,800). In contrast, employment decreased in May in machinery (down 4,700), nonmetallic mineral products (down 2,200), paper and paper products (down 2,100) and chemicals (down 1,100).

Three major manufacturing sectors have exceeded their pre-pandemic levels of employment as of May: computer and electronic products (up 2,900 since February 2020), miscellaneous durable goods (up 1,000) and miscellaneous nondurable goods (up 700). The other major sectors continued to experience reduced employment over that time frame, although some were close to being neutral. The largest decreases over the past 15 months included transportation equipment (down 151,700), fabricated metal products (down 72,100), machinery (down 54,600), printing and related support activities (down 46,400) and furniture and related products (down 32,100).

The average hourly earnings of production and nonsupervisory workers in manufacturing rose from $23.41 in April to $23.52 in May, with a 3.3% increase over the past year, up from $22.76 in May 2020. Perhaps more interestingly, average hourly earnings for production and nonsupervisory workers in the sector have jumped 4.5% since the pandemic began, up from $22.50 in February 2020.

- **Construction Spending:** Private manufacturing construction spending rose 0.4% from $71.73 billion in March to $72.05 billion in April, increasing for the fourth straight month to the best reading since July 2020. With the stronger economic outlook, there continues to be hope for a recovery in the sector moving forward. With that said, private manufacturing construction has fallen 6.0% over the past 14 months since the pandemic began, down from $76.64 billion in February 2020.

  Total private nonresidential spending decreased 0.5% in April, and since February 2020, activity has fallen 9.0%. For the month, construction activity weakened for amusement and recreation, communication, educational, power, religious and transportation, but increases occurred for commercial, health care, manufacturing and office projects.

  Overall, total private construction spending rose 0.4% in April, with 8.4% growth over the past 14 months. This was boosted by strength in the housing market, which increased 1.0% in April and has soared 23.0% since February 2020. In April, new single-family and multifamily construction activity increased 1.3% and 1.9%, respectively. Meanwhile, public construction spending decreased 0.6% in April, with a decline of 2.5% from the pre-pandemic pace.

- **Dallas Fed Manufacturing Survey:** Manufacturing activity pulled back from the best reading since June 2018 but continued to expand strongly, with the composite index of general business conditions declining from 37.3 in April to 34.9 in May. After reaching record highs in April, new orders and employment both eased in May, with softer growth also seen for capacity utilization, production, shipments and hours worked. In contrast, capital expenditures strengthened. Ongoing supply chain disruptions pushed growth in raw material prices to the fastest pace on record, for a series dating to June 2004. This is a trend seen in other reports as well.

  Looking ahead, manufacturers in the Texas district remained upbeat in their outlook for the next six months, even with the forward-looking composite measure decreasing from 36.6 in April to 31.4 in May. The underlying data point to robust growth over the coming months, including more than half of respondents predicting higher sales, production and employment. Input prices are forecasted to continue to accelerate rapidly, with the index jumping to the strongest reading since February 2011.

- **Factory Orders and Shipments:** New orders for manufactured goods fell 0.6% in April, pulling back after rising 1.4% in March. Durable goods orders fell 1.3% in April, but sales for nondurable goods firms edged up 0.1%. Supply chain disruptions continue to challenge the sector, including in the motor vehicles and parts sector, which had orders decline 1.8% in April. Excluding transportation equipment, factory orders rose 0.5% in April, with durable goods sales excluding transportation equipment up 1.0% for the month. Overall, the manufacturing sector continues to expand strongly, increasing 4.8% since February 2020 (before the pandemic), or 7.8% with transportation equipment excluded.

  In addition, durable goods orders have risen 6.7% over the past 14 months, or with transportation equipment sales excluded, orders have jumped 15.2% since February 2020. Likewise, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—increased 2.2% from $73.3 billion in March to $74.9 billion in April, a record high. As such, core capital goods orders have risen a robust 15.5% over the past 14 months.

  Meanwhile, factory shipments rose 0.4% in April, building on the 2.1% gain in March. Durable and nondurable goods increased 0.6% and 0.1% for the month, respectively. Since February 2020, factory shipments have risen 5.2%, or with transportation equipment excluded, manufactured goods shipments increased 10.8% over the past 14 months. At the same time, core capital goods shipments increased 0.9% from $71.9 billion in March to $72.5 billion in April, an all-time high. Over the past 14 months, core capital goods shipments have soared 11.6%.

- **ISM® Manufacturing Purchasing Managers' Index®:** The Institute for Supply Management® reported that manufacturing activity expanded robustly, with the headline index edging up from 60.7 in April to 61.2 in May. New orders (up from 64.3 to 67.0) and exports (up from 54.9 to 55.4) both reflected solid demand growth, but production (down from 62.5 to 58.5) and employment (down from 55.1 to 50.9) eased in May, with the pace of hiring the slowest in six months. Several of the sample comments noted ongoing difficulties in finding talent, with others continuing to cite supply chain disruptions and rising costs as challenges.

  The index for supplier deliveries (up from 75.0 to 78.8) soared to the highest reading since April 1974, continuing to reflect very slow delivery times. (In this case, index values above 50 are consistent with slower deliveries.) Similarly, the backlog of orders (up from 68.2 to 70.6) rose to the highest rate on record, dating back to when the question was added in January 1993. The index for customer inventories (down from 28.4 to 28.0) plummeted to the lowest level since the measure was added to the survey in January 1997. With such low stockpiles, it should continue to necessitate additional production for manufacturers moving forward, as firms struggle to keep up with demand.

  Prices (down from 89.6 to 88.0) pulled back in May from April's pace, which was the fastest rate since July 2008, but continued to expand sharply. Timothy Fiore, chair of the ISM® Manufacturing Business Survey Committee, said, "Virtually all basic and intermediate manufacturing materials are experiencing price increases as a result of product scarcity and the dynamics of supply and demand."

- **Productivity and Costs (Revision):** Manufacturing labor productivity fell 1.7% at the annual rate in the first quarter, slipping from the previous estimate of 0.1% growth and pulling back from the 4.4% gain in the fourth quarter. Output in the sector rose a modest 1.4% in the first quarter, but hours worked and hourly compensation increased 3.1% and 8.9%, respectively, cutting into headline growth in labor productivity. Unit labor costs soared 10.7%, extending the 5.1% gain in the fourth quarter. Labor productivity for durable goods manufacturers increased 1.1% in the first quarter, with output and unit labor costs up 5.7% and 10.4%, respectively. In contrast, nondurable goods labor productivity declined 3.7% in the first quarter, with output down 3.0% and unit labor costs up 7.6%.

  These data likely reflect the supply chain disruptions that were pervasive in the manufacturing sector in the first quarter, which was also rocked by poor weather, particularly in February. With that in mind, it is hoped the second quarter data will reflect more stability, with continued rebounds in output.

  Meanwhile, nonfarm business labor productivity jumped 5.4% in the first quarter, bouncing back from the 3.8% decline in the fourth quarter. Output soared 8.6%, extending the 5.8% increase from the fourth quarter and reflecting the rebounding of the economy, especially in services, buoyed by increased vaccinations, pent-up demand and fiscal stimulus. Hours worked rose 3.0%, with unit labor costs increasing 1.7%.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 385,000 for the week ending May 29, declining for the fifth straight report, down from 405,000 for the week ending May 22. It remained the lowest since the week of March 14, 2020. Meanwhile, continuing claims rose from 3,602,000 for the week ending May 15 to 3,771,000 for the week ending May 22. That was consistent with 2.7% of the workforce, up from 2.6% in the previous release.

  At the same time, 15,435,982 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending May 15. That figure was down from 15,802,160 for the week ending May 8.