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MONDAY ECONOMIC REPORT

IHS Markit: Supplier Shortages and Cost Pressures at Record Levels in July

By Chad Moutray – August 9, 2021

The Weekly Toplines

- The IHS Markit U.S. Manufacturing PMI notched another record in July, with strong growth in demand, production and hiring, and respondents remained very positive in their outlook for the next six months. Yet, the sector continues to experience record-setting supplier shortages and cost pressures, with the backlog of orders also just shy of May's record pace.

- Meanwhile, the Institute for Supply Management® reported that manufacturing activity expanded robustly once again, even with the headline index edging down from 60.6 in June to 59.5 in July, a six-month low. The sample comments noted continuing concerns with supply chain disruptions, rising costs and workforce shortages. Prices pulled back in July after soaring in June at the fastest pace since July 1979 but remained very elevated.

- Manufacturing employment rose by 27,000 in July. Over the first seven months of 2021, total employment in the sector has risen by 135,000. There remained 433,000 fewer manufacturing employees relative to pre-pandemic levels.

- The average hourly earnings of production and nonsupervisory workers in manufacturing rose from $23.78 in June to $23.86 in July, with a 4.5% increase over the past year, up from $22.84 in July 2020.

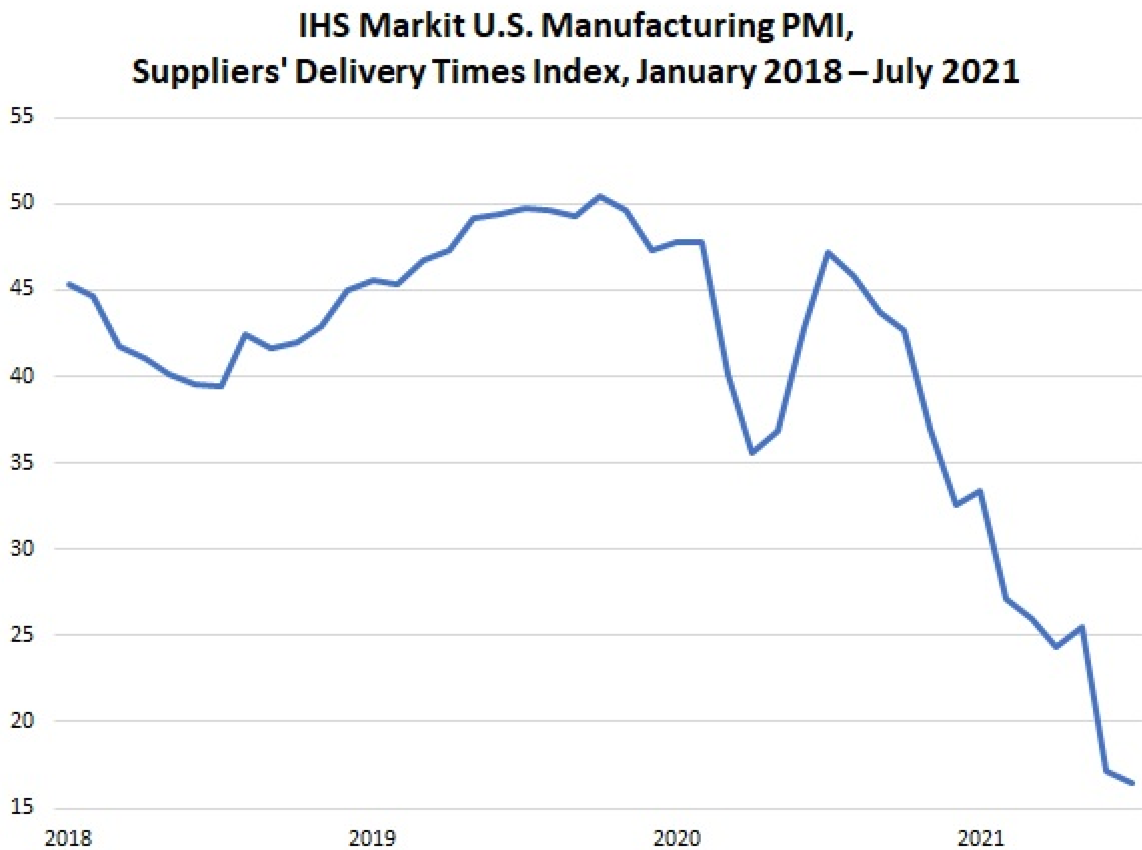
- Nonfarm payroll employment rose by 943,000 workers in July, led by a rebounding leisure and hospitality sector. The U.S. economy continues to have 5,702,000 fewer workers today than in February 2020. The unemployment rate dropped to 5.4% in July, a post-pandemic low.

- New orders for manufactured goods rose 1.5%, up from $498.6 billion in May to a record $506.0 billion in June. Over the first six months of 2021, factory orders rose 8.0%. Factory shipments were also at an all-time high, up 1.6% in June and 6.0% year-to-date.

- Private manufacturing construction spending fell 1.1% to $70.41 billion in June, pulling back for the second straight month to a five-month low. There continues to be hope for a recovery in the second half of this year. With that said, private manufacturing construction has plummeted 7.6% over the past 16 months since the pandemic began.

- The U.S. trade deficit rose to $75.75 billion in June, a new record, buoyed by a sharp increase in goods imports. Goods exports and imports both increased to new heights in June. At the same time, the service-sector trade surplus dropped to $17.43 billion in June, the lowest since August 2012.

- According to the latest non-seasonally adjusted data, U.S.-manufactured goods exports totaled $546.94 billion through the first six months in 2021, soaring 17.59% from $465.11 billion year to date in 2020.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, August 2
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Tuesday, August 3
Factory Orders and Shipments

Wednesday, August 4
ADP National Employment Report

This Week's Indicators:

Monday, August 9
Job Openings and Labor Turnover Survey

Tuesday, August 10
NFIB Small Business Survey
Productivity and Costs

Wednesday, August 11
Consumer Price Index

Thursday, August 12

Thursday, August 5
International Trade Report
Weekly Initial Unemployment Claims

Friday, August 6
BLS National Employment Report

Producer Price Index
Weekly Initial Unemployment Claims

Friday, August 13
University of Michigan Consumer Sentiment (Preliminary)

Deeper Dive

- **ADP National Employment Report:** Manufacturing employment increased by 8,000 in July, rising for the fifth straight month but at the slowest pace since February, according to ADP estimates. The sector has added 154,000 employees year to date, a solid pace of job growth. At the same time, nonfarm private payrolls increased by 330,000 in July, also the slowest pace since February and about half of what was expected. Through the first seven months of 2021, total private nonfarm payrolls have risen by nearly 3,409,000 employees, with the economy and labor market recovering strongly, especially in the hard-hit service sector.

  Yet, the July report was softer than desired. Employment growth was led by the leisure and hospitality sector (up 139,000), with education and health services (up 64,000), professional and business services (up 54,000) and trade, transportation and utilities (up 36,000) also higher. The information sector (down 1,000) was the only one with reduced employment in July. Small and medium-sized businesses (i.e., those with fewer than 500 employees) added 223,000 workers in June, or 67.6% of net job creation for the month.

  Despite notable progress over the past year, private nonfarm payrolls have fallen by almost 6,500,000 since February 2020, with manufacturing employment down 433,000 over the past 17 months.

- **BLS National Employment Report:** Manufacturing employment rose by 27,000 in July, building on the gain of 39,000 seen in June. In the latest data for July, durable and nondurable goods employment rose by 20,000 and 7,000, respectively. Over the first seven months of 2021, total employment in the sector has risen by 135,000, with 12,366,000 manufacturing workers in July. There remained 433,000 fewer manufacturing employees relative to pre-pandemic levels, with 12,799,000 workers in the sector in February 2020.

- Nonfarm payroll employment rose by 943,000 workers in July, extending the increase of 938,000 seen in June and the best reading in 11 months. The reopening of the economy buoyed the labor market, with the largest growth occurring in leisure and hospitality (up 380,000), as one might expect. The U.S. economy continues to have 5,702,000 fewer workers today than in February 2020.

  The unemployment rate dropped from 5.9% in June to 5.4% in July, a post-pandemic low, with the number of unemployed workers decreasing from

9,484,000 to 8,702,000. The labor force participation rate ticked up from 61.6% to 61.7%. For comparison purposes, the participation rate registered 63.3% in February 2020. 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 9.8% to 9.2%, a 16-month low but still highly elevated.

In July, the largest increases in manufacturing employment occurred in machinery (up 6,800), miscellaneous durable goods (up 5,500), fabricated metal products (up 4,500), food manufacturing (up 4,000), miscellaneous nondurable goods (up 3,200) and chemicals (up 2,600). In contrast, employment decreased in July for transportation equipment (down 1,500, including a decline of 800 in motor vehicles and parts), apparel (down 700), paper and paper products (down 600) and printing and related support activities (down 600), among others.

Four major manufacturing sectors have exceeded their pre-pandemic levels of employment as of July: miscellaneous nondurable goods (up 8,500), miscellaneous durable goods (up 6,800), chemicals (up 3,800) and computer and electronic products (up 2,000). The other major sectors continued to experience reduced employment over that time frame, although some were closer to pre-pandemic paces. The largest decreases over the past 17 months included transportation equipment (down 138,300), fabricated metal products (down 58,200), printing and related support activities (down 45,600), machinery (down 36,700), primary metals (down 25,100) and food manufacturing (down 24,900).

The average hourly earnings of production and nonsupervisory workers in manufacturing rose from $23.78 in June to $23.86 in July, with a 4.5% increase over the past year, up from $22.84 in July 2020.

- **Construction Spending:** Private manufacturing construction spending fell 1.1% from $71.22 billion in May to $70.41 billion in June, pulling back for the second straight month to a five-month low. Although these data have been disappointing, the stronger economic outlook and existing constraints on capacity offer hope for a recovery in the sector’s construction activity in the second half of this year. With that said, private manufacturing construction has plummeted 7.6% over the past 16 months since the pandemic began, down from $76.16 billion in February 2020.

- Total private nonresidential spending decreased 0.7% in June, and since February 2020, activity has fallen 13.2%. For the month, construction activity weakened in every segment except for educational (up 0.1%) projects.

  Overall, total private construction spending rose 0.4% in June, with 7.5% growth since February 2020. This figure was boosted by strength in the housing market, which grew 1.1% in June to a new record high, soaring 25.2% over the past 16 months. In June, new single-family construction increased 1.8%, but multifamily activity edged down 0.1%. Meanwhile, public construction spending dropped 1.2% in June, with a decline of 9.3% from the pre-pandemic pace.

- **Factory Orders and Shipments:** New orders for manufactured goods rose 1.5%, up from $498.6 billion in May to a record $506.0 billion in June. Durable and nondurable goods orders increased 0.9% and 2.1% in June, respectively. Excluding transportation equipment, factory orders rose 1.4% in June, and durable goods sales excluding transportation equipment went up 0.5% for the month. Overall, the manufacturing sector continues to expand strongly, despite lingering supply chain and pricing pressures, with new orders soaring 11.7% since February 2020 (before the pandemic), or 17.2% with transportation equipment excluded. Over the first six months of 2021, factory orders rose 8.0%.

- In addition, durable goods orders have increased 9.3% over the past 16 months. With transportation equipment sales excluded, orders have jumped 11.0% 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—rose 0.6% from $75.7 billion in May to $76.3 billion in June, another record high. Core capital goods orders have risen a very robust 17.6% since February 2020.

  Meanwhile, factory shipments rose 1.6% from $491.3 billion in May to $499.0 billion in June, an all-time high. Durable and nondurable goods increased 1.0% and 2.1% for the month, respectively. Since February 2020, factory shipments rose 6.0%. With transportation equipment excluded, manufactured goods shipments increased 12.9% over the past 16 months. In the first half of 2021, factory shipments rose 5.0%. At the same time, core capital goods shipments increased 0.6% from $73.3 billion in May to $73.7 billion in June, an all-time high. Since February 2020, core capital goods shipments have soared 13.5%.

- **International Trade Report:** The U.S. trade deficit rose from $70.99 billion in May to $75.75 billion in June, a new record, buoyed by a sharp increase in goods imports. Goods exports (up from $145.64 billion to $145.91 billion) and imports (up from $234.77 billion to $239.09 billion) both increased to new heights in June. In the first half of 2021, rises in goods exports and imports were roughly similar, up 10.96% and 10.55%, respectively. But, since the COVID-19 pandemic began, goods exports and imports have increased 7.52% and 19.90%, respectively. The more-rapid growth in goods imports corresponds to the stronger economic recovery in the U.S. relative to other markets. Meanwhile, the service-sector trade surplus dropped from $18.14 billion in May to $17.43 billion in June, the lowest since August 2012.

- In June, the decline in exports for foods, feeds and beverages (down $1.22 billion) nearly offset the increased goods exports for industrial supplies and materials (up $1.18 billion), automotive vehicles and parts (up $195 million) and consumer goods (up $46 million). At the same time, strength in industrial supplies and materials (up $4.64 billion), non-automotive capital goods (up $841 million) and foods, feeds and beverages (up $627 million) led growth in goods imports, with reduced imports for consumer goods (down $1.60 billion) and automotive vehicles and parts (down $704 million).

  According to the latest non-seasonally adjusted data, U.S.-manufactured goods exports totaled $546.94 billion through the first six months in 2021, soaring 17.59% from $465.11 billion year to date in 2020.

- **ISM® Manufacturing Purchasing Managers' Index®:** The Institute for Supply Management® reported that manufacturing activity expanded robustly once again, even with the headline index edging down from 60.6 in June to 59.5 in July, a six-month low. The underlying data were mixed. New orders (down from 66.0 to 64.9) slowed but remained very solid, and employment (up from 49.9 to 52.9) rebounded with modest growth in July. At the same time, production (down from 60.8 to 58.4), exports (down from 56.2 to 55.7) and imports (down from 61.0 to 53.7) decelerated for the month, with several of the sample comments noting continuing concerns with supply chain disruptions, rising costs and workforce shortages.

- Indices for the backlog of orders (up from 64.5 to 65.0), supply delivery times (down from 75.1 to 72.5) and customer inventories (down from 30.8 to 25.0, a new all-time low) continued to reflect significant supply chain challenges in the sector.

  Prices (down from 92.1 to 85.7) pulled back in July after soaring in June at the fastest pace since July 1979 but remained very elevated. Nearly 74% of respondents cited higher costs for the month, with 23.8% saying that prices were unchanged. Nonetheless, ISM® Manufacturing Business Survey Committee Chair Timothy Fiore said, “Aluminum, basic chemicals, packaging supplies, electrical and electronic components, energy, some plastics and plastic products, freight and steels continue to remain at elevated prices due to some product scarcity, but supply and demand dynamics appear to be moving closer to equilibrium for the first time in many months.”

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 385,000 for the week ending July 31, down from 399,000 for the week ending July 24 and a three-week low. Over the past 11 weeks, initial claims have averaged nearly 394,000, not far from the current reading. Meanwhile, continuing claims decreased from 3,296,000 for the week ending July 17 to 2,930,000 for the week ending July 24—the lowest figure since the COVID-19 pandemic began. Continuing claims were consistent with 2.1% of the workforce, down from 2.4% in the previous report.

- At the same time, 12,975,015 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending July 17. That figure fell from 13,156,266 for the week ending July 10, largely on reduced pandemic and extended benefits assistance.

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