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

MONDAY ECONOMIC REPORT

Mixed Messages: Robust Labor Market, but Slower Manufacturing Demand

By Chad Moutray – February 6, 2023

The Weekly Toplines

- Manufacturing employment rose 19,000 in January, starting the new year by continuing the solid growth seen in the past two years. In 2022, the sector hired 396,000 workers, the most of any year since 1994. Currently, the manufacturing sector has 12,999,000 employees, the most since November 2008.

- The average hourly earnings of production and nonsupervisory workers in manufacturing rose 0.8% from $25.64 in December to $25.84 in January, up 5.3% from one year ago, continuing to be a highly elevated pace despite some easing from earlier in the year.

- Nonfarm payroll employment jumped 517,000 in January, the strongest monthly job growth since July. In addition, the unemployment rate edged down to 3.4% in January, the lowest rate since May 1969 and continuing to reflect "full employment" in the U.S. economy.

- There were 764,000 manufacturing job openings in December, averaging just more than 840,000 over the past 12 months. There continued to be more job openings than people actively looking for work. For every 100 job openings in the U.S. economy, there were just 52.0 unemployed Americans.

- Strength in the labor market will put further pressure on the Federal Reserve, which hiked its target federal funds range by 25 basis points to 4.50% to 4.75% at its Jan. 31 – Feb. 1 meeting, the smallest increase since the May 3–4, 2022, meeting.

- The Federal Open Market Committee is likely to do additional 25-basis-point rate hikes at both the March 21–22 and May 2–3 meetings before contemplating hitting the pause button on rate increases, subject to incoming data. This would bring the “terminal rate”—or the rate at which the FOMC ceases increasing rates—to at least 5.25%.

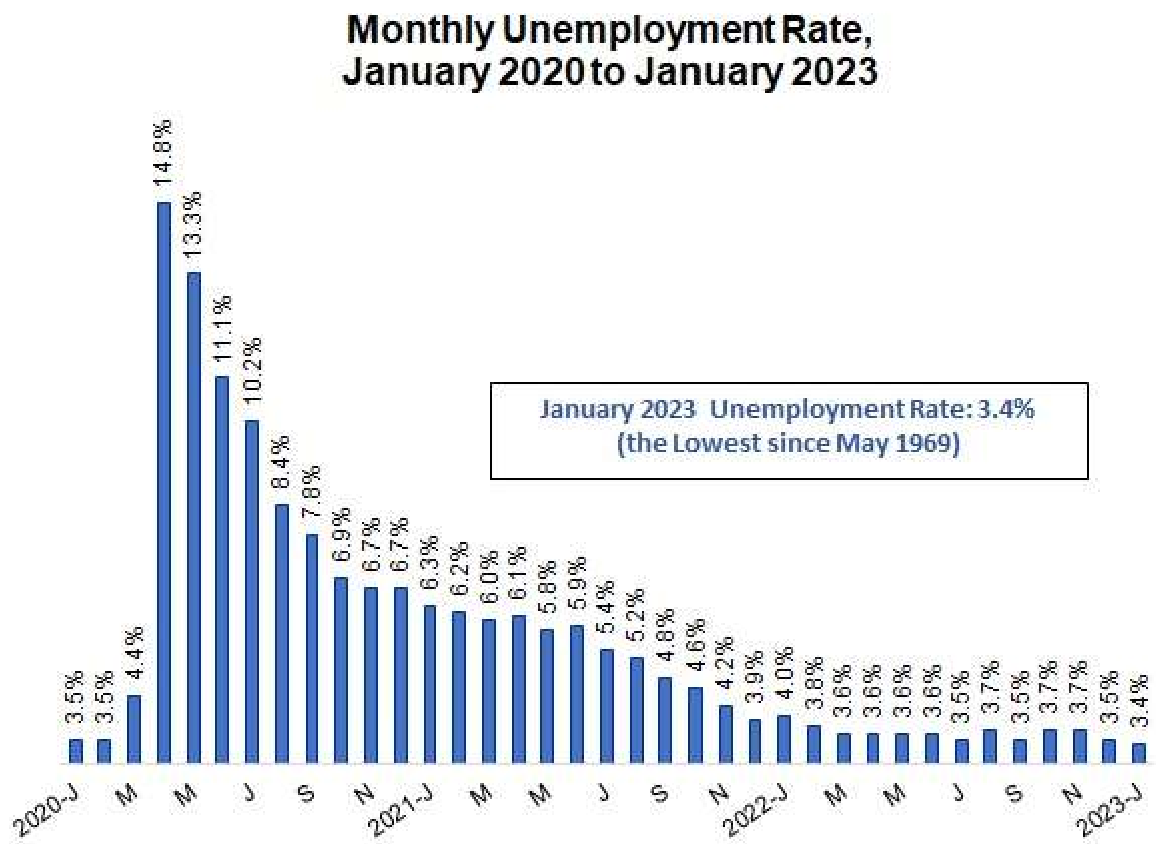
- At the same time, there are signs that manufacturing activity has slowed considerably. The ISM® Manufacturing Purchasing Managers’ Index® dropped to 47.4 in January, a post-pandemic low and contracting for the third straight month. New orders fell sharply at the start of the year amid uncertainties in the global economic outlook and lingering challenges.

- The ISM® data continued to reflect progress on supply chain challenges, with supplier deliveries rising in the past two months at rates not seen since March 2009. There were similar trends in the regional surveys in January, including the most recent from the Dallas Federal Reserve Bank, which reported declining activity for the ninth straight month.

- After falling 1.9% in the prior release, new orders for manufactured goods rose 1.8% in December, buoyed by sizable increases from defense and nondefense aircraft and parts. New factory orders excluding transportation fell 1.2% for the month, with core capital goods orders edging down 0.1%.

- These data are consistent with a manufacturing sector that weakened in the final months of the year. New factory orders soared 8.9% in the first six months of 2022 but edged down 0.3% in the second half of the year. Excluding transportation equipment, new factory orders rose 7.3% in the first half of 2022 but fell 3.5% in the second half.

- Private manufacturing construction declined 2.2% from a record $124.98 billion in November to $122.17 billion in December. Despite easing somewhat in the latest data, private construction in the sector has trended strongly higher since bottoming out at $72.46 billion in February 2021. Over the past 12 months, activity has soared 42.8%.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Jan. 30
Dallas Fed Manufacturing Survey

Tuesday, Jan. 31
Conference Board Consumer Confidence
Employment Cost Index

Wednesday, Feb. 1

This Week's Indicators:

Monday, Feb. 6
None

Tuesday, Feb. 7
Consumer Credit
Consumer Price Index
International Trade Report

Wednesday, Feb. 8

ADP National Employment Report
Construction Spending
FOMC Monetary Policy Statement
ISM® Manufacturing Purchasing Managers' Index®
Job Openings and Labor Turnover Survey

Thursday, Feb. 2
Factory Orders and Shipments
Productivity and Costs
Weekly Initial Unemployment Claims

Friday, Feb. 3
BLS National Employment Report

None

Thursday, Feb. 9
Weekly Initial Unemployment Claims

Friday, Feb. 10
University of Michigan Consumer Sentiment (Preliminary)

- Cybersecurity and data protection;
- Heightened regulatory and enforcement risk;
- Product safety and associated liability; and
- Increased unionization and skilled labor scarcity.

The choices made during this era of transition will be crucial for U.S. manufacturers. Download our Legal Insights for Manufacturing report to learn more.

Deeper Dive

- **ADP National Employment Report:** Total private employment increased by just 106,000 in January, according to the ADP Research Institute and the Stanford Digital Economy Lab, slowing from a revised 253,000 in December and the weakest monthly gain in two years. Yet, employment in the manufacturing sector rose by 19,000 and 23,000 in December and January, respectively, according to ADP estimates.

  The underlying data were mixed. In addition to manufacturing, employment gains in January included leisure and hospitality (up 95,000), financial activities (up 30,000), education and health services (up 12,000), professional and business services (up 8,000) and information (up 5,000). In contrast, hiring declined for trade, transportation and utilities (down 41,000), construction (down 24,000) and natural resources and mining (down 2,000). Small establishments with fewer than 50 employees lost 75,000 workers in January, with medium-sized and large businesses accounting for all the net job growth for the month.

- **BLS National Employment Report:** Manufacturing employment rose 19,000 in January, starting the new year by continuing the solid growth seen in the past two years. Hiring in the durable and nondurable goods sectors increased 4,000 and 15,000 in January, respectively. In 2022, the sector hired 396,000 workers, building on the 385,000 workers added in 2021 and the most of any year since 1994. Cumulative growth in manufacturing employment in 2021 and 2022 was the best since 1983 and 1984. Currently, the manufacturing sector has 12,999,000 employees, the most since November 2008.

  The labor market remained a bright spot in the economy, with manufacturers citing the inability to attract and retain workers at their top concern. The average hourly earnings of production and nonsupervisory workers in manufacturing rose 0.8% from $25.64 in December to $25.84 in January, up 5.3% from one year ago, continuing to be a highly elevated pace despite some easing from earlier in the year.

Meanwhile, nonfarm payroll employment jumped 517,000 in January, the strongest monthly job growth since July. In addition, the unemployment rate edged down from 3.5% in December to 3.4% in January, the lowest rate since May 1969 and continuing to reflect “full employment” in the U.S. economy. The participation rate inched up from 62.3% to 62.4% but remained below pre-pandemic levels, with 63.4% in February 2020. The “real unemployment rate”—a term that refers to those marginally attached to the workforce, including discouraged workers and the underemployed—ticked up from 6.5% to 6.6% but remained historically low.

In January, the largest increases in manufacturing employment occurred in food manufacturing (up 6,900), miscellaneous nondurable goods (up 5,000), nonmetallic mineral products (up 4,200), fabricated metal products (up 3,100), apparel (up 2,100) and machinery (up 2,000). In contrast, the following sectors had declining employment in January: chemicals (down 3,500), computers and electronic products (down 700), furniture and related products (down 500) and primary metals (down 400). Hiring at petroleum and coal products firms was flat for the month.

On a year-over-year basis, the strongest growth over the past 12 months occurred in the following manufacturing sectors: transportation equipment (up 87,700, including 49,400 from motor vehicles and parts), food manufacturing (up 65,300), machinery (up 46,700), fabricated metal products (up 46,400), computer and electronic products (up 30,700), chemicals (up 27,700), nonmetallic mineral products (up 25,000) and miscellaneous nondurable goods (up 24,900), among others.

- **Conference Board Consumer Confidence:** Consumer confidence pulled back somewhat at the beginning of 2023 after rising to an 11-month high at year’s end in 2022, according to the Conference Board, with the headline index dropping from 109.0 in December to 107.1 in January. Americans felt more upbeat in their assessments of the current economy, but the decline in overall confidence stemmed from increased uncertainties surrounding the economic outlook.

  The percentage of respondents suggesting that business conditions were “good” rose from 19.2% to 20.2%, while the percentage feeling that conditions were “bad” decreased from 19.7% to 19.2%. At the same time, the percentage of respondents suggesting jobs were “plentiful” increased from 46.4% to 48.2%, while those saying jobs were “hard to get” edged down from 11.9% to 11.3%.

  Regarding the outlook, the percentage of consumers anticipating better business conditions over the next six months decreased from 20.9% to 18.6%, while those predicting a worsening of conditions rose from 19.9% to 21.6%. Meanwhile, the percentage of respondents expecting more jobs in the next six months fell from 20.0% to 17.9%, while those expecting fewer jobs increased from 18.7% to 20.1%. In addition, 17.2% of consumers predicted higher incomes in the months ahead, inching down from 17.3%, while the percentage anticipating reduced incomes was little changed from 13.3% to 13.4%.

- **Construction Spending:** Private manufacturing construction declined 2.2% from a record $124.98 billion in November to $122.17 billion in December. Despite easing somewhat in the latest data, private construction in the sector has trended strongly higher since bottoming out at $72.46 billion in February 2021. Over the past 12 months, activity has soared 42.8%. As such, these data continue to speak to the resilience of the manufacturing sector, even with slowing global growth and lingering challenges. Higher costs have likely also impacted these figures, which are in nominal terms.

  Total private nonresidential construction spending decreased 0.5% in December, but with activity rising 15.0% over the past 12 months. In December, total private construction spending was of 0.4%, with private residential construction down 0.3% for the month. Private single-family construction dropped 2.3% in December, but new multifamily activity increased 3.2%. On a year-over-year basis, total private construction has risen 6.6% since December 2021, with private residential activity up 1.7%. Yet, private single-family residential construction has declined 14.7% over the past 12 months.

  Meanwhile, public construction spending decreased 0.4% in December, but with activity up 11.7% year-over-year.

- **Dallas Fed Manufacturing Survey:** Manufacturing activity declined for the ninth straight month, albeit with the composite index of general business conditions rising from -20.0 in December to -8.4 in January. The underlying data were mixed. The rate of decline for new orders slowed in January. Production growth stalled, with capacity utilization softening for the month as well. Shipments contracted for the month. On the other hand, capital expenditures rebounded, and employment and wages remained strong overall. Raw material costs continued to rise solidly, but at the weakest pace since July 2020. The sample comments focused on weaker business conditions and uncertainty in the economic outlook.

  Looking ahead, manufacturers in the Texas district remained negative in their assessments of the economic outlook for the next six months, but with the forward-looking composite measure edging up from -9.6 to -9.1. Yet, many of the key future-oriented indicators improved for the month, with cautious optimism for growth moving forward. Indeed, the forward-looking index for one's company outlook rebounded in January.

- **Employment Cost Index**: Private manufacturing wages and salaries rose 1.0% in the fourth quarter of 2022, easing from the 1.3% gain in the third quarter and continuing to increase solidly. That increase translated into 5.1% growth over the past 12 months, edging down from 5.2% year-over-year in the third quarter, which was the fastest pace in the history of the data series (which dates to the beginning of 2001). For all private-sector employees, wages and salaries also increased 1.0% in the fourth quarter, with 5.1% growth year-over-year. This was down for the second straight release from the record 5.7% year-over-year pace in the second quarter.

  Benefits costs for manufacturing employees rose 0.6% in the fourth quarter, up from just 0.1% in the third quarter. On a year-over-year basis, benefits have risen 3.8%. Overall, total manufacturing compensation increased 0.8% for the fourth quarter, or 4.7% year-over-year. Manufacturing compensation costs were a record 5.1% year-over-year in the second quarter, suggesting slight moderation since then but remaining at an elevated pace.

- **Factory Orders and Shipments**: After falling 1.9% in the prior release, new orders for manufactured goods rose 1.8% from $542.5 billion in November to $552.5 billion in December. Durable goods orders jumped 5.6% in December, buoyed by sizable increases from defense and nondefense aircraft and parts, which can be highly volatile from month to month. Excluding transportation equipment, new durable goods orders fell 0.2% in December, and orders for nondurable goods declined 1.9%. Overall, new factory orders excluding transportation fell 1.2% from $450.0 billion to $444.5 billion.

  In addition, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—edged down 0.1% from $74.92 billion to $74.85 billion. Despite some easing, this remains not far from August's record ($75.38 billion). Core capital goods orders have risen 5.1% year-over-year.

  These data are consistent with a manufacturing sector that weakened in the final months of the year amid an uncertain and slowing economic outlook. New factory orders soared 8.9% in the first six months of 2022 but edged down 0.3% in the second half of the year. Excluding transportation equipment, new factory orders rose 7.3% in the first half of 2022 but fell 3.5% in the second half.

  Meanwhile, factory shipments decreased 0.7% from $547.3 billion to $543.3 billion. At the same time, core capital goods shipments fell 0.6% from $75.1 billion to $74.6 billion, with 7.4% growth year-over-year. Similar to new orders, factory shipments increased 8.3% in the first half of 2022, but activity fell 1.3% in the second half. Excluding transportation equipment, shipments of manufactured goods rose 8.4% in the first half of 2022 but fell 3.3% in the second half.

- **FOMC Monetary Policy Statement**: The Federal Open Market Committee hiked its target federal funds range by 25 basis points to 4.50% to 4.75% at its Jan. 31 – Feb. 1 meeting, the smallest increase since the May 3–4, 2022, meeting. As such, the Federal Reserve has stepped back somewhat from the 50-basis-point and 75-basis-point rate hikes that have dominated the past five meetings. The FOMC is likely to do additional 25-basis-point rate hikes at both the March 21–22 and May 2–3 meetings before contemplating hitting the pause button on rate increases, subject to incoming data. This would bring the upper bound of the “terminal rate” to at least 5.25%.

  Monetary policymakers cited the moderating of inflationary pressures as justification for easing its rate hikes, but prices continue to be elevated, necessitating continued action. The Federal Reserve would like to see core inflation return to its 2% target over the long term, and it will be looking for continued deceleration in pricing and wage pressures before lowering rates.

- **ISM® Manufacturing Purchasing Managers’ Index®**: Manufacturing activity contracted for the third straight month, with the ISM® Manufacturing Purchasing Managers’ Index® dropping from 48.4 in December to 47.4 in January, a post-pandemic low. New orders (down from 45.1 to 42.5) fell sharply at the start of the year, declining for the fifth consecutive month amid uncertainties in the global economic outlook and lingering challenges. Production (down from 48.6 to 48.0) also weakened further in January, but exports (up from 46.2 to 49.4) decreased at a slower pace. Hiring (down from 50.8 to 50.6) expanded slightly for the second straight month, easing marginally in the latest survey.

  In addition, prices (up from 39.4 to 44.5) improved in January after falling at the fastest pace since April 2020 in December but remained negative for the fourth consecutive month. The data continued to reflect progress on supply chain challenges, with supplier deliveries rising in the past two months at rates not seen since March 2009.

- **Job Openings and Labor Turnover Survey**: The December JOLTS report recorded 764,000 manufacturing job openings, down from 803,000 in November, with reduced postings for both durable and nondurable goods firms. Over the past 12 months, job openings in the sector have averaged just more than 840,000, remaining well above pre-pandemic levels.

Manufacturers hired 405,000 workers in both November and December, with increased durable goods hiring in the latest data but somewhat softer activity for nondurable goods firms. Total separations decreased from 400,000 to 386,000 for the month. As a result, net hiring (or hiring minus separations) totaled 19,000 in December. Overall, net hiring has averaged 26,500 over the past 12 months, a solid reading.

In the larger economy, nonfarm business job openings rose from 10,440,000 in November to 11,012,000 in December, a five-month high and at a pace that remains quite elevated. Meanwhile, there were 5,722,000 unemployed Americans in December, which translated into 52.0 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 269,000 in November to 258,000 in December. The number of manufacturing quits has eased since peaking at a record 362,000 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 slipped from 4,102,000 to 4,087,000. Total quits in the U.S. economy peaked in November 2021 at 4,510,000, representing some easing over the past year even as the pace remained well above what was seen before the pandemic.

- **Productivity and Costs**: Manufacturing labor productivity fell 1.5% at the annual rate in the fourth quarter, extending the 3.5% decline in the third quarter. Output in the sector decreased 0.2% and 2.6% in the third and fourth quarters, respectively. At the same time, the number of hours worked slipped 1.1% in the fourth quarter, with hourly compensation up 3.2%. Unit labor costs among manufacturers rose 4.8%. On an annual basis, labor productivity in the manufacturing sector declined 0.9% in 2022, off from 2.7% in 2021 and the weakest since 2019.

  Labor productivity for durable goods decreased 1.7% in the fourth quarter, building on the 5.0% decline in the third quarter, with output down 2.9%. The number of hours worked pulled back 1.2%, with hourly compensation increasing 2.4% and unit labor costs rising 4.1% in the fourth quarter. In contrast, labor productivity for nondurable goods fell 1.4% in the fourth quarter, with output down 2.3%. The number of hours worked fell 0.9%, with hourly compensation up 5.0%. Unit labor costs for nondurable goods manufacturers increased 6.5%.

  Meanwhile, nonfarm business labor productivity increased 3.0% at the annual rate in the fourth quarter, extending the 1.4% gain in the third quarter. Output rose 3.5% in the fourth quarter, with hours worked and hourly compensation up 0.5% and 4.1%, respectively. Unit labor costs increased 1.1% for the quarter. On an annual basis, nonfarm business labor productivity dropped 1.1% in 2022, pulling back from 2.4% growth in 2021 and the first decline in annual productivity since 2011.

- **Weekly Initial Unemployment Claims:** The week ending Jan. 28 saw 183,000 initial unemployment claims, edging down from 186,000 for the week ending Jan. 21 and the lowest reading since mid-April. In addition, the week ending Jan. 21 saw 1,655,000 continuing claims, down from 1,666,000 for the week ending Jan. 14. As such, the labor market remained a bright spot in the economy.

Take Action

Register Today

Please join the NAM on Tuesday, Feb. 14, at 2:00 p.m. EST for a continuation of the NAM's Executive Insights Series, an interactive discussion with two leading manufacturing executives:

- Lawrence Kurzius, chairman, president and CEO of McCormick & Company, Inc., and NAM Executive Committee member
- Mark Rayfield, CEO of Saint-Gobain North America and CertainTeed and NAM Board member

Salesforce Senior Vice President of Manufacturing, Automotive and Energy and NAM Board member Cindy Bolt will moderate with NAM President and CEO Jay Timmons. Click here to register.

Thank you for subscribing to the **NAM's Monday Economic Report.**

If you're part of an NAM member company and not yet subscribed, email us. If you're not an NAM member, become one today!