MONDAY ECONOMIC REPORT

Federal Reserve Will Start Tapering Asset Purchases Later This Month

By Chad Moutray – Nov. 8, 2021

The Weekly Toplines

- As expected, the Federal Open Market Committee has decided to start tapering its asset purchases later this month. The Federal Reserve has been purchasing as much as $80 billion in Treasury securities and $40 billion in agency mortgage-backed securities each month since the beginning of the pandemic. It will start scaling that back by $15 billion in November, another $15 billion in December, and so on, likely ending these purchases entirely by mid-2022.

- The FOMC kept the federal funds range of zero to 25 basis points, also as predicted. It is not likely to shift its interest rate policy until mid-2022, contingent on incoming economic data.

- Manufacturing employment jumped by 60,000 in October, and total employment in the sector has risen 298,000 year to date in 2021, putting it on track for the best annual job growth since 1997. There remained 270,000 fewer manufacturing employees relative to pre-pandemic levels.

- The average hourly earnings of production and nonsupervisory workers in manufacturing rose to $24.22 in October, with a 5.4% increase over the past year, the fastest wage growth since August 1982.

- Nonfarm payroll employment increased by 531,000 in October, and the unemployment rate dropped to 4.6%. The labor force participation rate was unchanged at 61.6% for the month.

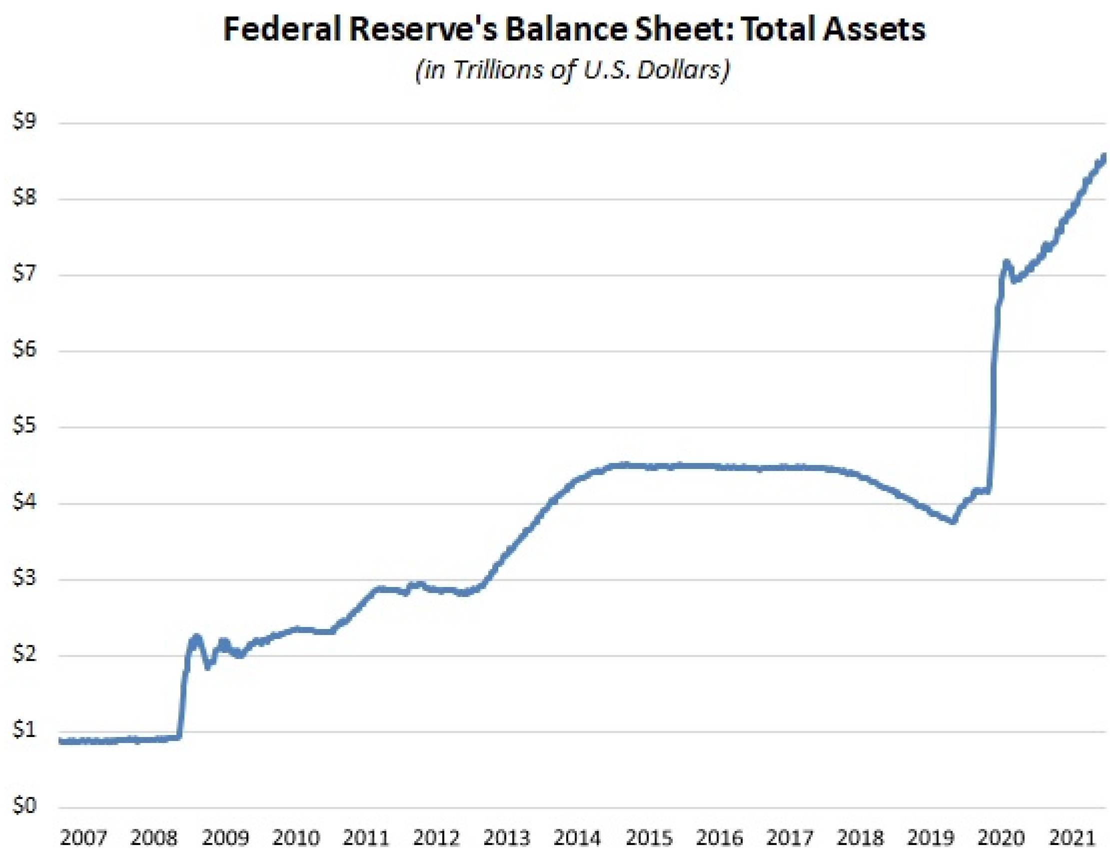
- The ISM® Manufacturing Purchasing Managers’ Index® eased from 61.1 in September to 60.8 in October. Demand cooled somewhat but remained solid. Supply chain disruptions, logistics challenges, workforce shortages and soaring costs have dampened demand.

- New orders for manufactured goods rose 0.2% to a record $515.9 billion in September, albeit at a slower pace. Excluding transportation equipment, manufacturing orders increased 0.7% in September. Overall, the manufacturing sector continues to expand strongly—despite significant challenges—with new orders soaring 10.2% year to date.

- Private manufacturing construction spending declined 1.6% to $72.42 billion in September, falling to a five-month low. While construction activity in the manufacturing sector has risen 4.7% year-over-year, spending remains 4.9% below the $76.16 billion in activity recorded in February 2020.

- The U.S. trade deficit rose from $72.81 billion in August to a record $80.93 billion in September. Goods exports fell sharply for the month, with goods imports rising. The volatility in the September data likely stemmed from ongoing supply chain difficulties, including the chip shortage. Growth in goods imports has outpaced the increase in goods exports year to date.

- More positively, U.S.-manufactured goods exports totaled $831.87 billion through the first nine months of 2021, soaring 18.80% from $700.24 billion year to date in 2020.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Nov. 1
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Tuesday, Nov. 2
None

Wednesday, Nov. 3
ADP National Employment Report
Factory Orders and Shipments
FOMC Monetary Policy Statement

This Week's Indicators:

Monday, Nov. 8
None

Tuesday, Nov. 9
NFIB Small Business Survey
Producer Price Index

Wednesday, Nov. 10
None

Thursday, Nov. 11
None

Thursday, Nov. 4
International Trade Report
Productivity and Costs
Weekly Initial Unemployment Claims

Friday, Nov. 5
BLS National Employment Report

Friday, Nov. 12
Job Openings and Labor Turnover Survey
University of Michigan Consumer Sentiment (Preliminary)

Deeper Dive

- **ADP National Employment Report:** Manufacturing employment increased by 53,000 in October, the strongest monthly gain in 13 months, according to ADP estimates. The sector has added 252,000 employees year to date, a very solid pace of job growth. At the same time, nonfarm private payrolls increased by 571,000 in October, extending the gain of 523,000 in September and the best reading since June. Through the first 10 months of 2021, total private nonfarm payrolls have risen by more than 4,865,000 employees, with the economy and labor market recovering strongly, especially in the hard-hit service sectors.

  Leisure and hospitality (up 185,000) led employment growth in October. Hiring also strengthened in professional and business services (up 88,000), trade, transportation and utilities (up 78,000), education and health services (up 47,000) and construction (up 54,000), among others. Large businesses (i.e., those with 500 or more employees) added 342,000 workers in October, or nearly 60% of net job creation for the month.

  Despite notable progress over the past year, private nonfarm payrolls have fallen by roughly 5,044,000 since February 2020, with manufacturing employment down 324,000 over the past 20 months.

- **BLS National Employment Report:** Manufacturing employment jumped by 60,000 in October, the strongest monthly gain since June 2020. In October, durable and nondurable goods employment rose by 41,000 and 19,000, respectively. More importantly, total employment in the sector has risen 298,000 year to date in 2021, putting it on track for the best annual job growth since 1997 (304,000), with 12,529,000 workers in October. With that said, there remained 270,000 fewer manufacturing employees relative to pre-pandemic levels, with 12,799,000 workers in the sector in February 2020.

  There continued to be significant upward pressure on wages, with manufacturers citing difficulties in finding workers. The average hourly earnings of production and nonsupervisory workers in manufacturing rose 0.3% from $24.14 in September to $24.22 in October, with a 5.4% increase over the past year, up from $22.99 in October 2020. That was the fastest wage growth since August 1982.

  Meanwhile, nonfarm payroll employment increased by 531,000 in October, the strongest monthly job growth in three months. The U.S. economy has generated 5,816,000 net new jobs so far this year, a solid pace, even as nonfarm payrolls remain down 4,204,000 today relative to pre-pandemic levels in February 2020.

The unemployment rate dropped from 4.8% in September to 4.6% in October, a post-pandemic low, with the number of unemployed workers decreasing from 7,674,000 to 7,419,000. The labor force participation rate was unchanged at 61.6% for the month, remaining down from 63.3% in February 2020 but up from the low of 60.2% in April 2020. In addition, 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 8.5% to 8.3%, the lowest since February 2020.

In October, the largest increases in manufacturing employment occurred in transportation equipment (up 23,700, including 27,700 for motor vehicles and parts), fabricated metal products (up 5,800), chemicals (up 5,600), miscellaneous durable goods (up 4,400) and printing and related support activities (up 4,200), among others. There were just three manufacturing sectors with fewer employees in October: miscellaneous nondurable goods (down 1,100), furniture and related products (down 600) and nonmetallic mineral products (down 400).

Six major manufacturing sectors have exceeded their pre-pandemic levels of employment as of October: computer and electronic products (up 11,700), miscellaneous nondurable goods (up 11,700), chemicals (up 10,100), plastics and rubber products (up 10,000), miscellaneous durable goods (up 9,200) and wood products (up 600).

- **Construction Spending:** Private manufacturing construction spending declined 1.6% from $73.60 billion in August to $72.42 billion in September, extending the 1.3% decrease in August and falling to a five-month low. While construction activity in the manufacturing sector has risen 4.7% year-over-year, spending remains 4.9% below the $76.16 billion in activity recorded in February 2020.

  Total private nonresidential spending decreased 0.6% in September, and since February 2020, activity has fallen 12.3%. For the month, construction activity fell in every major category except for commercial (up 0.2%), office (up 0.1%) and educational (unchanged) projects.

  Overall, total private construction spending fell 0.5% in September, but with 8.8% growth post-pandemic. Private residential construction declined 0.4% in September, with reduced activity for single-family and multifamily construction. However, since February 2020, private residential construction has soared 26.9%. Meanwhile, public construction spending declined 0.7% in September, falling 7.5% from the pre-pandemic pace.

- **Factory Orders and Shipments:** New orders for manufactured goods rose 0.2% from $514.6 billion in August to a record $515.9 billion in September, increasing for the fifth straight month, albeit at a slower pace. Orders for nondefense aircraft and parts, which can be highly volatile from month to month, fell 27.9% in September, with motor vehicle and parts sales also lower, down 1.9% due to the chip shortage and production challenges. Excluding transportation equipment, manufacturing orders increased 0.7% in September, with new durable goods orders excluding transportation up 0.5%. Overall, the manufacturing sector continues to expand strongly—despite lingering supply chain, workforce and pricing pressures—with new orders soaring 10.2% year to date.

  In addition, 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 $77.1 billion in August to $77.8 billion in September, a record high. Core capital goods orders have risen 8.6% through the first nine months of 2021.

Meanwhile, factory shipments increased 0.6% from $508.2 billion in August to $511.5 billion in September, an all-time high. Durable and nondurable goods shipments rose 0.4% and 0.8% for the month, respectively. Shipments of automobiles plummeted 12.3% in September, extending the 6.8% decline in August. Excluding transportation equipment, total shipments rose 0.9% in September, with durable goods excluding transportation equipment up 1.0%.

So far this year, factory shipments have risen 7.6%, a solid figure, or 10.2% with transportation equipment excluded. At the same time, core capital goods shipments increased 1.4% from $74.9 billion in August to a record $75.9 billion in September. Core capital goods shipments have increased 8.4% year to date.

- **FOMC Monetary Policy Statement:** As expected, the Federal Open Market Committee has decided to start tapering its asset purchases later this month. The Federal Reserve has been purchasing as much as $80 billion in Treasury securities and $40 billion in agency mortgage-backed securities each month, but with progress in the economy, there was a desire to ease up on those purchases. As a result of these purchases, which began at the start of the COVID-19 pandemic, the Federal Reserve's balance sheet has ballooned to nearly $8.6 trillion, more than doubling the pre-pandemic pace. More specifically, "the Committee decided to begin reducing the monthly pace of its net asset purchases by $10 billion for Treasury securities and $5 billion for agency mortgage-backed securities." It will make a similar reduction in December and is expected to continue this process until it ends these asset purchases entirely by mid-2022.

  The FOMC kept the federal funds range of zero to 25 basis points, also as predicted. It is not likely to shift its interest rate policy until mid-2022, but the timeline will hinge on incoming economic data.

  The Federal Reserve continued to refer to inflationary pressures as being "transitory." According to the statement, "Supply and demand imbalances related to the pandemic and the reopening of the economy have contributed to sizable price increases in some sectors." The FOMC would like to see core inflation hovering around 2% over the long run, even as current price growth remains highly elevated and will likely "achieve inflation moderately above 2% for some time." The Federal Reserve also has a mandate to achieve maximum employment, and there has been substantial progress toward full employment in recent months. As with past meetings, the participants continued to note that the "path of the economy continues to depend on the course of the virus," even as it notes progress.

- **International Trade Report:** The U.S. trade deficit rose from $72.81 billion in August to a record $80.93 billion in September. Goods exports (down from $149.76 billion to $142.71 billion) fell sharply for the month, with goods imports (up $239.00 billion to $240.86 billion) rising. The volatility in the September data likely stemmed from ongoing supply chain difficulties, including the chip shortage. At the same time, the service-sector trade surplus improved from $16.43 billion in August, the lowest since December 2011, to $17.22 billion in September.

  For the month, goods exports plummeted largely on very sizable declines in industrial supplies and materials (down $5.67 billion) and nonautomotive capital goods (down $1.57 billion). On the other hand, exports of consumer goods (up $711 million) increased, led by pharmaceutical preparations (up $1.48 billion). Meanwhile, goods imports increased in nonautomotive capital goods (up $2.54 billion) and industrial supplies and materials (up $985 million), which was enough to offset the large decrease in imports for automotive vehicles, parts and engines (down $2.15 billion).

Looking at longer-term trends, U.S.-manufactured goods exports totaled $831.87 billion through the first nine months of 2021, soaring 18.80% from $700.24 billion year to date in 2020.

In addition, growth in goods imports (up 11.37%) has outpaced the increase in goods exports (up 8.52%) year to date. Likewise, since the end of 2019, goods exports and imports have increased 4.39% and 16.99%, respectively.

- **ISM® Manufacturing Purchasing Managers' Index®:** Demand cooled somewhat but remained solid, according to the Institute for Supply Management®. The headline index eased from 61.1 in September to 60.8 in October, with new orders (down from 66.7 to 59.8) expanding at the slowest pace since June 2020, albeit at a still-strong level. Supply chain disruptions, logistics challenges, workforce shortages and soaring costs have dampened demand. Indices for the backlog of orders (down from 64.8 to 63.6), supplier delivery times (up from 73.4 to 75.6) and customers' inventories (unchanged at 31.7) were consistent with still-significant supply chain problems in the sector. Meanwhile, production growth (down from 59.4 to 59.3) changed little, with exports (up from 53.4 to 54.6) improving and imports (down from 54.9 to 49.1) declining.

  Prices (up from 81.2 to 85.7) accelerated in October. While price growth was less than June's reading (92.1), which reported the fastest increase since July 1979, cost pressures remain very significant. This is consistent with other indicators, including the most recent NAM Manufacturers' Outlook Survey, which cited soaring prices as the top concern.

- **Productivity and Costs:** Manufacturing labor productivity fell 1.0% in the third quarter at the annual rate, pulling back from the 8.5% gain in the second quarter. Output growth continued to reflect recovery in the economy, rising 5.8% and 5.7% in the second and third quarters, respectively. However, real hourly compensation decreased 4.5% in the third quarter, dropping for the third straight quarter and pulling the headline figure lower. Unit labor costs for manufacturers rose 2.9% in the third quarter.

  Labor productivity for durable goods increased 1.4% in the third quarter, with output jumping 9.9% but real hourly compensation declining 5.5%. At the same time, labor productivity for nondurable goods decreased 2.6% in the third quarter, with output rising 1.3% and real hourly compensation pulling back 2.9%.

  Meanwhile, nonfarm business labor productivity dropped 5.0% in the third quarter, falling for the first time in 2021. Output grew 1.7% for the quarter, but the number of hours worked soared 7.0%. Real hourly compensation declined 3.5%, and unit labor costs jumped 8.3%.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 269,000 for the week ending Oct. 30, down from 283,000 for the week ending Oct. 23 and the lowest since the week of March 14, 2020. Meanwhile, continuing claims declined from 2,239,000 for the week ending Oct. 16 to 2,105,000 for the week ending Oct. 23, also a post-pandemic low. Continuing claims were consistent with 1.6% of the workforce, down from 1.7% in the previous report.

At the same time, 2,672,948 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Oct. 16 and the lowest since the pandemic began. That figure was down from 2,830,679 for the week ending Oct. 9.

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