

MONDAY ECONOMIC REPORT



Manufacturing Activity Slowed Significantly in June

By Chad Moutray – June 27, 2022

The Weekly Toplines

- The [S&P Global Flash U.S. Manufacturing PMI](#) declined from 57.0 in May to 52.4 in June, the lowest reading since July 2020. Both new orders and output contracted in June for the first time in roughly two years, with global challenges, supply chain bottlenecks, workforce shortages and inflationary pressures weighing heavily on activity. Yet, there remains cautious optimism about production growth moving forward despite weakening for the third straight month.
- At the same time, the [S&P Global Flash Eurozone Manufacturing PMI](#) decreased from 54.6 in May to 52.0 in June, the weakest reading since August 2020. The Russian invasion of Ukraine continued to impact activity negatively, with output contracting for the first time since June 2020 and new orders and exports deteriorating further.
- Manufacturing activity in the Kansas City Federal Reserve Bank's district [expanded](#) at the slowest pace since December 2020, with the composite index declining from 23 in May to 12 in June. Hiring pulled back in June from May's record pace but remained solid. The index for prices paid decelerated in June but remained very elevated. In their comments, manufacturers cited supply chain disruptions and soaring costs as significant challenges.
- According to Freddie Mac, the [average 30-year fixed-rate mortgage](#) was 5.81% in the latest data, the highest rate since the week of Nov. 26, 2008 (5.97%). It was 3.11% at the end of 2021, or roughly six months ago.
- [Existing home sales](#) fell 3.4% from 5.60 million units at the annual rate in April to 5.41 million units in May, declining for the fourth straight month to the slowest pace since June 2020. On a year-over-year basis, existing home sales fell 8.6% from 5.92 million units in May 2021. The median sales price was \$407,600 in May, an all-time high and up 14.8% from one year ago.
- After falling sharply over the prior four months, [new single-family home sales](#) rebounded somewhat, rising 10.7% from 629,000 units at the annual rate in April to 696,000 units in May. Sales increased in the South and West but fell in the Midwest and Northeast. Single-family home sales have fallen 17.0% since December, with a 5.9% decline over the past 12 months.
- According to the U.S. Energy Information Administration, the [average price per gallon of regular gasoline](#) in the U.S. for all formulations was \$5.006 for the week of June 13, an all-time high and up from \$3.275 at the end of 2021.
- The [Index of Consumer Sentiment](#) plummeted from 58.4 in May to 50.0 in June, the lowest reading on record, according to final data from the University of Michigan and

Thomson Reuters. Americans continued to worry about inflation, with lingering economic uncertainties.

Editor's note: The Monday Economic Report will not be published on July 4. In addition, I am excited to announce that Qualcomm Chief Economist Kirti Gupta and Director of Economic Strategy Falan Yinug will be the guest authors for the Monday Economic Report on July 11. This will give us an opportunity to gain insights from well-respected industrial economists with on-the-ground expertise in the sector.



Economic Indicators

Last Week's Indicators: (Summaries Appear Below)

Monday, June 20
None

Tuesday, June 21
Chicago Fed National Activity Index
Existing Home Sales

Wednesday, June 22
None

Thursday, June 23
Kansas City Fed Manufacturing Survey

This Week's Indicators:

Monday, June 27
Dallas Fed Manufacturing Survey
Durable Goods Orders and Shipments

Tuesday, June 28
Conference Board Consumer Confidence
International Trade in Goods (Preliminary)
Richmond Fed Manufacturing Survey

Wednesday, June 29
Gross Domestic Product (Second Revision)
Real GDP by Industry

*S&P Global Flash U.S. Manufacturing PMI
Weekly Initial Unemployment Claims*

Friday, June 24

New Home Sales

*University of Michigan Consumer Sentiment
(Revision)*

Thursday, June 30

*Personal Consumption Expenditures
Deflator*

Personal Income and Spending

Weekly Initial Unemployment Claims

Friday, July 1

Construction Spending

*ISM® Manufacturing Purchasing Managers'
Index®*

Deeper Dive

- **[Chicago Fed National Activity Index](#):** The National Activity Index weakened from 0.40 in April to 0.01 in May, with the U.S. economy stalling in the latest data. The three-month moving average decreased from 0.40 to 0.20. Positive index readings suggest that the U.S. economy is growing above trend. As such, the three-month moving average suggests that the national economy continues to expand but at a slower pace. Indeed, manufacturers have had to grapple with ongoing challenges, including supply chain disruptions, workforce shortages, soaring costs, COVID-19 and geopolitical uncertainties.

Manufacturing production edged down 0.1% in May following three months of solid gains, and capacity utilization in the sector slipped from 79.2% in April, the highest since April 2007, to 79.1%. Still, manufacturing activity has been quite resilient across the past year in the face of numerous challenges, and manufacturing production has risen 4.8% year-over-year. With that in mind, production-related indicators subtracted 0.01 from the NAI in May. Other data provided mixed results, with the personal consumption and housing category subtracting 0.11 but with the sales, orders and inventories category adding 0.05.

- **[Existing Home Sales](#):** Existing home sales fell 3.4% from 5.60 million units at the annual rate in April to 5.41 million units in May, declining for the fourth straight month to the slowest pace since June 2020, according to the National Association of Realtors. Affordability has become a big challenge for potential homebuyers, with soaring costs and substantially higher mortgage rates dampening demand. Existing home sales weakened in every region except the Northeast. In May, single-family sales decreased 3.6% from 4.98 million units to 4.80 million units, and condominium and co-op sales fell 1.6% from 620,000 units to 610,000 units. On a year-over-year basis, existing home sales fell 8.6% from 5.92 million units in May 2021.

There were 2.6 months of unsold inventory of existing homes for sale on the market in May, continuing to trend higher after hitting a record low of 1.6 months in January. For a perspective, there were 3.9, 3.1 and 2.3 months of supply on average in 2019, 2020 and 2021. The median sales price was \$407,600 in May, an all-time high and up 14.8% from \$355,000 one year ago.

- **[Kansas City Fed Manufacturing Survey](#):** Manufacturing activity in the Kansas City Federal Reserve Bank's district expanded at the slowest pace since December 2020, with the composite index declining from 23 in May to 12 in June. New orders, production and shipments contracted, and exports and the average employee workweek slowed. Hiring pulled back in June from May's record pace but remained solid. The index for prices paid decelerated in June but remained very elevated. In their comments, manufacturers cited supply chain disruptions and soaring costs as significant challenges.

At the same time, manufacturers in the district remained positive about growth over the next six months, albeit with the forward-looking composite index dropping from 31 to 10, the weakest reading since June 2020. In special questions, the report noted, “About 60% of firms expected supply chain disruptions and shortages to remain unchanged or worsen in the next six months.”

- **[New Home Sales](#)**: After falling sharply over the prior four months, new single-family home sales rebounded somewhat, rising 10.7% from 629,000 units at the annual rate in April to 696,000 units in May. Sales increased in the South and West but fell in the Midwest and Northeast. Despite the uptick in May, the steep hike in mortgage rates and affordability issues have dampened enthusiasm for new home sales year to date, and builders also cite lingering supply chain disruptions, workforce shortages and inflation as significant challenges in the housing market. Indeed, single-family home sales have fallen 17.0% since December, with a 5.9% decline over the past 12 months.

The supply of new single-family homes for sale on the market [decreased](#) from 8.3 months in April, the highest since August 2010, to 7.7 months in May. At the same time, the median sales price for new homes was \$449,000 in May, just shy of April's record (\$454,700) and up 15.0% year-over-year from \$390,400 one year ago.

- **[S&P Global Flash U.S. Manufacturing PMI](#)**: The S&P Global Flash U.S. Manufacturing PMI declined from 57.0 in May to 52.4 in June, the lowest reading since July 2020. Both new orders (down from 56.1 to 48.4) and output (down from 55.2 to 49.6) contracted in June for the first time in roughly two years, with global challenges, supply chain bottlenecks, workforce shortages and inflationary pressures weighing heavily on activity. Delivery times (up from 31.1 to 33.0) remained too long but lessened a bit in June. Exports (down from 52.2 to 49.7) fell for the first time since January, and growth in employment (down from 53.1 to 52.3) slowed. Raw material costs (down from 84.2 to 77.9) remained highly elevated but decelerated in June, growing at the weakest pace since April 2021. With that said, the index for future output (down from 69.7 to 64.9) signaled optimism about production growth moving forward despite weakening for the third straight month.

Meanwhile, the [S&P Global Flash Eurozone Manufacturing PMI](#) decreased from 54.6 in May to 52.0 in June, the weakest reading since August 2020. The Russian invasion of Ukraine continued to impact activity negatively, with output contracting for the first time since June 2020 and new orders and exports deteriorating further. Both hiring and future output eased somewhat, with the latter signaling the weakest growth in production post-pandemic. Input prices decelerated a bit but remained very elevated in June. Manufacturing activity also slipped in [France](#) and [Germany](#), with contracting levels of production, and outside the Eurozone, new orders fell in the [United Kingdom](#).

- **[University of Michigan Consumer Sentiment \(Revision\)](#)**: The Index of Consumer Sentiment plummeted from 58.4 in May to 50.0 in June, the lowest reading on record, according to final data from the University of Michigan and Thomson Reuters. This was slightly lower than the preliminary estimate of 50.2. The decline in future-oriented economic conditions was the largest on record, and according to the release, “About 79% of consumers expected bad times in the year ahead for business conditions, the highest since 2009.”

Americans continued to worry about inflation, with lingering economic uncertainties. This survey is highly correlated with gasoline prices, and with that measure [hitting all-](#)

[time highs](#), it should not be a surprise that consumer confidence continues to fall. In addition, uncertainty in long-run inflation expectations was the highest since 1991.

- **[Weekly Initial Unemployment Claims](#)**: The week ending June 18 saw 229,000 initial unemployment claims, edging down from 231,000 for the week ending June 11. These data have gradually trended higher since reaching 166,000 claims for the week ending March 19, which was the second-lowest reading in the history of the series and the lowest since Nov. 30, 1968. Yet, the data continue to reflect progress over the past year.

At the same time, the week ending June 11 saw 1,315,000 continuing claims, up from 1,310,000 for the week ending June 4. Nonetheless, these data remain not far from 53-year lows.

Take Action

- The Manufacturing Institute—the workforce development and education partner of the NAM—is conducting a survey to better understand what companies are doing to recruit and retain female talent, and the MI wants your input. The results of this survey will be included in a report the MI will release this fall, which will incorporate best practices on how to create more inclusive workplace environments. The deadline to submit your responses is Friday, July 8, at 5:00 p.m. EDT. All submissions are confidential. If you have not already done so, click [here](#) to take the survey.
- The MI invites you to its inaugural Workforce Summit on Oct. 18–20 at the Hyatt Regency in Cincinnati, Ohio, for a discussion on workforce development and the future of manufacturing. Forging Partnerships is the theme of this year’s summit, which will provide attendees an opportunity to hear from leaders who have developed proven solutions to address the manufacturing skills gap. The cost to attend is \$795 for early bird registration (available through Labor Day). After Labor Day, standard registration is \$895. Click [here](#) for more information and to register.

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Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.



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