# MONDAY ECONOMIC REPORT

## Q4 NAM Outlook Survey: More Predict Recession as Optimism Falls

By Chad Moutray – January 9, 2023

The Weekly Toplines

- In the Q4 2022 NAM Manufacturers’ Outlook Survey, 68.9% of respondents felt either somewhat or very positive in their company outlook, down from 75.6% in the third quarter. It was the weakest reading since the third quarter of 2020, with growth slowing notably across the board. Indeed, it was the first reading below the historical average (75.1%) in two years.

- In addition, 62.4% of manufacturing leaders believed that the U.S. economy would slip officially into a recession in 2023, if it has not already. Despite worries about a downturn, manufacturers plan to continue to invest in their companies, which is encouraging.

- Attracting and retaining a quality workforce returned to being the number-one primary business challenge in the fourth quarter, cited by 75.7% of respondents. This was followed by supply chain challenges (65.7%), increased raw material costs (60.7%), transportation and logistics costs (50.0%), rising health care and insurance costs (47.9%) and a weaker domestic economy (47.6%), among other challenges.

- Manufacturing activity contracted for the second straight month, with the ISM® Manufacturing Purchasing Managers’ Index® dropping from 49.0 in November to 48.4 in December. Production contracted for the first time since May 2020, with new orders and exports deteriorating further to post-pandemic lows. Yet, hiring improved for the month, and the data suggested progress regarding prices and supply chain bottlenecks.

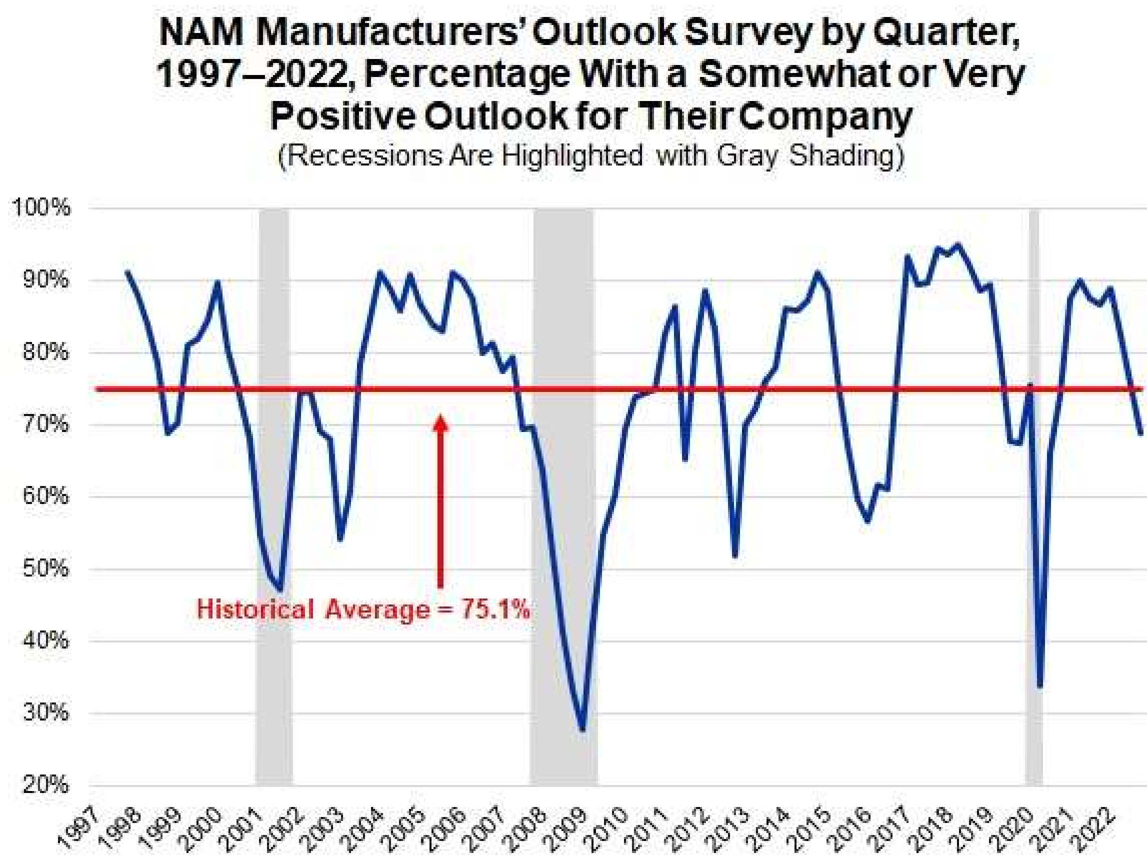
- New orders for manufactured goods fell 1.8% in November, or a decline of 0.8% with transportation equipment excluded. New core capital goods orders—a proxy for capital spending in the U.S. economy—edged up 0.1% to a level that was shy of August’s record.

- The factory orders data are consistent with a manufacturing sector that has stalled in the second half of 2022 following sizable gains in the prior months amid numerous challenges and an uncertain economic and geopolitical outlook. Yet, activity remains not far from new record levels, albeit in nominal terms.

- Private manufacturing construction jumped 6.5% to a record $125.13 billion at the annual rate in November. 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 43.2%.

- Meanwhile, manufacturing employment increased by 8,000 in December. Despite some cooling toward the end of the year, the labor market remained a bright spot in the economy. In 2022, the sector hired 379,000 workers, the most of any year since 1994. Currently, the manufacturing sector has 12,934,000 employees, the most since November 2008.

- The average hourly earnings of production and nonsupervisory workers in manufacturing rose 0.3% from $25.54 in November to $25.61 in December, up 5.0% from one year ago, continuing to be a highly elevated pace despite some easing from earlier in the year.
- There were 779,000 manufacturing job openings in November, averaging nearly 837,000 over the past 12 months and remaining well above pre-pandemic levels.
- In the larger economy, nonfarm business job openings cooled to 10,458,000 in November, a pace that remains quite elevated. For every 100 job openings in the U.S. economy, there were just 57.5 unemployed workers. As such, there continued to be more job openings than people actively looking for work.
- Finally, the U.S. trade deficit fell to $61.51 billion in November, its lowest level since September 2020, with the reduction in goods imports more than outpacing the decline in goods exports. At the same time, the service-sector trade surplus rose to its highest level since February 2021.




Economic Indicators

**This Week's Indicators:**

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*(Summaries Appear Below)*

**Monday, Jan. 2**
*None*

**Tuesday, Jan. 3**
*Construction Spending*

**Wednesday, Jan. 4**
*ISM® Manufacturing Purchasing Managers' Index®*
*Job Openings and Labor Turnover Survey*

**Thursday, Jan. 5**
*ADP National Employment Report*
*International Trade Report*
*NAM Manufacturers' Outlook Survey*
*Weekly Initial Unemployment Claims*

**Friday, Jan. 6**
*BLS National Employment Report*
*Factory Orders and Shipments*

**Monday, Jan. 9**
*Chicago Fed National Activity Index*

**Tuesday, Jan. 10**
*NFIB Small Business Survey*

**Wednesday, Jan. 11**
*None*

**Thursday, Jan. 12**
*Consumer Price Index*
*Philadelphia Fed Manufacturing Survey*
*Weekly Initial Unemployment Claims*

**Friday, Jan. 13**
*University of Michigan Consumer Sentiment*

Click here to get the guide.

Deeper Dive

- **ADP National Employment Report:** Total private employment increased by 235,000 in December, according to the ADP Research Institute and the Stanford Digital Economy Lab. Employment in the manufacturing sector declined by 5,000 in December in ADP estimates. Small and medium-sized enterprises accounted for all the net new job gains in December, adding 386,000 workers, with large establishments losing 151,000 workers.

  The underlying data were mixed. Employment gains in December included leisure and hospitality (up 123,000), professional and business services (up 52,000), education and health services (up 42,000), construction (up 41,000) and other services (up 31,000), among others. In addition to manufacturing, other sectors with decreased net hiring for the month included trade, transportation and utilities (down 24,000), natural resources and mining (down 14,000) and financial activities (down 12,000).

- **BLS National Employment Report:** Manufacturing employment increased by 8,000 for the second straight month in December. Hiring in the durable goods sector rose by 24,000 in December, but that was partially offset by a decline in nondurable goods employment by 16,000. Despite some cooling toward the end of the year, the labor market remained a bright spot in the economy. In 2022, the sector hired 379,000 workers, building on the 365,000 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 12,934,000 employees, the most since November 2008.

  The average hourly earnings of production and nonsupervisory workers in manufacturing rose 0.3% from $25.54 in November to $25.61 in December, up 5.0% from one year ago, continuing to be a highly elevated pace despite some easing from earlier in the year. For their part, manufacturers continued to cite difficulties in attracting and retaining workers, which was the top challenge in the latest NAM Manufacturers' Outlook Survey (see below).

  Meanwhile, nonfarm payroll employment increased by 223,000 in December, easing from 256,000 in November and remaining a solid figure. The U.S. economy added a healthy 4,503,000 net new employees in 2022.

  The unemployment rate dropped from 3.7% in November to 3.5% in December, with the labor market continuing to reflect "full employment" in the U.S. economy. The participation rate inched up from 62.2% to 62.3% 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—edged down from 6.7% to 6.5%, a new record low for the series dating to January 1994.

  In December, the largest increases in manufacturing employment occurred in transportation equipment (up 15,200, including 7,400 from motor vehicles and parts), nonmetallic mineral products (up 4,500), food manufacturing (up 3,300), machinery (up 3,300) and fabricated metal products (up 2,900). In contrast, sectors with declining employment in December included chemicals (down 5,700), petroleum and coal products (down 3,300), furniture and related products (down 3,200), miscellaneous nondurable goods (down 2,900) and apparel (down 2,300).

In 2022, employment increased in all but five of the major manufacturing sectors. The strongest hiring growth over the past 12 months occurred in the following manufacturing sectors: transportation equipment (up 90,800, including 54,200 from motor vehicles and parts), food manufacturing (up 59,100), fabricated metal products (up 43,900), machinery (up 41,000), chemicals (up 31,000) and computer and electronic products (up 30,200).

- **Construction Spending:** Private manufacturing construction jumped 6.5% from $117.46 billion at the annual rate in October to a record $125.13 billion in November. 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 43.2%. As such, these data continued 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 increased 1.7% in November, with activity rising 12.6% over the past 12 months. In November, total private construction spending edged up 0.3%, with private residential construction down 0.5% for the month. Private single-family construction dropped 2.9% in November, but new multifamily activity increased 2.4%. On a year-over-year basis, total private construction has risen 8.1% since November 2021, with private residential activity up 5.3%. Yet, private single-family residential construction has declined 10.2% over the past 12 months.

  Meanwhile, public construction spending inched down 0.1% in November, with activity up 10.4% year-over-year.

- **Factory Orders and Shipments:** New orders for manufactured goods fell 1.8% from $553.14 billion in October to $543.30 billion in November. Durable and nondurable goods orders decreased 2.1% and 1.4%, respectively. November's report included sizable decreases in defense and nondefense aircraft and parts orders, which can be highly volatile from month to month. Indeed, durable goods orders excluding transportation edged up 0.1% in November. Overall, new factory orders excluding transportation declined 0.8% from $455.69 billion to $451.97 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 up 0.1% from $75.06 billion to $75.12 billion, which was shy of August's record ($75.38 billion).

  These data are consistent with a manufacturing sector that has stalled in the second half of 2022 following sizable gains in the prior months amid numerous challenges and an uncertain economic and geopolitical outlook. Yet, activity remains not far from new record levels, albeit in nominal terms. Overall, new orders for manufactured goods have risen 7.3% over the past 12 months, or 6.2% year-over-year with transportation equipment excluded. Core capital goods orders have risen 5.6% year-over-year.

  Meanwhile, factory shipments decreased 0.6% from a record $552.06 billion to $548.63 billion. Excluding transportation equipment, manufactured goods shipments fell 0.9% from a record $460.96 billion to $456.83 billion. At the same time, core capital goods shipments slipped 0.1% from the all-time high of $75.16 billion to $75.10 billion. On a year-to-date basis, factory shipments have risen 8.5%, or 6.9% with transportation equipment excluded. Shipments of core capital goods have increased 9.4% over the past 12 months.

- **International Trade Report:** The U.S. trade deficit fell from $77.85 billion in October to $61.51 billion in November, its lowest level since September 2020. These data have been skewed year to date by supply chain disruptions, slowing global growth and swings in U.S. dollar strength and petroleum prices.

  The decreased trade deficit stemmed from a reduction in goods imports (down from $275.56 billion to $254.87 billion, a 13-month low) that was enough to offset the decline in goods exports (down from $176.16 billion to $170.82 billion, an eight-month low). As a result, the goods trade deficit dropped from $99.40 billion to $84.05 billion, the smallest reading since December 2020. At the same time, the service-sector trade surplus increased from $21.55 billion to $22.54 billion, the highest since February 2021.

  Reduced activity for industrial supplies and materials (down $3.61 billion), non-automotive capital goods (down $1.26 billion) and foods, feeds and beverages (down $596 million) pulled goods exports lower in November, including reduced activity for civilian aircraft, computers, energy products, meat and poultry, soybeans and telecommunications equipment. In contrast, exports of consumer goods (up $871 million) and automotive vehicles, parts and engines (up $261 million) were both higher, buoyed by solid gains for pharmaceuticals and trucks, buses and special purpose vehicles.

  Meanwhile, goods imports decreased across the board. Sharp declines in imports for cell phones and pharmaceuticals pulled consumer goods down by $8.78 billion in November, with sizable decreases also seen for industrial supplies and materials (down $3.71 billion), automotive vehicles, parts and engines (down $3.27 billion), non-automotive capital goods (down $3.03 billion) and foods, feeds and beverages (down $977 million).

  U.S.-manufactured goods exports totaled $1,186.32 billion through the first 11 months of 2022, using non-seasonally adjusted data, soaring 14.73% from $1,033.99 billion year to date in 2021. Likewise, manufactured goods imports grew 15.14% year to date from $2,237.67 billion in 2021 to $2,576.51 billion for the same period in 2022.

- **ISM® Manufacturing Purchasing Managers' Index®:** Manufacturing activity contracted for the second straight month, with the ISM® Manufacturing Purchasing Managers' Index® dropping from 49.0 in November to 48.4 in December. Production (down from 51.5 to 48.5) contracted for the first time since May 2020, with new orders (down from 47.2 to 45.2) and exports (down from 48.4 to 46.2) deteriorating further to post-pandemic lows. At the same time, hiring (up from 48.4 to 51.4) improved, expanding for the first time since August.

  In addition, prices (down from 43.0 to 39.4) fell for the third consecutive month, decreasing at the fastest pace since April 2020. The data continued to reflect progress on supply chain challenges. Supplier deliveries rose for the third straight month, improving at a pace not seen since March 2009.

  Overall, manufacturing activity has weakened, with sentiment at post-pandemic lows, consistent with other surveys. Manufacturers remained challenged by workforce shortages and economic and geopolitical uncertainties. The sample comments noted the slowing in the global economy and demand for manufactured goods, with respondents worried about the economic outlook.

- **Job Openings and Labor Turnover Survey:** The November JOLTS report recorded 779,000 manufacturing job openings, up from 722,000 in October, with increased postings for both durable and nondurable goods firms. Over the past 12 months, job openings in the sector have averaged nearly 837,000, remaining well above pre-pandemic levels.

  Manufacturers hired 402,000 workers in November, down from 434,000 in October, with reduced activity for both durable and nondurable goods firms. Total separations rose from 388,000 to 393,000 for the month. As a result, net hiring (or hiring minus separations) totaled 9,000 in November, the slowest monthly gain since April 2021. Yet, net hiring has averaged more than 27,000 over the past 12 months, a solid reading.

  In the larger economy, nonfarm business job openings cooled from 10,512,000 in October to 10,458,000 in November, a pace that remains quite elevated. Meanwhile, there were 6,011,000 unemployed Americans in November, which translated into 57.5 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 271,000 in October to 269,000 in November. The number of manufacturing quits has eased since peaking at a record 362,000 in March. 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 increased from 4,047,000 to 4,173,000, a three-month high. 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.

- **NAM Manufacturers' Outlook Survey:** In the Q4 2022 Manufacturers' Outlook Survey, 68.9% of respondents felt either somewhat or very positive in their company outlook, down from 75.6% in the third quarter. It was the weakest reading since the third quarter of 2020, with growth slowing notably across the board. Indeed, it was the first reading below the historical average (75.1%) in two years. Large manufacturers (those with 500 or more employees) felt the least upbeat in their outlook, likely reflecting greater concern with global growth.

  In addition, 62.4% of manufacturing leaders believed that the U.S. economy would slip officially into a recession in 2023, if it has not already. Despite worries about a downturn, manufacturers plan to continue to invest in their companies, which is encouraging. In fact, respondents say that, even in a recession, they plan to do the following: capital spending on new equipment and technological investments (65.3%), upskilling and training of existing workforce (64.1%), seeing solid demand for their company's products (63.2%), hiring new employees (55.1%), investing in research and development (52.1%) and spending on new structures and existing facilities (38.6%).

  Meanwhile, attracting and retaining a quality workforce returned to being the number-one primary business challenge in the fourth quarter, cited by 75.7% of respondents. This was followed by supply chain challenges (65.7%), increased raw material costs (60.7%), transportation and logistics costs (50.0%), rising health care and insurance costs (47.9%) and a weaker domestic economy (47.6%), among other challenges.

For the past nine quarters, manufacturers were asked about production, employment and capital spending in the current quarter relative to the previous one. This information can be expressed as purchasing managers' indices. The data were consistent with weaker manufacturing growth, and in this case, with production declining. For instance, the percentage reporting higher production decelerated from 36.8% in the third quarter to 23.5% in the fourth quarter, with those citing declining output rising from 20.9% to 33.9%. Meanwhile, employment and capital spending growth were both positive, but slowed materially from the previous survey.

- **Weekly Initial Unemployment Claims:** The week ending Dec. 31 saw 204,000 initial unemployment claims, down from 223,000 for the week ending Dec. 24, a 14-week low. In addition, the week ending Dec. 24 saw 1,694,000 continuing claims, down from 1,718,000 for the week ending Dec. 17. Overall, the labor market remained a bright spot in the economy, as illustrated by strength in these year-end data.



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