If you're having trouble reading this, click here.

MONDAY ECONOMIC REPORT

Top Downside Risks: Workforce, Supply Chain, Costs and COVID-19

By Chad Moutray – September 13, 2021

The Weekly Toplines

- In the latest NAM Manufacturers' Outlook Survey for the third quarter, 87.5% of respondents felt either somewhat or very positive about their company outlook, down from 90.1% in the second quarter. The data are consistent with solid growth in manufacturing activity, but with some easing from more rapid paces in the second quarter, when the outlook had registered the best reading in nearly three years and some measures had reached record highs.

- At the same time, the labor market remains tight, with respondents predicting employment and wage growth to rise at the fastest rates in Outlook Survey history. Respondents also anticipate capital spending to increase by the most since the second quarter of 2018. Workforce shortages were cited as the largest downside risk to the economic outlook, followed by supply chain disruptions, increased cost pressures and rising COVID-19 cases.

- Rising raw material costs once again topped the list of primary business challenges in the third quarter, cited by 86.4% of respondents. Other top challenges in the third quarter include the inability to attract and retain a quality workforce, supply chain challenges, transportation and logistics costs and rising health care and insurance costs.

- Manufacturing job openings jumped to another record high, from 880,000 in June to 889,000 in July. In the larger economy, nonfarm business job openings rose from 10,185,000 in June to 10,934,000 in July, a new record.

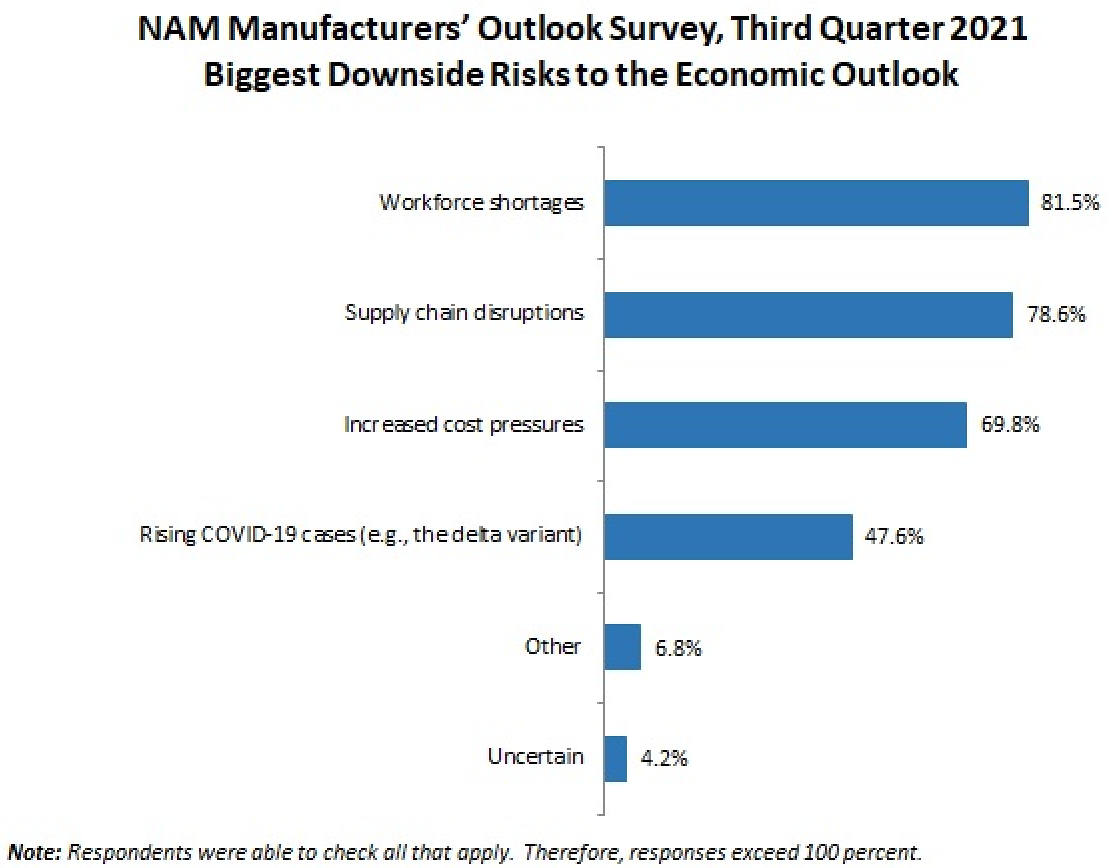
- In July, there were 8,702,000 unemployed Americans, which translates to 0.80 unemployed workers for every one job opening in the U.S. economy. That speaks to the tightness of the labor market, with more job openings than people looking for work.

- Initial unemployment claims fell to another post-pandemic low, down from 345,000 for the week ending Aug. 28 to 310,000 for the week ending Sept. 4.

- Producer prices for final demand goods and services rose 0.7% in August, the slowest monthly gain since May but still a strong figure. Over the past 12 months, producer prices for final demand goods and services jumped 8.3%, the biggest increase on record. Meanwhile, core producer prices increased a record 6.3% year-over-year.

- While raw material costs are likely to stabilize somewhat over the coming months and into the new year, there will also likely be some pricing pressures that will not abate, particularly given the rebounding of the economy.

- That has put pressure on the Federal Reserve. In my view, the Federal Open Market Committee will start the process of tapering asset purchases at its next meeting on Sept. 21–22, with the federal funds rate edging higher by mid-2022. Even with those moves, monetary policy will continue to be highly stimulative for the foreseeable future.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, September 6
LABOR DAY HOLIDAY

Tuesday, September 7
None

Wednesday, September 8
Consumer Credit
Job Openings and Labor Turnover Survey

Thursday, September 9
NAM Manufacturers' Outlook Survey
Weekly Initial Unemployment Claims

This Week's Indicators:

Monday, September 13
None

Tuesday, September 14
Consumer Price Index
NFIB Small Business Survey

Wednesday, September 15
Industrial Production
New York Fed Manufacturing Survey

Thursday, September 16
Philadelphia Fed Manufacturing Survey
Retail Sales
Weekly Initial Unemployment Claims

Friday, September 10
Producer Price Inde

Friday, September 17
State Employment Report
University of Michigan Consumer Sentiment (Preliminary

Deeper Dive

- **Consumer Credit:** U.S. consumer credit outstanding rose 4.7% in July, slowing from the 10.6% gain seen in June. Revolving credit, which includes credit cards and other credit lines, increased a solid 6.7% in July, building on the very solid rebounds seen in May and June. Americans had been less willing to take on revolving credit over much of the past year, with many paying down their balances. That appears to be changing somewhat. Over the past 12 months, revolving credit has risen by 0.6%, the first positive year-over-year reading since the COVID-19 pandemic began. This should bode well for continued consumer spending growth moving forward.

  Meanwhile, nonrevolving credit, which includes auto and student loans, decelerated from 7.2% growth in June to 4.1% in July. On a year-over-year basis, nonrevolving credit has increased 5.3%. Overall, U.S. consumer credit outstanding has risen 4.2% over the past 12 months, the strongest year-over-year reading since February 2020.

- **Job Openings and Labor Turnover Survey:** Manufacturing job openings jumped to another record high, from 880,000 in June to 889,000 in July. It was the fourth straight month with postings that exceeded 800,000. In July, job openings rose to an all-time high for nondurable goods firms (up from 386,000 to 408,000) but postings slipped from the previous month's record for durable goods businesses (down from 494,000 to 481,000). With strong demand and a need to ramp up production, manufacturers must hire more workers to be able to increase capacity, pushing job postings to unprecedented levels.

  These data offer an encouraging sign that manufacturers feel confident enough about economic growth over the coming months for their businesses to post new jobs. Yet manufacturing business leaders continue to cite difficulties with attracting and retaining workers as one of their top concerns (see the NAM outlook survey below).

  In the larger economy, nonfarm business job openings rose from 10,185,000 in June to 10,934,000 in July, a new record. In July, there were 8,702,000 unemployed Americans, which translates to 0.80 unemployed workers for every one job opening in the U.S. economy. That speaks to the tightness of the labor market, with more job openings than people looking for work. Note that the number of unemployed Americans fell further in August, down to 8,384,000.

  In July, manufacturers hired 441,000 workers, down from 483,000 in June, led by slower hiring for durable goods firms. At the same time, total separations edged down from 427,000 to 423,000. Therefore, net hiring (or hiring minus separations) was 18,000 in July, building on the solid gains of 47,000 and 56,000 in May and June, respectively.

  Nonfarm business layoffs reached the lowest level on record at 1,353,000 in May, and this series has drifted higher since then to 1,354,000 and 1,459,000 in June and July, respectively. Meanwhile, layoffs in the manufacturing sector rose from 101,000 to

109,000, a two-month high.

Finally, it is important to look at the "churn" in the labor market, as this provides an indication of the health of the economy. For instance, workers do not switch jobs if there is nervousness in the economic outlook. Quits in the manufacturing sector pulled back from 304,000 in June, the most since December 2000, to 295,000 in July. At the same time, nonfarm payroll quits rose from 3,870,000 to 3,977,000, which was just shy of the record set in April (3,992,000).

- **NAM Manufacturers' Outlook Survey:** In the survey for the third quarter, 87.5% of respondents felt either somewhat or very positive about their company outlook, down from 90.1% in the second quarter. The data are consistent with solid growth in manufacturing activity, but with some easing from more rapid paces in the second quarter, when the outlook had registered the best reading in nearly three years and some measures had reached record highs.

  At the same time, the labor market remains tight, with respondents predicting employment and wage growth to rise at the fastest rates in Outlook Survey history, which dates to the fourth quarter of 1997. Respondents anticipate capital spending to increase by the most since the second quarter of 2018. As such, manufacturers are continuing to invest in their companies—both in workers and capital—at paces that would indicate an extremely positive outlook in their businesses moving into next year.

  Small manufacturers (those with fewer than 50 employees) had the strongest outlook since the second quarter of 2019, with 83.1% positive, up from 80.2% in June. In contrast, medium (50 to 499 employees) and large (500 or more employees) manufacturers experienced some easing in confidence in the latest survey, with both pulling back from strong readings in the second quarter report. For instance, 96.5% of large manufacturers felt positive in their outlook in the second quarter, a record, with 88.1% saying the same thing now.

  Rising raw material costs once again topped the list of primary business challenges in the third quarter, cited by 86.4% of respondents. In addition, manufacturers predict 6.5% growth on average for input costs over the next 12 months, down from 7.5% in the prior report, which was the fastest pace since the question was added to the survey in the second quarter of 2018. Respondents expect product prices to rise 5.4% on average between now and this time next year, pulling back slightly from the record 5.6% rate in June.

  In addition to rising costs, other top challenges in the third quarter include the inability to attract and retain a quality workforce (80.0%), supply chain challenges (79.8%), transportation and logistics costs (69.1%) and rising health care and insurance costs (52.2%).

  While manufacturers felt mostly optimistic in their economic outlook, they were asked about the biggest downside risks in that forecast. Respondents cited workforce shortages as their top downside risk (81.5%). Previous surveys illustrated that companies are often unable to pursue opportunities because they would not have enough workers to be able to do so successfully. In addition, respondents cited supply chain disruptions (78.6%), increased cost pressures (69.8%) and rising COVID-19 cases (47.6%) as significant risks to the economic outlook.

- **Producer Price Index:** Producer prices for final demand goods and services rose 0.7% in August, the slowest monthly gain since May but still a strong figure. At the same time, producer prices for final demand goods grew 1.0% in August, up from 0.6% in July. Food and energy costs rose 2.9% and 0.4% for the month, respectively. Excluding food and energy, producer prices for final demand goods increased 0.6% in August, easing from 1.0% gains the four prior months. Meanwhile, producer prices for final demand services pulled back from a record 1.1% increase in July to rise by 0.7% in August. This included 1.5% and 2.8% growth for trade costs and transportation and warehousing costs, respectively.

Over the past 12 months, producer prices for final demand goods and services jumped 8.3%, the biggest increase on record. Meanwhile, core producer prices increased a record 6.3% year-over-year.

Manufacturing leaders continue to cite supply chain disruptions as their top challenge (see the NAM Outlook Survey above), and the data reflect additional sharp rises in raw material prices, albeit with some deceleration in some areas. While raw material costs are likely to stabilize somewhat over the coming months and into the new year, there will also likely be some pricing pressures that will not abate, particularly given the rebounding of the economy.

That has put pressure on the Federal Reserve, which must navigate its dual mandate of price stability and full employment. In my view, the Federal Open Market Committee will start the process of tapering asset purchases at its next meeting on Sept. 21–22, with the federal funds rate edging higher by mid-2022. Even with those moves, monetary policy will continue to be highly stimulative for the foreseeable future.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 310,000 for the week ending Sept. 4, down from 345,000 for the week ending Aug. 28 and a post-pandemic low. Meanwhile, continuing claims edged down from 2,805,000 for the week ending Aug. 21 to 2,783,000 for the week ending Aug. 28—also the lowest figure since the COVID-19 pandemic began. Continuing claims remained consistent with 2.0% of the workforce.

  At the same time, 11,930,415 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Aug. 21. That figure was down from 12,186,172 for the week ending Aug. 14. Reduced pandemic and state assistance were enough to offset an increase in extended benefits.

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