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MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

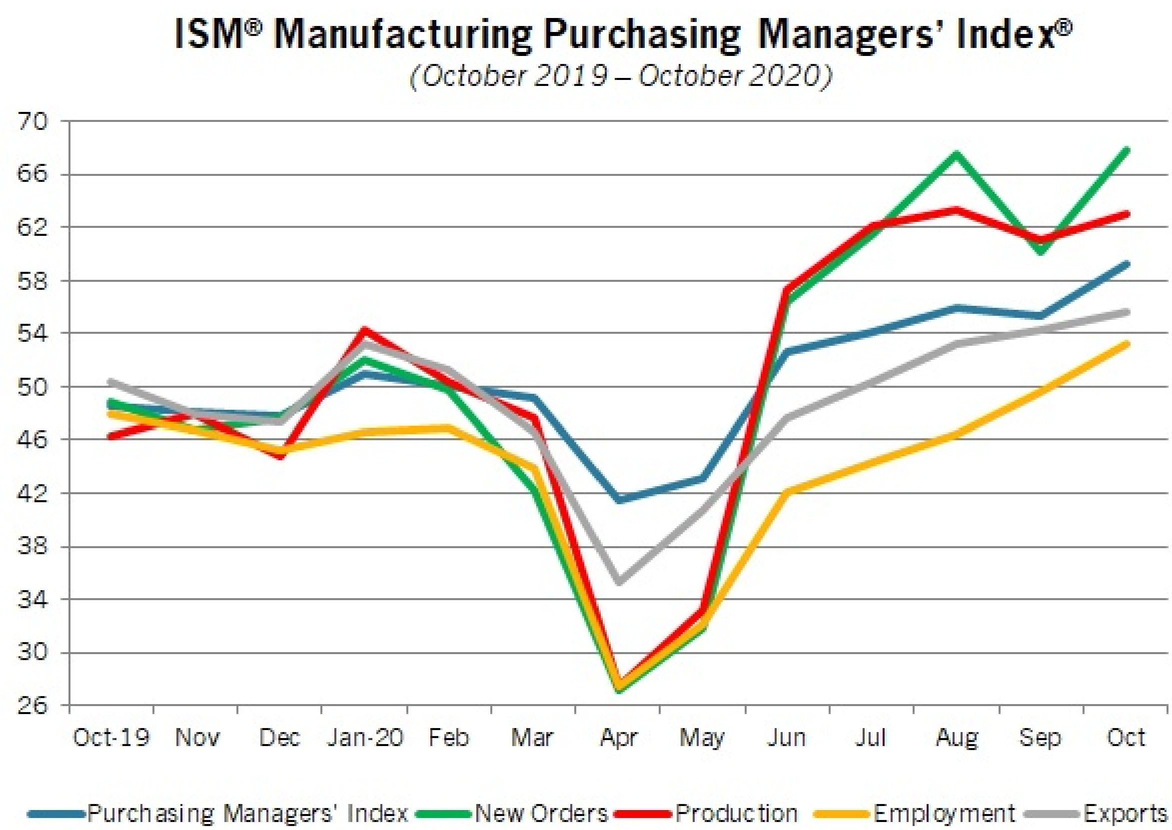
By Chad Moutray, Ph.D., CBE – November 9, 2020 – SHARE

Manufacturing Expands at Fastest Rate in 25 Months on New Orders Growth

The Weekly Toplines

- The Institute for Supply Management® reported that the manufacturing sector expanded in October at the fastest pace since September 2018, with the sector continuing to rebound from COVID-19-related weaknesses in the spring. The data were buoyed by robust growth in new orders, which rose at rates not seen since January 2004. With that said, there are also hints at lingering supply chain disruptions in the ISM despite solid progress since April in these data.
- New orders for manufactured goods rose 1.1% in September, increasing for the fifth straight month. Despite recent progress, new factory orders have fallen 3.9% year-over-year, due largely to severe COVID-19 disruptions in March and April. More encouragingly, core capital goods spending—a proxy for capital spending in the U.S. economy—rose 1.0% in September, with 4.5% growth over the past 12 months.
- Manufacturing added 38,000 workers in October, rising for the sixth straight month. Despite recent gains, the labor market for the sector remains well below its pre-COVID-19 pace, with manufacturing employment down by 621,000 in October relative to the level in February. The current outlook is for 12,300,000 employees in the manufacturing sector at year's end, with continued growth next year, up from 12,231,000 in October.
- Overall, nonfarm payroll employment in the United States increased by 638,000 in October, also expanding for the sixth consecutive month but down by 10,090,000 since February. The unemployment rate fell from 7.9% in September to 6.9% in October.
- Private manufacturing construction spending fell 2.1% in September, with a 10.0% decrease year-over-year. Total private nonresidential spending declined 1.5% in September and 6.0% over the past 12 months. Private residential construction was a bright spot in the September data, once again boosted by historically low mortgage rates (which hit another record low last week).

- The U.S. trade deficit pulled back from the highest level since August 2006, decreasing from $67.04 billion in August to $63.86 billion in September, with growth in goods exports outpacing the increase in goods imports for the month.
- According to the latest update from TradeStats Express, U.S.-manufactured goods exports totaled $857.65 billion through the first three quarters of 2020, using seasonally adjusted data, dropping 16.32% from $1,024.86 billion year to date in 2019 and the slowest pace since 2010.
- The Federal Open Market Committee left interest rates unchanged, as expected, and will continue to have a highly accommodative monetary policy to support more economic growth. The Federal Reserve notes progress in the economy since the spring but acknowledges uncertainties in the outlook will persist as long as COVID-19 is an ongoing challenge.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

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

This Week's Indicators:

Monday, November 9
None

Tuesday, November 10
Job Openings and Labor Turnover

Tuesday, November 3
Factory Orders and Shipments

Wednesday, November 4
ADP National Employment Report
International Trade Report

Thursday, November 5
FOMC Monetary Policy Statement
Productivity and Costs
Weekly Initial Unemployment Claims

Friday, November 6
BLS National Employment Report

Survey
NFIB Small Business Survey

Wednesday, November 11
None

Thursday, November 12
Consumer Price Index
Weekly Initial Unemployment Claims

Friday, November 13
Producer Price Index
University of Michigan Consumer Sentiment

Deeper Dive

- **ADP National Employment Report:** Manufacturing employment rose by 7,000 in October, slowing following a robust gain of 131,000 in September but increasing for the sixth straight month, according to ADP estimates. Despite recent job growth, the sector has lost roughly 596,000 workers year to date, with manufacturers still trying to recover from severe declines in activity due to the COVID-19 pandemic and global recession. Employment growth in the sector should continue over the coming months, potentially adding another 50,000 to 100,000 by year's end.

  Overall, there were 365,000 additional nonfarm private business employees in October, easing from the 753,000 increase in September. Like the manufacturing numbers, the labor market has bounced back since dropping sharply in the spring, but there were nearly 9,720,000 fewer workers year to date. Every sector other than information, which was flat, experienced increased employment in October, led by strength in leisure and hospitality (up 125,000), education and health services (up 79,000), professional and business services (up 60,000) and trade, transportation and utilities (up 53,000). Meanwhile, 68.8% of the net job gains in October came from small and medium-sized establishments (i.e., those with fewer than 500 employees).

- **BLS National Employment Report:** Manufacturing added 38,000 workers in October, rising for the sixth straight month. Despite recent gains, the labor market for the sector remains well below its pre-COVID-19 pace, with manufacturing employment down by 621,000 in October relative to the level in February. There are 12,231,000 workers in the manufacturing sector in October, down from 12,852,000 in February but a definite improvement from 11,489,000 employees in April. As such, sizable challenges in the economic environment continue despite movement in the right direction. The current outlook is for 12,300,000 employees in the manufacturing sector at year's end, with continued growth next year.

In October, durable and nondurable goods employment rose by 21,000 and 17,000, respectively. The largest gains occurred in fabricated metal products (up 7,200), food manufacturing (up 6,200), primary metals (up 6,000), wood products (up 4,400) and machinery (up 3,900). At the other end of the spectrum, transportation equipment (down 2,400 despite a gain of 1,400 for motor vehicles and parts), paper and paper products (down 1,500), furniture and related products (1,200) and textile products (down 1,000) were among the segments with reduced employment in October.

All of the major sectors continued to experience reduced employment in October relative to February. The following sectors have the largest decreases over that eight-month period: transportation equipment (down 136,300, with motor vehicles and parts down 85,400), fabricated metal products (down 84,200), machinery (down 55,500) and printing and related support services (down 50,000).

Meanwhile, the U.S. economy added 638,000 workers in October, slowing slightly from the gain of 672,000 in September but expanding for the sixth straight month. There continue to be 10,090,000 fewer nonfarm payrolls today than in February. The unemployment rate dropped from 7.9% in September to 6.9% in October, with the number of unemployed workers falling from 12,580,000 to 11,061,000. 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—declined from 12.8% to 12.1%. The labor force participation rate rose from 61.4% to 61.7%. For comparison purposes, the participation rate registered 63.3% one year ago.

Moreover, the percentage of the unemployed suggesting that they lost their job permanently pulled back from 3,756,000 in September, the highest since May 2013, to 3,684,000 in October. Overall, the data continue to suggest that the labor market remains highly challenged and elevated, even as the unemployment rate improved to the best reading since February.

- **Construction Spending:** Private manufacturing construction spending fell 2.1% from $73.43 billion in August to $71.92 billion in September, a five-month low. On a year-over-year basis, private construction spending among manufacturers has decreased 10.0% from $79.89 billion in September 2019. Total private nonresidential spending declined 1.5% in September and 6.0% over the past 12 months.

  Overall, total private construction spending increased 0.9% in September, rising for the fourth straight month, with 2.4% growth since last year. The data were buoyed by strength in the private residential construction market, which rose 2.8% in September. Single-family and multifamily construction increased 5.7% and 1.2% for the month, respectively, with year-over-gains of 8.2% and 13.1%. Meanwhile, public construction spending decreased 1.7% in September, with 1.3% less than one year earlier.

- **Factory Orders and Shipments:** New orders for manufactured goods rose 1.1% in September, increasing for the fifth straight month. Durable and nondurable goods sales increased 1.9% and 0.3% in September, respectively. Excluding transportation equipment, new durable goods orders rose 0.9% for the month. The manufacturing sector continues to recover from the severe COVID-19 disruptions in March and April, but the overall pace of new orders remains below the pre-pandemic pace. On a year-over-year basis, new orders in the manufacturing sector have fallen 3.9% since September 2019. With transportation equipment excluded, factory sales have fallen 3.0% year-over-year.

  Encouragingly, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—rose 1.0% in September. More importantly, core capital goods orders have risen 4.5% over the past 12 months.

  Meanwhile, factory shipments increased 0.3% in September. Durable and nondurable goods shipments rose 0.4% and 0.3% for the month, respectively. Since September 2019, manufactured goods shipments have decreased 3.3%. At the same time, core capital goods shipments have risen 2.7% year-over-year.

- **FOMC Monetary Policy Statement:** The Federal Open Market Committee left the target federal funds rate range from zero to 25 basis points for the foreseeable future. In addition, the Federal Reserve will continue purchasing Treasury securities and mortgage-backed assets "to sustain smooth market functioning and help foster accommodative financial conditions." These highly accommodative monetary policies are necessary "to support the U.S. economy in this challenging time," the FOMC says. While the economy has reflected progress since the spring, activity remains well below pre-pandemic levels, and uncertainties in the outlook will persist as long as COVID-19 is an ongoing challenge.

- **International Trade Report:** The U.S. trade deficit pulled back from the highest level since August 2006, decreasing from $67.04 billion in August to $63.86 billion in September. Goods exports increased from $119.08 billion to $122.78 billion, the best reading since March. That was enough to outpace the rise in goods imports, which edged up from $202.90 billion to $203.47 billion, the highest since December. More importantly, the goods trade deficit declined from $83.83 billion, which was a record, to $80.69 billion. In addition, the service-sector trade surplus inched up from $16.79 billion, the lowest level since January 2012, to $16.82 billion. For comparison, the service-sector trade surplus registered $24.30 billion at the end of last year, reflecting the weaker environment today versus before the pandemic.

  In September, goods exports were buoyed by strong gains for foods, feeds and beverages (up $1.62 billion, primarily from soybeans, up $1.38 billion) and non-automotive capital goods (up $1.37 billion). At the same time, increased goods imports for automotive goods (up $3.18 billion) and non-automotive capital goods (up $835 million) were enough to offset declines for consumer goods (down $2.06 billion) and industrial supplies and materials (down $1.32 billion).

According to the latest update from TradeStats Express, U.S.-manufactured goods exports totaled $857.65 billion through the first three quarters of 2020, using seasonally adjusted data, dropping 16.32% from $1,024.86 billion year to date in 2019 and the slowest pace since 2010.

- **ISM® Manufacturing Purchasing Managers' Index®:** The Institute for Supply Management® reported that the manufacturing sector expanded in October at the fastest pace since September 2018, with the sector continuing to rebound from COVID-19-related weaknesses in the spring. The headline index increased from 55.4 in September to 59.3 in October, buoyed by robust growth in new orders (up from 60.2 to 67.9—the highest since January 2004) and production (up from 61.0 to 63.0). Employment (up from 49.6 to 53.2) rose for the first time since July 2019, and inventories (up from 47.1 to 51.9) increased following three months of declines. On the trade front, both exports (up from 54.3 to 55.7) and imports (up from 54.0 to 58.1) rose in October, rising at rates not seen in at least two years.

  Overall, it was the fifth consecutive monthly increase in manufacturing activity, according to survey respondents. Manufacturers continued to cite improvements in demand and output growth. Some had already reached pre-COVID-19 levels, while others had not.

  With that said, there are also hints at lingering supply chain disruptions despite solid progress since April in these data. Indeed, the index for supplier deliveries (up from 59.0 to 60.5) noted slower delivery times in October. Timothy Fiore, chair of the ISM® Manufacturing Business Survey Committee, suggested, "Transportation challenges and continuing challenges in supplier labor markets are still constraining production growth. The Supplier Deliveries Index reflects the difficulties suppliers continue to experience due to COVID-19 impacts amid expanding new orders and production. Supplier constraints are not expected to diminish soon and represent a continuing hurdle to production output and inventories growth."

- **Productivity and Costs:** Manufacturing labor productivity jumped 19.0% at the annual rate in the third quarter, the largest quarterly increase on record since the data series began in 1987. Of course, it followed the biggest quarterly decline in the history of the series, with labor productivity plummeting 14.3% in the second quarter on the economic impacts of COVID-19. Output in the sector fell 5.5% and 46.7% in the first and second quarters, respectively, but rose 54.8% in the third quarter. Likewise, the number of hours worked also rebounded, up 30.1% in the third quarter after dropping by 7.0% and 37.8% in the prior two quarters, respectively.

  Labor productivity in the third quarter for durable and nondurable goods manufacturers rose 44.2% and 1.2%, respectively, while output soared 96.0%

and 22.7%.

Meanwhile, nonfarm business labor productivity rose an annualized 4.9% in the third quarter, extending the 10.6% gain in the second quarter, which was the best reading since the first quarter of 1971. With that said, output increased 43.5% in the third quarter following declines of 6.4% and 36.8% (a record, dating back to 1947) in the first and second quarters, respectively. Hours worked also bounced back from sharp declines in the previous two quarters.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 751,000 for the week ending Oct. 31, edging down from 758,000 for the week ending Oct. 24. Initial claims have averaged 781,800 over the past five weeks, with significant progress since peaking at 6,867,000 for the week ending March 28. Yet, initial claims remain elevated, illustrating continuing pain in the labor market. For comparison purposes, initial claims peaked during the Great Recession at 665,000 for the week ending March 28, 2009.

  Meanwhile, continuing claims declined from 7,823,000 for the week ending Oct. 17 to 7,285,000 for the week ending Oct. 24. This was consistent with 5.0% of the workforce, down from 5.3% in the previous report. Nonetheless, 21,508,662 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Oct. 17, down from 22,661,516 for the week ending Oct. 10.

Take Action

Feedback Needed: How Will 5G Technologies Impact Your Business?
The Manufacturing Institute—the workforce development and education partner of the NAM—is conducting research to learn how 5G technologies will impact manufacturers' operations and workforce. Please take a moment to fill out this survey. All responses are anonymous and due by **Friday, Nov. 13, at 5:00 p.m. EST.** The MI will release the findings from the research in the coming months.