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MONDAY ECONOMIC REPORT

Manufacturing Production Soared to Best Reading Since August 201

By Chad Moutray – August 23, 2021

The Weekly Toplines

- Manufacturing production jumped 1.4% in July, the strongest monthly gain since March. Motor vehicles and parts output soared 11.2% in July, but production in the sector remained down 3.6% since January. Excluding motor vehicles, manufacturing production increased 0.8% in July, suggesting broad-based strength beyond autos. Manufacturing capacity utilization rose from 75.5% in June to 76.6% in July, the best reading since January 2019.

- Manufacturing production has soared 7.4% over the past 12 months, with the index exceeding pre-pandemic levels of output for the first time. In fact, output in the sector was the strongest since August 2019. Moving forward, I would expect for manufacturers to be back to pre-pandemic levels in the third quarter, with production rising roughly 6% and 3% in 2021 and 2022, respectively.

- Surveys from the New York and Philadelphia Federal Reserve Banks showed the expansions of manufacturing activity slowing somewhat in August, but with respondents continuing to be positive about growth over the coming months. Pricing pressures remained highly elevated, both for raw materials and for final goods and services, including new records for the latter.

- New residential construction activity declined 7.0% from 1,650,000 units at the annual rate in June to 1,534,000 units in July, the slowest pace since April. Housing starts have decelerated since March’s pace, which was the strongest since July 2006, with significant challenges in the housing market from rising construction costs, affordability issues and difficulties in finding workers.

- The Housing Market Index declined from 80 in July to 75 in August, a 13-month low, according to the National Association of Home Builders and Wells Fargo. With that said, builders remained very optimistic that the housing market will improve in the months ahead.

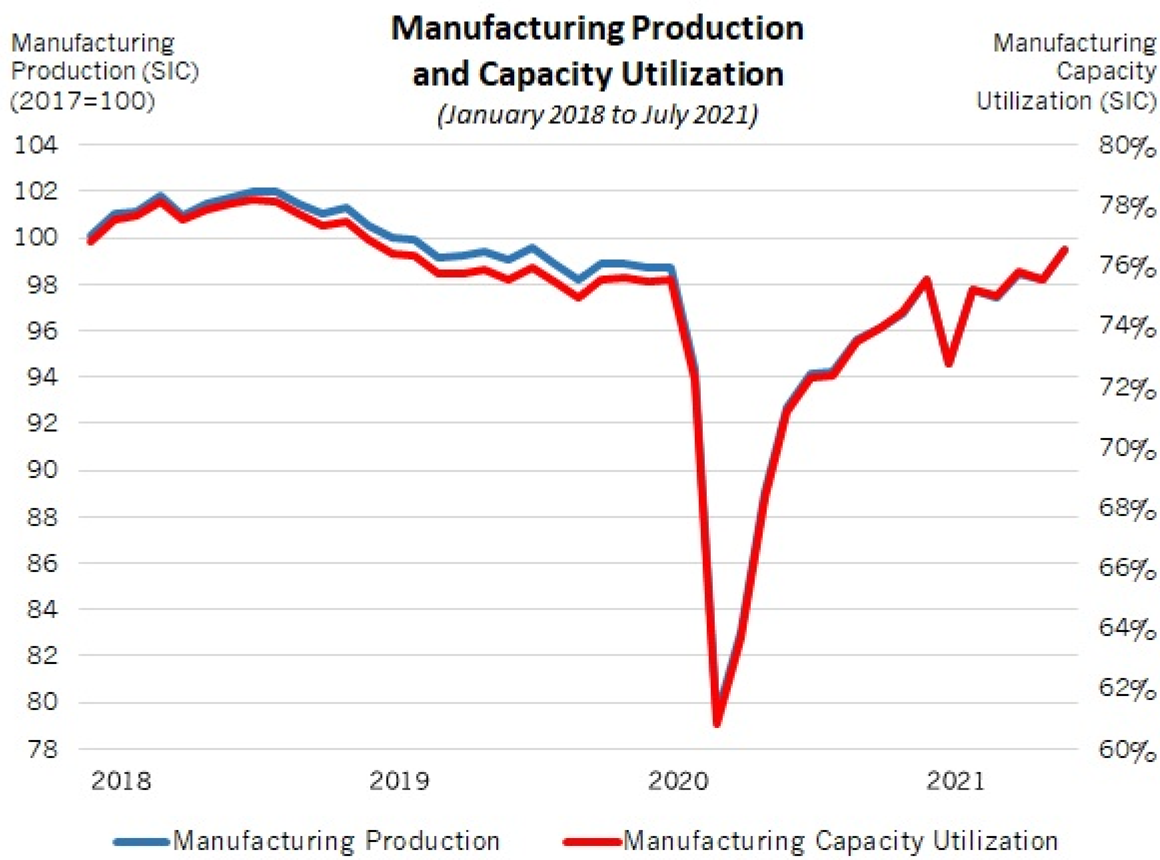
- Despite some easing since January, housing permits rose 2.6% in July to 1,635,000 units at the annual rate. Permits have risen 6.0% since July 2020, with single-family and multifamily permitting up 5.5% and 6.9% year-over-year, respectively.

- After rising 0.7% in June, retail sales fell 1.1% in July, continuing the seesaw pattern seen over the past four months. The disappointing data speak to ongoing supply chain issues and the increase in the spread of the COVID-19 delta variant, most notably at motor vehicles and parts dealers. Excluding automobiles, retail spending decreased 0.4% for the month.

- Despite the pullback in the latest data, retail spending has soared 15.8% over the past 12 months, with retail sales excluding automobiles and gasoline rising 13.8% year-over-year.

- [Initial unemployment claims] totaled 348,000 for the week ending Aug. 14, the lowest since the week of March 14, 2020.

- Texas [created] the most net new manufacturing jobs in July, adding 8,300 workers.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, August 16
New York Fed Manufacturing Survey

Tuesday, August 17
Industrial Production
NAHB Housing Market Index
Retail Sales

Wednesday, August 18
Housing Starts and Permits

Thursday, August 19

This Week's Indicators:

Monday, August 23
Chicago Fed National Activity Index
Existing Home Sales
IHS Markit Flash U.S. Manufacturing PMI

Tuesday, August 24
New Home Sales
Richmond Fed Manufacturing Survey

Wednesday, August 25
Durable Goods Orders and Shipments

Thursday, August 26

Conference Board Leading Indicators
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Gross Domestic Product (Revision)
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, August 20
State Employment Repor

Friday, August 27
International Trade in Goods (Preliminary)
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision

Deeper Dive

- **Conference Board Leading Indicators:** The Leading Economic Index increased 0.9% in July, building on the solid gains seen in the five previous months, including 0.5% growth in June. Over the past six months, the LEI rose a robust 5.4%, with the U.S. economy continuing to rebound strongly. Overall, these data point to solid growth over the coming months. New manufacturing orders data contributed 0.23 to the headline index in July, which was encouraging. The largest contributors to the LEI in July included building permits, consumer confidence, the interest rate spread, lending conditions, the stock market and the average workweek for production workers.

  Meanwhile, the Coincident Economic Index rose 0.6% in July, extending the 0.4% gain in June. All four components of the CEI—industrial production, manufacturing and trade sales, nonfarm payrolls and personal income less transfer payments—made positive contributions to the latest data. Industrial production increased 0.9% in July, buoyed by manufacturing and mining activity. Manufacturing production jumped 1.4% in July, with output in the sector exceeding pre-pandemic levels for the first time. (See below.)

- **Housing Starts and Permits:** New residential construction activity declined 7.0% from 1,650,000 units at the annual rate in June to 1,534,000 units in July, the slowest pace since April. Housing starts strengthened in the South but weakened in other regions. Single-family starts fell 4.5% from 1,163,000 units to 1,111,000 units, and often-volatile multifamily construction activity dropped 13.1% from 487,000 units to 423,000 units.

  Overall, new residential construction activity has decelerated from March's pace (1,725,000 units), which was the strongest level since July 2006. The data provide a mixed perspective on the current state of the housing market. On the one hand, residential construction figures remain solid, particularly relative to last year. Housing starts have risen 2.5% over the past 12 months, up from 1,497,000 units in July 2020, with single-family construction starts up 11.7% year-over-year from 995,000 units last year. This speaks to the solid recovery in the housing market seen since then.

  Yet, there are also challenges holding back growth in recent months. These include rising construction costs, affordability issues and difficulties in finding workers. Indeed, builders remained optimistic about growth over the coming months, but sentiment dropped in the latest NAHB Housing Market Index to a 13-month low on these concerns. (See below.)

With that said, housing permits rose in July for the first time since March, increasing 2.6% from an annualized 1,594,000 units in June to 1,635,000 units in July. This remains a solid figure despite trending lower since the recent peak in January, which was 1,883,000 units, the highest since June 2006. The increase in permitting, however, stemmed from a rise in multifamily units, up 11.2% from 528,000 units to 587,000 units. At the same time, single-family permitting declined 1.7% from 1,066,000 units to 1,048,000 units, a 12-month low. As with starts, this speaks to the affordability challenges that are dampening new construction growth. Still, housing permits have risen 6.0% since July 2020, with single-family and multifamily permitting up 5.5% and 6.9% year-over-year, respectively.

- **Industrial Production:** Manufacturing production jumped 1.4% in July, rebounding from the 0.3% decline in June and the strongest monthly gain since March. Durable and nondurable goods production rose 2.4% and 0.3% in July, with activity boosted by soaring output for motor vehicles and parts, which increased 11.2% for the month. The chip shortage and supply chain issues have restricted production and sales in the automobile sector, with output still down 3.6% since January. Excluding motor vehicles, manufacturing production increased 0.8% in July, suggesting broad-based strength beyond autos. Indeed, manufacturing capacity utilization rose from 75.5% in June to 76.6% in July, the best reading since January 2019.

  Manufacturing production has soared 7.4% over the past 12 months, with the index exceeding pre-pandemic levels of output for the first time with this release. In fact, output in the sector was the strongest since August 2019. Moving forward, I would expect for manufacturers to be back to pre-pandemic levels in the third quarter, with production rising roughly 6% and 3% in 2021 and 2022, respectively.

  In July, the underlying data were largely positive. Including motor vehicles and parts, the largest manufacturing production increases for the month occurred in electrical equipment, appliances and components (up 2.3%), plastics and rubber products (up 2.0%), aerospace and miscellaneous transportation equipment (up 1.9%) and machinery (up 1.9%), among others. At the same time, production declined for petroleum and coal products (down 0.6%), fabricated metal products (down 0.4%) and apparel and leather goods (down 0.2%).

  Nine of the major manufacturing sectors have experienced increased production since February 2020, or since the COVID-19 pandemic began. This included sizable gains in output over the past 17 months in aerospace and miscellaneous transportation equipment (up 9.1%), computer and electronic products (up 9.1%), chemicals (up 5.7%), machinery (up 4.6%) and apparel and leather goods (up 4.1%). At the other end of the spectrum, still-sizable declines in output since February 2000 occurred in other manufacturing (down 10.4%), furniture and related products (down 6.7%), nonmetallic mineral products (down 6.0%) and printing and related support activities (down 5.8%).

  Meanwhile, total industrial production increased 0.9% in July, rising for the third straight month to the best reading since February 2020. Mining production rose 1.2% for the month, but output in the utilities sector fell 2.1%. On a year-over-year basis, industrial production has jumped 6.6%. Total capacity utilization rose from 75.4% in June to 76.1% in July, the highest since February 2020.

- **NAHB Housing Market Index:** The Housing Market Index declined from 80 in July to 75 in August, a 13-month low, according to the National Association of Home Builders and Wells Fargo. The decline in sentiment stemmed from higher building-material costs and affordability for homebuyers. There continue to be sizable construction "bottlenecks" that builders are coping with, including supply chain disruptions, worker shortages and reduced inventories. With that said, builders remained very optimistic that the housing market will improve in the months ahead.

The index for current single-family homes dropped from 86 in July to 81 in August, with the index for expected single-family sales unchanged at 81. These remain solid readings, reflecting an upbeat assessment of sales moving forward, despite the challenges mentioned above.

- **New York Fed Manufacturing Survey:** Manufacturing activity pulled back from a record pace but continued to expand solidly, according to the Empire State Manufacturing Survey, with the composite index dropping from 43.0 in July to 18.3 in August. The underlying data slowed across the board, including for new orders, shipments, inventories, employment and the average workweek. Input costs pulled back for the third straight month from May's record growth rates but remained not far from that pace, with 77.0% of respondents continuing to cite rising raw material costs for the month. At the same time, the index for selling prices soared to another all-time high in August. Delivery times remained significantly longer than desired in light of supply chain challenges.

  Meanwhile, manufacturers in the region remained very upbeat about growth over the next six months, with the forward-looking composite index rising from 39.5 in July to 46.5 in August. Roughly 56% of respondents predict increased new orders and shipments moving forward, with 44.9% and 34.5% forecasting more hiring and capital spending, respectively. Respondents expected input and product prices to remain highly elevated and not far from recent record paces.

- **Philadelphia Fed Manufacturing Survey:** Manufacturers in the Philadelphia Federal Reserve Bank's district reported continued growth in activity in August, albeit with some slowing in some measures in the latest survey. The composite index declined from 21.9 in July to 19.4 in August, an eight-month low, with shipments softening for the month and inventories contracting at a faster rate. At the same time, new orders, employment and the average employee workweek strengthened. The index for prices received soared in August at the fastest pace since May 1974, and growth in raw material costs also strengthened for the month, remaining highly elevated despite easing from June's reading, which was the briskest since October 1980. Overall, the data speak to the severity of supply chain disruptions in the system, with delivery times also significantly longer than desired.

  Nonetheless, manufacturers in the district remain positive in their outlook, despite the forward-looking composite index decreasing from 48.6 in July to 33.7 in August. The majority of respondents predict higher new orders and shipments over the next six months, with 48.2% and 39.0% anticipating more hiring and capital spending moving forward. The expected prices received index jumped to the highest reading since September 1981. In some special questions, respondents predict 5.0% growth in prices for their goods and services over the next four quarters, with wages and benefits rising 4.0%.

- **Retail Sales:** After rising 0.7% in June, retail sales fell 1.1% in July, continuing the seesaw pattern seen over the past four months. The disappointing data speak to ongoing supply chain issues and the increase in the spread of the COVID-19 delta variant. For instance, retail sales for motor vehicles and parts dealers fell 3.9% in July, extending the declines in May and June, with that sector grappling with reduced inventories because of the chip shortage and supply chain disruptions. Excluding automobiles, retail spending decreased 0.4% for the month.

In July, retail sales increased for miscellaneous store retailers (up 3.5%), gasoline stations (up 2.4%), food services and drinking places (up 1.7%), electronics and appliance stores (up 0.3%) and health and personal care stores (up 0.1%). At the same time, retail spending declined for motor vehicles and parts dealers (down 3.9%), nonstore retailers (down 3.1%), clothing and accessories stores (down 2.6%), sporting goods and hobby stores (down 1.9%), building material and garden supply stores (down 1.2%), food and beverage stores (down 0.7%) and department stores (down 0.3%).

Despite the pullback in the latest data, retail spending has soared 15.8% over the past 12 months, with retail sales excluding automobiles and gasoline rising 13.8% year-over-year. There is optimism that consumers will continue to increase spending moving forward as the economy continues to rebound, especially given elevated savings rates, but this could hinge on supply chains stabilizing. There are also sizable risks in the outlook related to the spread of the delta variant, which could continue to dampen activity in the coming months.

- **State Employment Report:** Texas created the most net new manufacturing jobs in July, adding 8,300 workers. Other states with notable employment growth for the month included Pennsylvania (up 5,500), Indiana (up 4,800), Kansas (up 3,200), Massachusetts (up 3,100) and North Carolina (up 3,100). Over the past 17 months, just seven states have notched increased manufacturing employment since February 2020, or since the pandemic began. Those states were Utah (up 8,300), Nebraska (up 900), Nevada (up 900), Arkansas (up 800), Rhode Island (up 700), Montana (up 500) and Vermont (up 400). The largest declines over that time occurred in big states, such as California (down 74,000), Michigan (down 49,100), Illinois (down 34,300), Washington (down 33,700) and Ohio (down 33,500).

  The national unemployment rate was 5.4% in July, and the rate fell in 19 states and the District of Columbia in the latest data. Nevada had the highest unemployment rate in the country at 7.7%, followed by California, New Mexico and New York, each with 7.6%. At the other end of the spectrum, the lowest unemployment rates in the United States in July occurred in Nebraska (2.3%), Utah (2.6%), New Hampshire (2.9%) and South Dakota (2.9%).

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 348,000 for the week ending Aug. 14, down from 377,000 for the week ending Aug. 7 and the lowest since the week of March 14, 2020. Meanwhile, continuing claims decreased from 2,899,000 for the week ending July 31 to 2,820,000 for the week ending Aug. 7—the lowest figure since the COVID-19 pandemic began. Continuing claims were consistent with 2.1% of the workforce, the same as in the previous report.

  At the same time, 11,743,515 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending July 31. That figure fell from 12,055,302 for the week ending July 24, largely on reduced state, pandemic and extended benefits assistance

- If you have not already done so, please take a moment to complete the latest NAM Manufacturers' Outlook Survey. This survey will help gauge how manufacturing sentiment has changed since the second-quarter survey . In addition, there are some special questions on the economic outlook, COVID-19 mitigation strategies, tax policy and infrastructure spending, among others. Small and medium-sized manufacturers will also have some additional questions about the "new normal" following COVID-19 and impacts on the workforce. To complete the survey, click here. Responses are due by Monday, Aug. 30, at 5:00 p.m. EDT. As always, all responses are anonymous.

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