MONDAY ECONOMIC REPORT

Labor Force Participation Rose to Post-Pandemic High in February

By Chad Moutray – March 13, 2023

The Weekly Toplines

- Manufacturing employment declined by 4,000 in February, decreasing for the first time since April 2021. Despite pulling back slightly, manufacturing employment has risen sharply over the past few years, remaining shy of January's reading, which was the best since November 2008.
- The average hourly earnings of production and nonsupervisory workers in manufacturing edged down 0.1% to $25.80 in February, but with 5.0% growth over the past 12 months.
- Nonfarm payroll employment rose by a solid 311,000 in February. The labor force participation rate inched up to 62.5% in February, its best rate since March 2020 but remaining below pre-pandemic readings. The unemployment rate increased from 3.4% in January, the lowest rate since November 2008, to 3.6% in February.
- There were 803,000 manufacturing job openings in January, averaging 844,750 in the sector over the past 12 months. Net hiring among manufacturers has averaged a healthy 32,500 per month over the past 12 months.
- In the larger economy, there were 10,824,000 nonfarm business job openings in January, remaining quite elevated. Meanwhile, there were 5,694,000 unemployed Americans in January, which translated into 52.6 unemployed workers for every 100 job openings in the U.S. economy. As such, there continued to be more job openings than people actively looking for work.
- New orders for manufactured goods have continued to seesaw, falling 1.6% in January largely on volatility with nondefense aircraft and parts orders. New factory orders excluding transportation rose 1.2% in January. In addition, new orders for core capital goods—a proxy for capital spending in the U.S. economy—rose 0.8% in January to a level not far from August's record.
- There were decent rebounds in demand in January in most manufacturing sectors, but it is also clear that manufacturing activity has stalled since the summer. While new factory orders have increased 4.3% over the past 12 months, sales have fallen 2.1% since June.
- The U.S. trade deficit rose to $68.29 billion in January, largely on services. At the same time, the increase in goods exports slightly outpaced the rise in goods imports.

As a result, the goods trade deficit edged down from $90.71 billion to $90.09 billion. Goods exports and imports increased across the board.

- Meanwhile, Federal Reserve Chair Jerome H. Powell spooked financial markets with his semiannual testimony to Congress. He said:

  "…the latest economic data have come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated. If the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes. Restoring price stability will likely require that we maintain a restrictive stance of monetary policy for some time."

- As a result of Chair Powell's remarks, market participants and analysts have increased their assessments of future Federal Reserve actions. The Federal Open Market Committee, which was seen as hiking the federal funds rate by 25 basis points at the upcoming March 21–22 meeting before the speech, could now opt for a 50-basis-point increase instead as it seeks to get ahead of inflationary pressures in the economy.

Labor Force Participation Rate, January 2000 – February 2023

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, March 6
Factory Orders and Shipments

Tuesday, March 7

This Week's Indicators:

Monday, March 13
State Employment Report

Tuesday, March 14
Consumer Price Index

Consumer Credit

Wednesday, March 8
ADP National Employment Report
International Trade Report
Job Openings and Labor Turnover Survey

Thursday, March 9
Weekly Initial Unemployment Claims

Friday, March 10
BLS National Employment Report

NFIB Small Business Survey

Wednesday, March 15
NAHB Housing Market Index
New York Fed Manufacturing Survey
Producer Price Index
Retail Sales

Thursday, March 16
Housing Starts and Permits
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, March 17
Conference Board Leading Indicators
Industrial Production
University of Michigan Consumer Sentiment

Deeper Dive

- **ADP National Employment Report**: Total private employment increased by 242,000 in February, up from just 119,000 in January, according to the ADP Research Institute and the Stanford Digital Economy Lab. Employment in the manufacturing sector rose by 43,000 in February, building on the gain of 29,000 in January and the strongest increase in 12 months, according to ADP estimates.

  In addition to manufacturing, strong employment gains in February occurred in leisure and hospitality (up 83,000), financial activities (up 62,000), education and health services (up 35,000), other services (up 34,000) and natural resources and mining (up 25,000), among others. In contrast, hiring declined for professional and business services (down 36,000) and construction (down 16,000). Small establishments with fewer than 50 employees lost 61,000 workers in February, with net job growth in medium-sized and large businesses rising by 308,000 for the month.

- **BLS National Employment Report**: Manufacturing employment declined by 4,000 in February, decreasing for the first time since April 2021. Hiring in the nondurable goods sector also fell by 4,000 in February, with durable goods hiring flat for the month. Despite pulling back slightly, manufacturing employment has risen sharply over the past few years. There were 12,983,000 workers in February, just shy of January's reading, which was the best since November 2008. Moreover, manufacturers continue to cite the inability to attract and retain workers as their top concern.

  The average hourly earnings of production and nonsupervisory workers in manufacturing edged down 0.1% to $25.80 in February, but with 5.0% growth over the past 12 months. With a still-solid labor market, earnings have continued to rise at a healthy pace, even with some easing.

  Nonfarm payroll employment rose by 311,000 in February, slowing from 504,000 in January but remaining strong. The labor force participation rate inched up from

62.4% in January to 62.5% in February, its best rate since March 2020. The participation rate continues to remain below pre-pandemic readings, however. The unemployment rate increased from 3.4% in January, the lowest rate since November 2008, to 3.6% in February. As such, the labor market continues to reflect overall strength.

In February, the largest increases in manufacturing employment occurred in computer and electronic products (up 2,800), chemicals (up 2,500), miscellaneous nondurable goods manufacturing (up 1,900), nonmetallic mineral products (up 1,500), transportation equipment (up 1,300) and petroleum and coal products (up 1,000), among others. In contrast, the biggest employment declines in the sector for the month occurred in plastics and rubber products (down 4,700), furniture and related products (down 2,800), textile mills (down 1,700) and apparel (down 1,300).

On a year-over-year basis, the strongest growth over the past 12 months occurred in the following manufacturing sectors: transportation equipment (up 112,700, including 75,400 from motor vehicles and parts), food manufacturing (up 49,400), machinery (up 34,500), fabricated metal products (up 32,300), computer and electronic products (up 29,300) and chemicals (up 26,900), among others.

- **Consumer Credit:** U.S. consumer credit outstanding rose 3.7% at the annual rate in January, up from 2.7% in December but down from 9.1% in November. Revolving credit, which includes credit cards and other credit lines, grew 11.1% in January, accelerating from 6.9% growth in December. In general, Americans have continued to be willing to take on new debt, helping to buoy increased consumer spending. Indeed, revolving credit has soared 15.6% over the past 12 months. With that said, revolving credit has risen just 1.2% over the past four months, reflecting some slowing more recently.

  Meanwhile, nonrevolving credit, which includes auto and student loans, increased just 1.2% in January, edging down from 1.3% in December and well below 5.8% in November. On a year-over-year basis, nonrevolving credit has risen 5.5%. Overall, U.S. consumer credit outstanding has increased 7.9% over the past 12 months, a robust pace.

- **Factory Orders and Shipments:** New orders for manufactured goods have continued to seesaw, falling 1.6% in January after jumping by 1.7% in December. Durable goods dropped 4.5% in January, pulling back from a 5.1% gain in December, largely on volatility with nondefense aircraft and parts orders. Excluding transportation equipment, new durable goods orders rose 0.8% in January, and orders for nondurable goods increased 1.5%. As such, the underlying data were more encouraging than the headline number would suggest. Overall, new factory orders excluding transportation rose 1.2% in January.

  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 0.8% to $75.376 billion in January. This was just shy of August's record ($75.379 billion). Core capital goods orders have risen 4.4% year-over-year.

  These data provide mixed degrees of comfort. On the one hand, outside of nondefense aircraft and parts, there were decent rebounds in demand in most manufacturing sectors in January, with core capital goods spending near record levels. Yet, it is also clear that manufacturing activity has stalled since the summer. While new factory orders have increased 4.3% over the past 12 months, sales have fallen 2.1% since June.

Meanwhile, factory shipments rose 0.7% in January after declining in both November and December. Excluding transportation equipment, shipments of manufactured goods increased 1.2% for the month. At the same time, core capital goods shipments increased 1.1% to a record $75.471 billion, with 6.6% growth year-over-year. Total factory shipments rose 6.2% over the past 12 months, or 4.7% with transportation equipment excluded. Similar to the new orders data, however, shipments have declined 0.4% since June, or a decrease of 2.0% with transportation equipment excluded.

- **International Trade Report:** The U.S. trade deficit rose from $67.21 billion in December to $68.29 billion in January. The increased trade deficit largely came from a reduced service-sector trade surplus, which declined from $23.50 billion to $21.80 billion. At the same time, the increase in goods exports (up from $167.69 billion to $177.79 billion, a four-month high) slightly outpaced the rise in goods imports (up from $258.40 billion to $267.88 billion, a three-month high). As a result, the goods trade deficit edged down from $90.71 billion to $90.09 billion.

  Goods exports increased across the board, led by strength in consumer goods (up $4.08 billion), non-automotive capital goods (up $1.86 billion) and automotive vehicles, parts and engines (up $1.19 billion). Pharmaceuticals exports (up $2.75 billion) helped buoy consumer goods exports. Meanwhile, goods imports also increased, including healthy gains for consumer goods (up $4.08 billion), automotive vehicles, parts and engines (up $3.08 billion) and non-automotive capital goods (up $1.38 billion). On the imports side, the largest increases in consumer goods came from cell phones (up $1.62 billion), pharmaceuticals (up $921 million) and toys, games and sporting goods (up $782 million).

  U.S.-manufactured goods exports totaled $102.52 billion in January 2023, using non-seasonally adjusted data, up from $92.33 billion in January 2022. Likewise, manufactured goods imports were $219.36 billion in January 2023, up from $213.36 billion last year.

- **Job Openings and Labor Turnover Survey:** The January JOLTS report recorded 803,000 manufacturing job openings, edging up from 797,000 in December. There were more job openings for nondurable goods firms but fewer in the durable goods sector. Over the past 12 months, job openings in the sector have averaged 844,750, remaining well above pre-pandemic levels.

  Manufacturers hired 417,000 workers in January, up from 405,000 in December, with increased nondurable goods hiring in the latest data but somewhat softer activity for durable goods firms. Total separations rose from 384,000 to 399,000 for the month. As a result, net hiring (or hiring minus separations) totaled 18,000 in January. Overall, net hiring has averaged 32,500 over the past 12 months, a solid reading.

  In the larger economy, nonfarm business job openings slipped from 11,234,000 in December to 10,824,000 in January but remained quite elevated. Meanwhile, there were 5,694,000 unemployed Americans in January, which translated into 52.6 unemployed workers for every 100 job openings in the U.S. economy. As such, there continued to be more job openings than people actively looking for work.

  Total quits in the manufacturing sector were little changed, edging down from 263,000 in December to 260,000 in January. The number of manufacturing quits has eased since peaking at a record 339,000 in March 2022. While overall quits in the sector have cooled, there continued to be a high degree of labor market churn. At the same time, total quits in the overall economy fell from 4,091,000 to 3,884,000, the slowest pace since May 2021. Total quits in the U.S. economy peaked in November 2021 at

4,501,000, representing notable easing since then even as the pace remained well above what was seen before the pandemic.

- **Weekly Initial Unemployment Claims**: The week ending March 4 saw 211,000 initial unemployment claims, up from 190,000 for the week ending Feb. 25 and a 10-week high. In addition, the week ending Feb. 25 saw 1,718,000 continuing claims, up from 1,649,000 for the week ending Feb. 18 and also a 10-week high. Despite an uptick in the latest data, the labor market remains solid and is a bright spot in the economy.

Take Action

Webinar: Diversity, Equity & Inclusion Benchmarking in Manufacturing
As part of its commitment to support the building of diverse and equitable workplaces across the United States, the Manufacturing Institute gathered data regarding current industry DE&I policies. Manufacturers across the country were surveyed on their current practices and attitudes around DE&I topics, such as hiring, diversity-related reporting and employee resources. You are invited to attend a webinar for a deep dive into last year's results on Friday, March 24, at 12:00 p.m. EDT. Register today to find out where manufacturing stands in terms of DE&I and why it is critical the industry take proactive steps to diversify the talent pipeline and close the opportunity gap.

The Manufacturing Institute's Solution Series: Recruitment Workshop
Is your company having difficulty recruiting new talent? Join us March 29–30 in Washington, D.C., for the next workshop in the MI's Solution Series focused on one of the top issues facing manufacturers: recruitment. The MI's solutions workshop will be a results-oriented convening for an exclusive group of manufacturing leaders and will equip you with real action items you can begin to implement immediately to recruit entry-level workers. Register today as space is limited.

733 10th St NW, Suite 700, Washington, DC 20001