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MONDAY ECONOMIC REPORT

IHS Markit: Delivery Times and Prices Both Hit New Records in October

By Chad Moutray – October 25, 2021

The Weekly Toplines

- The IHS Markit Flash U.S. Manufacturing PMI slipped from 60.7 in September to 59.2 in October, the slowest pace of growth since March. Manufacturers in the U.S. continue to cite supply chain bottlenecks and workforce shortages as significant challenges to growth. Output expanded at the weakest pace since July 2020, but employment growth edged higher for the month.

- Supplier delivery times widened to the highest on record, and indices for input and output prices both jumped at the fastest rates in the survey's history, which dates to mid-2007.

- Manufacturing production fell 0.7% in September. The chip shortage continues to challenge output in the motor vehicles and parts sector, with production in September plummeting 7.2% and output down 15.8% since January. Excluding motor vehicles and parts, industrial production fell 0.1% and 0.2% in August and September, respectively, suggesting broader weaknesses beyond automobiles.

- Manufacturing capacity utilization pulled back for the second straight month from July's reading of 76.8%, which was the strongest since January 2019, falling to 75.9% in September. Despite easing in the past two months, manufacturing production has risen 4.8% year-over-year, with no change relative to February 2020's pre-pandemic pace.

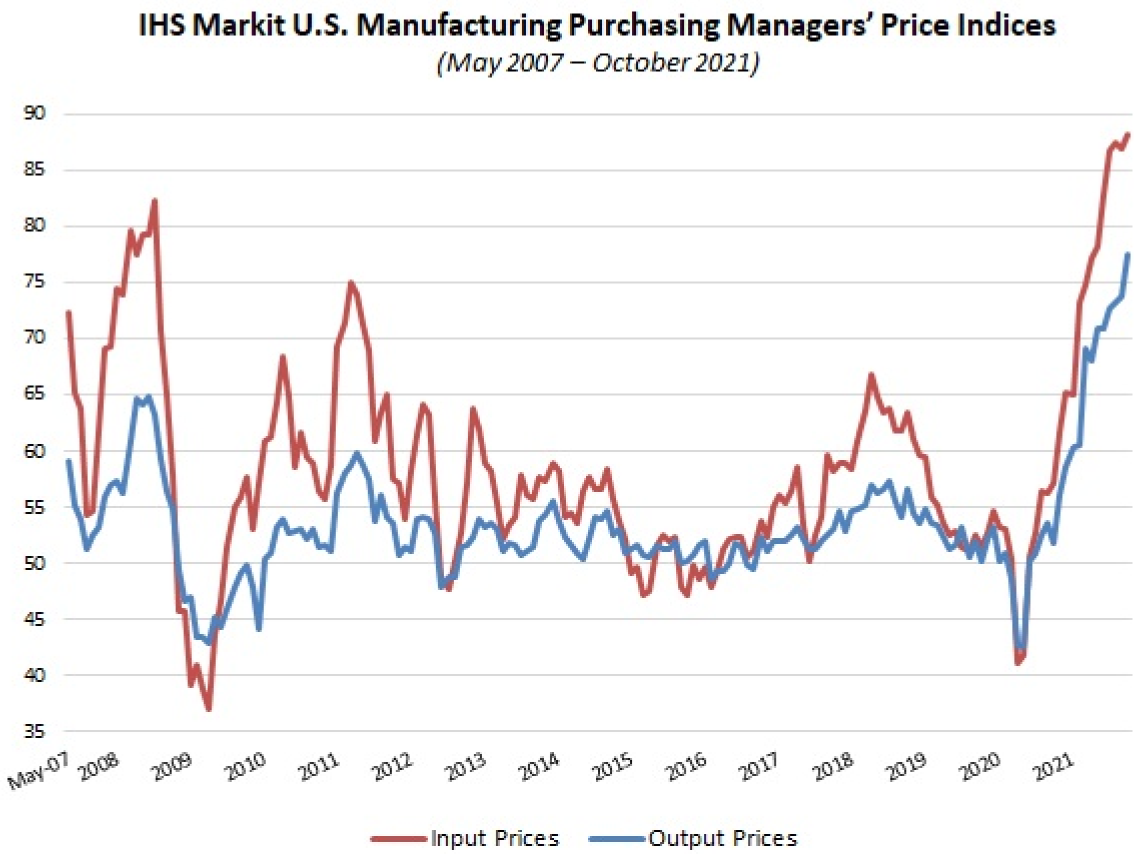
- The Philadelphia Federal Reserve Bank's composite index of general business conditions declined from 30.7 in September to 23.8 in October, but manufacturing activity continued to expand solidly in the district for the month. Pricing pressures remained very elevated. Encouragingly, capital spending plans accelerated to the best reading since July 2020.

- New residential construction activity declined 1.6% from 1,580,000 units at the annual rate in August to 1,555,000 units in September. Housing construction has been challenged this year by rising construction costs, affordability issues and difficulties in finding workers.

- Housing permits fell 7.7% from an annualized 1,721,000 units in August to 1,589,000 units in September, a 12-month low. Yet, builders remained optimistic about growth over the coming months despite ongoing concerns.

- Existing home sales rose 7.0% from 5.88 million units in August at the annual rate to 6.29 million units in September, the strongest pace since January, largely on improvements in supply and strong demand. Nonetheless, activity has drifted lower since peaking at 6.73 million units in October 2020, which was the strongest pace since March 2006.

- Initial and continuing unemployment claims dropped to post-pandemic lows in the latest data.
- California created the most net new manufacturing jobs in September, adding 5,700 workers. Post-pandemic onset, Utah has generated the most employment in the sector, adding 8,800 workers since February 2020. Nebraska had the lowest unemployment rate (2.0%).



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, October 18
Industrial Production
NAHB Housing Market Index

Tuesday, October 19
Housing Starts and Permits

Wednesday, October 20
None

This Week's Indicators:

Monday, October 25
Chicago Fed National Activity Index
Dallas Fed Manufacturing Survey

Tuesday, October 26
Conference Board Consumer Confidence
New Home Sales
Richmond Fed Manufacturing Survey

Wednesday, October 27
Durable Goods Orders and Shipments

Thursday, October 21
Conference Board Leading Indicators
Existing Home Sales
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, October 22
IHS Markit Flash U.S. Manufacturing PMI
State Employment Report

International Trade in Goods (Preliminary)

Thursday, October 28
Gross Domestic Product
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, October 29
Employment Cost Index
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 0.2% in September, slowing from the 0.8% gain in August. Over the past six months, the LEI rose a robust 5.4%, with the U.S. economy continuing to rebound strongly. Overall, the data point to solid growth over the coming months. New manufacturing orders helped buoy the headline index in September, with initial unemployment claims, the interest rate spread and lending conditions also positive contributors for the month. In contrast, the average workweek, building permits, consumer confidence and stock prices pulled the LEI lower in September.

  Meanwhile, the Coincident Economic Index was unchanged in September. Weaker industrial production served as a drag on the CEI for the month. The other three components of the CEI—manufacturing and trade sales, nonfarm payrolls and personal income less transfer payments—made positive contributions to the latest data.

- **Existing Home Sales:** Existing home sales rose 7.0% from 5.88 million units in August at the annual rate to 6.29 million units in September, the strongest pace since January, according to the National Association of Realtors. Growth strengthened in every region of the country. Overall, existing home sales have drifted lower since peaking at 6.73 million units in October 2020, which was the strongest pace since March 2006, but the latest data reflect a healthy rebound from recent weaknesses. Affordability and inventory issues have challenged the housing market, but NAR Chief Economist Lawrence Yun noted improvements in supply and strong demand in September.

  In September, single-family sales rose 7.7% from 5.19 million units to 5.59 million units, the best reading since January, with condominium and co-op sales up 1.4% from 690,000 units to 700,000 units. On a year-over-year basis, existing home sales have fallen 2.3% since September 2020.

  There were 2.4 months of existing home sales on the market in September, down from 2.6 months in August. Inventories remain historically low overall despite rising from a record low of 1.9 months of supply on the market in December and January. The median sales price for existing homes has jumped 13.3% year-over-year, up to $352,800.

- **Housing Starts and Permits:** New residential construction activity declined 1.6% from 1,580,000 units at the annual rate in August to 1,555,000 units in September. New housing starts have averaged 1,584,000 units through the first three quarters of 2021, and the latest reading was mostly in line with that average, even as it remains lower than desired. Housing construction has been challenged this year by rising construction costs, affordability issues and difficulties in finding workers. Single-family housing starts were flat in September, but multifamily construction activity decreased from 500,000 units to 475,000 units.

  On a year-over-year basis, new housing starts have risen 7.4% from 1,448,000 units in September 2020, but single-family construction has declined 2.3% over the past 12 months, down from 1,105,000 units. This speaks to the issues of affordability that have dampened demand for single-family homes. In contrast, multifamily construction activity has jumped 38.5% year-over-year from 343,000 units in September 2020.

  On the one hand, builders remained optimistic about growth over the coming months, with sentiment moving higher in the latest NAHB Housing Market Index despite ongoing concerns. (See below.) Yet, housing permits fell 7.7% from an annualized 1,721,000 units in August to 1,589,000 units in September, a 12-month low. Single-family permits declined 0.9% from 1,050,000 units to 1,041,000 units, the slowest pace since July 2020 and a disappointing reading. Multifamily permits dropped 18.3% in September from 671,000 units to 548,000 units, largely from buildings with five units or more but declining from a very strong August reading that was the strongest since June 2015. Multifamily activity is often highly volatile from month to month.

  Over the past 12 months, housing permits were flat, with multifamily permitting soaring 17.1% over that time frame. Single-family housing permits dropped 7.1% year-over-year, however, continuing to pull back from January's pace (1,268,000 units), which was the strongest since August 2006.

- **IHS Markit Flash U.S. Manufacturing PMI:** The IHS Markit Flash U.S. Manufacturing PMI slipped from 60.7 in September to 59.2 in October, the slowest pace of growth since March. Manufacturers in the U.S. continue to cite supply chain bottlenecks and workforce shortages as significant challenges to growth. Indeed, output (down from 55.7 to 52.3) expanded at the weakest pace since July 2020, with new orders (down from 61.2 to 58.0), exports (down from 54.9 to 50.7) and future output (down from 72.5 to 70.6) also softening in October. The latter signals continued optimism in the outlook for the next six months despite ongoing concerns. Employment (up from 53.1 to 53.2) growth edged higher for the month.

  Supplier delivery times (down from 16.6 to 15.5) widened to the highest on record, and indices for input prices (up from 87.0 to 88.2) and output prices (up from 73.8 to 77.5) both jumped at the fastest rates in the survey's history, which dates to mid-2007.

  At the same time, the IHS Markit Flash U.S. Services PMI rose from 54.9 in September to 58.2 in October, the best reading since July, as business activity began to recover from weaknesses related to the spread of the delta variant over the past couple months.

  Meanwhile, the IHS Markit Flash Eurozone Manufacturing PMI inched down from 58.6 in September to 58.5 in October, expanding at the slowest pace since February. Manufacturing activity slowed on supply chain disruptions, with output decelerating growth to the weakest rate since June 2020. Growth in new orders, exports and future output also eased, but hiring strengthened. Nonetheless, manufacturers remained optimistic about production over the next six months. On the topic of supply constraints, delivery times continued to be very long, and input and output prices both soared at record paces.

  In France, production contracted for the first time this year, and in Germany, output grew at the slowest pace since June 2020, as supply chain issues continued to pose challenges to the industry. Interestingly, outside of the Eurozone, sentiment in the United Kingdom improved in October, albeit at weaker levels than over the summer. Yet, supply chain disruptions also decelerated production growth in the U.K. to the slowest pace since February. Input costs in October were the highest on record in France and Great Britain, with raw material prices not far from all-time highs in Germany.

- **Industrial Production:** Manufacturers continue to cite supply chain disruptions, workforce shortages and soaring costs as significant challenges, and the latest industrial production data reflect those headwinds. Manufacturing production fell 0.7% in September, extending the 0.4% decline in August. Durable and nondurable goods production decreased 0.5% and 1.0% in September, respectively. The chip shortage continues to challenge output in the motor vehicles and parts sector, with production in September plummeting 7.2% and output down 15.8% since January. Excluding motor vehicles and parts, industrial production fell 0.1% and 0.2% in August and September, respectively, suggesting broader weaknesses beyond automobiles.

  Manufacturing capacity utilization pulled back for the second straight month from July's reading of 76.8%, which was the strongest since January 2019, falling to 76.5% in August and 75.9% in September. Despite easing in the past two months, manufacturing production has risen 4.8% year-over-year, with no change relative to February 2020's pre-pandemic pace.

  In September, the underlying data provided mixed results. In addition to motor vehicles and parts, other sectors with significant declines in manufacturing production included petroleum and coal products (down 2.4%), chemicals (down 2.1%), nonmetallic mineral products (down 0.9%), food, beverage and tobacco products (down 0.6%) and wood products (down 0.6%). At the same time, output strengthened for printing and support (up 2.7%), textile and product mills (up 1.7%), electrical equipment, appliances and components (up 1.3%), furniture and related products (up 1.2%), aerospace and miscellaneous transportation equipment (up 1.1%) and primary metals (up 1.1%), among others.

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 19 months in aerospace and miscellaneous transportation equipment (up 15.2%), computer and electronic products (up 10.1%), miscellaneous durable goods (up 5.7%), apparel and leather goods (up 5.6%), machinery (up 4.4%) and chemicals (up 3.9%). At the other end of the spectrum, still-sizable declines in output since February 2020 occurred in motor vehicles and parts (down 15.9%), other manufacturing (down 15.9%), nonmetallic mineral products (down 6.4%), petroleum and coal products (down 5.9%) and furniture and related products (down 5.4%).

Meanwhile, total industrial production fell 1.3% in September, the largest monthly decline since February. Sharp declines in output occurred in mining (down 2.3%) and utilities (down 3.6%) in September in addition to the decreases described above for manufacturing. On a year-over-year basis, industrial production has risen 4.6%. Total capacity utilization declined from 76.2% in August to 75.2% in September, a five-month low.

- **NAHB Housing Market Index:** The Housing Market Index increased for the second straight month, rising from 75 in August to 76 in September to 80 in October, according to the National Association of Home Builders and Wells Fargo. Several significant challenges continue for builders, including higher building costs and worker shortages, and for potential buyers, affordability has become a major issue. Nonetheless, builders remain upbeat in their assessments of the housing market. (Readings greater than 50 suggest that more respondents are positive than negative in their outlook.)

  The index for current single-family homes increased from 82 in September to 87 in October, with the index for expected single-family sales rising from 81 to 84, the best reading since December 2020. These are very solid readings, consistent with a strong outlook for the sector, even with the issues discussed above.

- **Philadelphia Fed Manufacturing Survey:** The Philadelphia Federal Reserve Bank's composite index of general business conditions declined from 30.7 in September to 23.8 in October, but manufacturing activity continued to expand solidly in the district for the month. Indeed, growth for new orders, shipments and employment strengthened in October, with the average employee workweek and inventories easing somewhat but expanding at decent paces. The index for prices paid rose in October, remaining highly elevated despite decelerating from June's peak, which was the highest since October 1980. Likewise, the index for prices received pulled back for the second straight month from August's reading, which had been the fastest since May 1974, but was not far from that level.

  Meanwhile, the forward-looking composite index increased from 20.0 in September to 24.2 in October, signaling a positive outlook despite slipping from significantly higher readings just a few months ago. Expectations for new orders, shipments and hiring slipped a little in October but remained strong, whereas capital spending plans accelerated to the best reading since July 2020. In a special question, 53.2% of respondents said that they expect capital expenditures to be higher in 2022 than in 2021. In addition, pricing pressures are not expected to let up, with the expected cost of raw materials expanding more strongly in October.

- **State Employment Report:** California created the most net new manufacturing jobs in September, adding 5,700 workers. Other states with notable employment growth for the month included Texas (up 4,700), Wisconsin (up 4,100), Florida (up 3,500) and New York (up 3,500). Just seven states have notched increased manufacturing employment since February 2020, or since the pandemic began. Those states were Utah (up 8,800), Nebraska (up 1,100), Arkansas (up 300), Montana (up 300), Rhode Island (up 300), Vermont (up 200) and Alaska (up 100). In contrast, the largest declines over that time occurred in big states, such as California (down 62,100), Michigan (down 46,200), Ohio (down 35,600), Illinois (down 29,000), Washington (down 28,100) and Texas (down 23,800).

  The national unemployment rate was 4.8% in September, and the rate fell in 27 states and the District of Columbia in the latest data. California and Nevada had the highest unemployment rates in the country at 7.5%, followed by New Jersey and New York with 7.1%. At the other end of the spectrum, the lowest unemployment rates in the United States in September occurred in Nebraska (2.0%), Utah (2.4%) and Idaho, New Hampshire, South Dakota and Vermont (each with 2.9%).

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 290,000 for the week ending Oct. 16, down from 296,000 for the week ending Oct. 9 and the lowest since the week of March 14, 2020. Meanwhile, continuing claims declined from 2,603,000 for the week ending Oct. 2 to 2,481,000 for the week ending Oct. 9, also a post-pandemic low. Continuing claims were consistent with 1.8% of the workforce, down from 1.9% in the previous report.

  At the same time, 3,279,036 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Oct. 2. That figure was down from 3,649,028 for the week ending Sept. 25. The decrease in the latest figures stemmed from sizable declines in pandemic and state unemployment assistance and extended benefits.

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