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# MONDAY ECONOMIC REPORT



## Essential Takes on Leading Economic Indicators

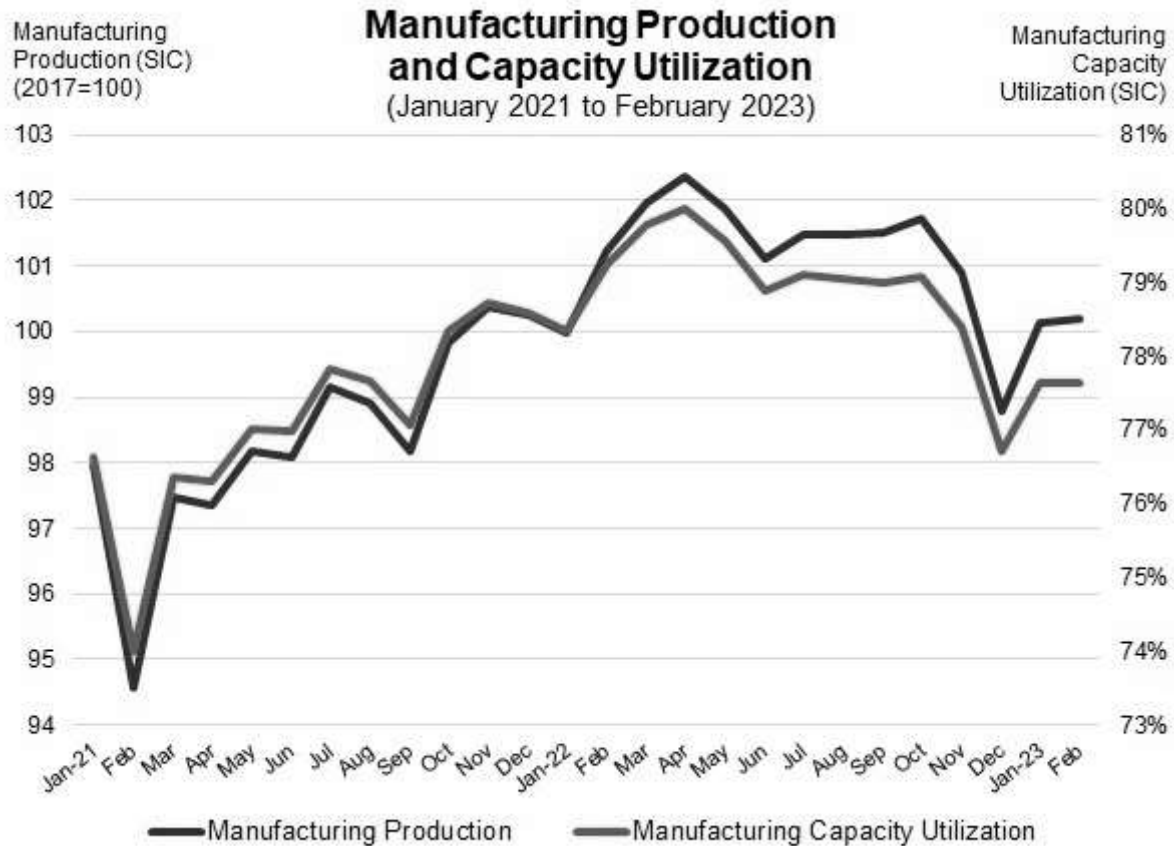
By Chad Moutray – March 20, 2023 – SHARE

## Manufacturing Output Inches Up in February but Weakens Over Past 10 Months

### The Weekly Toplines

- Manufacturing production edged up 0.1% in February, sustaining the 1.3% rebound in January but reflecting stagnant growth for the month. Since April 2022, when manufacturing production rose to its highest level since August 2008, output in the sector has slowed somewhat modestly, pulling back 2.1% in the past 10 months on weaker global growth and ongoing geopolitical and economic uncertainties.
- A more favorable interpretation might be that these declines have come off of a strong base, following sizable growth over the past few years. The current forecast is for manufacturing production to decline 1.0% in 2023 but expand 2.0% in 2024.
- Surveys from the New York and Philadelphia Federal Reserve Banks both reflected sharp contractions in manufacturing new orders in March, with weaker data across the board. The outlook for the next six months was varied between the two reports.
- Consumer prices rose 0.4% in February, consistent with expectations. The Consumer Price Index has risen 6.0% over the past 12 months, the slowest rate since September 2021, albeit at a still elevated pace. Core inflation (which excludes food and energy) increased 5.5% year-over-year in February, the same pace as in January and remaining the weakest since December 2021.
- Producer prices for final demand goods and services edged down 0.1% in February. Over the past 12 months, producer prices for final demand goods and services have risen 4.6%, the lowest since March 2021. Core producer prices increased 4.4% year-over-year for the second straight month, continuing to be the slowest pace since March 2021.

- Overall, inflationary pressures continue to be elevated, despite encouraging signs of moderation in the data. This will continue to put some pressure on the Federal Reserve. Yet, monetary policymakers must also weigh financial risks to the economy with the failure of some regional banks and with worries about credit availability moving forward.
- As a result, the Federal Open Market Committee will likely hike the federal funds rate by 25 basis points at its upcoming March 21–22 meeting instead of the previous expectation for a 50-basis-point increase. It is also possible that the FOMC might pause its rate hikes in March, allowing it to reassess data and financial conditions before the May 2–3 meeting.
- Meanwhile, new residential construction activity jumped 9.8% from 1,321,000 units at the annual rate in January to 1,450,000 units in February, a five-month high. Despite the uptick in the latest data, issues of affordability and an uncertain economic outlook have impacted the housing market negatively over the past year, and new housing starts have dropped 18.4% from February 2022. Single-family construction activity has plummeted 31.6% year-over-year.
- Similarly, new housing permits—a proxy for future residential construction—rose 13.8% from an annualized 1,339,000 units in January to 1,524,000 units in February, a five-month high. Single-family housing permits increased 7.6% from 722,000 units to 777,000 units, while multifamily housing activity jumped 21.1% from 617,000 units to 747,000 units, a 14-month high.
- The latest data on builder sentiment improved, with a more upbeat—although still negative and uncertain—outlook, according to the National Association of Home Builders and Wells Fargo.
- After jumping 3.2% in January, retail sales declined 0.4% in February. This was in line with expectations, and despite some easing, retail spending has increased 2.8% year to date, remaining a bright spot and a sign of resilience in the U.S. economy. With that said, preliminary consumer sentiment in March shows that Americans have been spooked by recent bank failures.
- Texas created the most net new manufacturing jobs in January, adding 5,900 workers, and it had the greatest employment gains over the past 12 months, with 58,100 net new jobs added. At 2.1%, North Dakota and South Dakota had the lowest unemployment rates nationally.



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## Economic Indicators

### **Last Week's Indicators:** (Summaries Appear Below)

**Monday, March 13**  
*State Employment Report*

**Tuesday, March 14**  
*Consumer Price Index*  
*NFIB Small Business Survey*

### **This Week's Indicators:**

**Monday, March 20**  
*None*

**Tuesday, March 21**  
*Existing Home Sales*

**Wednesday, March 22**  
*FOMC Monetary Policy Statement*

**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*

**Thursday, March 23**

*Kansas City Fed Manufacturing Survey  
New Home Sales  
Weekly Initial Unemployment Claims*

**Friday, March 24**

*Durable Goods Orders and Shipments  
S&P Global Flash U.S. Manufacturing PMI  
State Employment Report*

Deeper Dive

- **Conference Board Leading Indicators:** The Leading Economic Index decreased 0.3% in February, falling for the 12th straight month. Over the past six months, the LEI has declined 3.6%, suggesting weaker growth over the coming months as firms grapple with an uncertain economic outlook. The release notes that these data are consistent with a higher risk of recession in the near term. Nonetheless, the Coincident Economic Index edged up 0.1% in February, with 0.6% growth over the past six months.
- **Consumer Price Index:** Consumer prices rose 0.4% in February, easing from the 0.5% gain in January and consistent with expectations. Energy costs declined 0.6% in February, largely on reduced prices for fuel oil. Food prices increased 0.4% in the latest data, continuing to rise solidly. Over the past 12 months, food and energy costs have increased 9.5% and 5.2%, respectively.

Excluding food and energy, core consumer prices rose 0.5% in February, up from 0.4% in the prior two months and the strongest monthly gain since September. Prices for transportation services (up 1.1%), apparel (up 0.8%), household furnishings and supplies (up 0.8%) and shelter (up 0.8%) helped buoy consumer prices in February. In contrast, prices for used cars and trucks (down 2.8%) and medical care services (down 0.7%) declined once again.

The Consumer Price Index has risen 6.0% over the past 12 months, down from 6.4% in January and the slowest rate since September 2021, albeit at a still elevated pace. At the same time, core inflation (which excludes food and energy) increased 5.5% year-over-year in February, the same pace as in January and remaining the weakest since December 2021.

Overall, inflationary pressures for consumers continue to be elevated, particularly for core prices, despite encouraging signs of moderation in the data. This will continue to put some pressure on the Federal Reserve. Yet, monetary policymakers must also weigh financial risks to the economy with the failure of some regional banks.

As a result, the Federal Open Market Committee will likely hike the federal funds rate by 25 basis points at its upcoming March 21–22 meeting instead of the previous expectation for a 50-basis-point increase. It is also possible that the FOMC might pause its rate hikes in March, allowing it to reassess data and financial conditions before the May 2–3 meeting.

- **Housing Starts and Permits:** New residential construction activity jumped 9.8% from 1,321,000 units at the annual rate in January to 1,450,000 units in February, a five-month high. A surge in multifamily housing starts helped buoy the progress, soaring 24.0% from 500,000 units to 620,000 units, the most since April 2022. At the same time, single-family activity rose 1.1% from 821,000 units to 830,000 units. Issues of affordability and an uncertain economic outlook have impacted the housing market negatively over the past year, and new housing starts have dropped 18.4% from February 2022. Single-family construction activity has plummeted 31.6% year-over-year.

Similarly, new housing permits—a proxy for future residential construction—rose 13.8% from an annualized 1,339,000 units in January to 1,524,000 units in February, a five-month high. Single-family housing permits increased 7.6% from 722,000 units to 777,000 units, while multifamily housing activity jumped 21.1% from 617,000 units to 747,000 units, a 14-month high. On a year-over-year basis, housing permits have fallen 17.9% from 1,857,000 units in February 2022, with single-family permits tumbling 35.5% over the past 12 months.

While mortgage rates have started to rise more recently, Americans have started to get accustomed to the “new normal,” with would-be homebuyers coming back into the market. Warmer temperatures year to date have also helped. Along those lines, the latest data on builder sentiment improved, with a more upbeat—although still negative and uncertain—outlook, according to the National Association of Home Builders and Wells Fargo (see below).

- **Industrial Production:** Manufacturing production edged up 0.1% in February, sustaining the 1.3% rebound in January but reflecting stagnant growth for the month. Durable and nondurable goods output increased 0.1% and 0.2% in February, respectively. Since April 2022, when manufacturing production rose to its highest level since August 2008, output in the sector has slowed somewhat modestly, pulling back 2.1% in the past 10 months on weaker global growth and ongoing geopolitical and economic uncertainties. A more favorable interpretation might be that these declines have come off of a strong base, following sizable growth over the past few years. The current forecast is for manufacturing production to decline 1.0% in 2023 but expand 2.0% in 2024.

At the same time, manufacturing capacity utilization inched down from 77.7% in January to 77.6% in February. For comparison, it was 80.0% in April 2022, which was the highest since July 2000.

The manufacturing production data in February were mixed. Sectors with increased output for the month included chemicals (up 1.2%), computer and electronic products (up 1.2%), wood products (up 1.1%), electrical equipment, appliances and components (up 0.9%) and printing and related support services (up 0.5%), among others. At the other end of the spectrum, textile and product mills (down 2.1%), plastics and rubber products (down 1.8%), other manufacturing (down 1.5%), paper (down 0.9%) and apparel and leather goods (down 0.8%) led the declines in production for the month.

Over the past 12 months, the largest increases in manufacturing production occurred in apparel and leather goods (up 10.8%), motor vehicles and parts (up 10.8%), aerospace and miscellaneous transportation equipment (up 5.4%), nonmetallic mineral products (up 2.0%), chemicals (up 1.7%) and petroleum and coal products (up 1.3%).

Meanwhile, total industrial production was flat in February following a gain of 0.3% in January. Utilities production grew 0.5% in February on colder temperatures, but output in the mining sector decreased 0.6%. On a year-over-year basis, industrial production has edged down 0.2%. Total capacity utilization was unchanged at 78.0%.

- **NAHB Housing Market Index:** Homebuilders felt negative in their assessments of the housing market for the eighth consecutive month, but with the Housing Market Index improving from 42 in February to 44 in March, according to the National Association of Home Builders and Wells Fargo. It was the highest since September. Readings below 50 are consistent with more builders feeling negative than positive in their views of the housing market. While affordability and uncertainty in the economic outlook will continue to challenge the residential market, builders note pent-up and improved demand. With that said, NAHB worries that uncertainties in the financial system and higher interest rates present downside risks to the outlook.

In March, the index of current activity for single-family homes rose from 47 to 49, and the index for the traffic of potential buyers increased from 28 to 31. Nonetheless, the index for expected single-family sales in the next six months edged down from 48 to 47.

- **New York Fed Manufacturing Survey:** Manufacturing activity in the New York Federal Reserve Bank's district contracted for the fourth straight month in March. The composite index of general business conditions deteriorated from -5.8 in February to -24.6 in March, with sharp declines in new orders and shipments. Employment and the average employee workweek also weakened. Raw material costs eased slightly but continued to expand solidly. Inventories declined for the first time since June 2021.

Manufacturers responding to the Empire State Manufacturing Survey felt slightly positive in their outlook for the next six months, with the forward-looking composite index declining from 14.7 to 2.9. Respondents continued to be cautious in their estimates for

growth in most key indicators, with somewhat better expectations for shipments and technology spending. Business leaders predicted input costs would decelerate while remaining highly elevated.

- **NFIB Small Business Survey:** The Small Business Optimism Index ticked up for the second straight month from 90.3 in January to 90.9 in February. Yet, small business owners continued to feel anxious about the economic outlook, with ongoing inflation and workforce issues. The net percentage of respondents saying general business conditions would be better six months from now declined further from -45% in January to -47% in February, with just 6% suggesting that the next three months would be a “good time to expand.”

Respondents cited inflation as the top “single most important problem,” followed closely by difficulties in obtaining enough qualified labor. With that said, pricing pressures—while elevated—have moderated somewhat. The net percentage of respondents reporting higher prices today than three months ago decreased from 42% to 38%, and the net percentage planning a price increase over the next three months fell from 29% to 25%.

The labor market remained solid overall. The percentage of respondents suggesting they had job openings they were unable to fill rose from 45% to 47%. In addition, the percentage of respondents citing few or no qualified applicants for job openings inched up from 52% to 54%. Yet, the net percentage of respondents planning to increase hiring over the next three months ticked down from 19% to 17%.

Meanwhile, the percentage of respondents suggesting they made a capital expenditure in the past six months rose from 59% to 60%, a post-pandemic high, but the net percentage saying they planned to make a capital expenditure in the next three to six months remained at 21%.

- **Philadelphia Fed Manufacturing Survey:** The Philadelphia Federal Reserve Bank’s composite index of general business conditions contracted for the seventh straight month, with activity continuing to decline sharply in March. The composite index of general business activity improved marginally from -24.3 in February to -23.2 in March but remained solidly negative. New orders fell by the most since the start of the pandemic, and shipments, employment and the average employee workweek all declined steeply. Input costs moderated slightly but continued to rise steadily for the month.

Manufacturers in the Philly Fed district felt somewhat negative in their outlook for the next six months, pulling back from cautious optimism in the prior two surveys. The forward-looking composite index dropped from 1.7 in February to -8.0 in March. With that said, respondents predict slight increases in new orders, shipments and hiring over the coming months, with inventories and capital spending declining. Manufacturers anticipate raw material prices to accelerate once again, but they expected prices received for their products to soften.



In special questions, 46.3% of respondents said production had increased in the first quarter of 2023 relative to the fourth quarter of 2022, with 31.7% noting declines. Capacity utilization remained at 70–80%. Labor supply and supply chain issues were the biggest constraints on capacity utilization growth in the current quarter.

- **Producer Price Index:** Producer prices for final demand goods and services edged down 0.1% in February, declining for the second time in the past three months and pulling back from the 0.3% gain in January. Similarly, producer prices for final demand goods decreased 0.2% in February following a gain of 1.2% in January. Food and energy costs fell 2.2% and 0.2%, respectively, in February, with prices for food down for three straight months. Still, over the past 12 months, food and energy costs have risen 6.8% and 5.0%, respectively.

Excluding food and energy, producer prices for final demand goods increased 0.3% in February, slowing from the 0.6% gain in January. Meanwhile, producer prices for final demand services inched down 0.1% in February, with solid declines for trade and transportation and warehousing costs.

Over the past 12 months, producer prices for final demand goods and services have risen 4.6%, down from 5.7% in January and the lowest since March 2021. Core producer prices increased 4.4% year-over-year for the second straight month, continuing to be the slowest pace since March 2021.

Overall, these data continue to show moderation in wholesale inflation, particularly in the year-over-year data, which is encouraging. Yet, the data also show that input costs continue to rise steadily and at paces that are higher than preferred. As a result, the Federal Reserve will likely continue its path toward higher interest rates for the next few meetings (see the Consumer Price Index discussion above).

- **Retail Sales:** After jumping 3.2% in January, retail sales declined 0.4% in February. This was in line with expectations, and despite some easing, retail spending has increased 2.8% year to date, remaining a bright spot and a sign of resilience in the U.S. economy. Excluding motor vehicles and gasoline, retail sales were flat in February after increasing 2.8% in January. Over the past 12 months, retail sales have risen 5.4%, or 7.9% with motor vehicles and gasoline station sales excluded.

In February, the retail sales data were mixed. Consumer spending increased at nonstore retailers (up 1.6%), health and personal care stores (up 0.9%), food and beverage stores (up 0.5%), general merchandise stores (up 0.5%) and electronics and appliance stores (up 0.3%). In contrast, retail sales declined at furniture and home furnishings stores (down 2.5%), food services and drinking places (down 2.2%), miscellaneous store retailers (down 1.8%), motor vehicle and parts dealers (down 1.8%) and gasoline stations (down 0.6%), among others.

On a year-over-year basis, retailers with the largest increases in spending over the past 12 months included food services and drinking places (up 15.3%), general merchandise

stores (up 10.5%), nonstore retailers (up 8.5%), health and personal care stores (up 8.0%) and food and beverage stores (up 5.5%). Note that these are gains in nominal terms, so higher prices helped buoy these increases.

- **State Employment Report:** Texas created the most net new manufacturing jobs in January, adding 5,900 workers. Other states with notable employment growth for the month included New Jersey (up 3,300), California (up 2,100), Wisconsin (up 2,100) and Massachusetts (up 1,500). Texas (up 58,100) also had the most manufacturing employment growth. Other states with significant year-over-year gains included California (up 31,900), Florida (up 21,800), Missouri (up 15,800), Illinois (up 14,100) and Ohio (up 13,800).

In January, the U.S. unemployment rate fell to 3.4%, the lowest since May 1969. At 2.1%, North Dakota and South Dakota had the lowest unemployment rates nationally, followed closely by Utah (2.4%), Montana (2.5%) and Nebraska (2.5%). At the other end of the spectrum, Nevada had the highest unemployment rate in the country at 5.5%. Other states with elevated rates included Oregon (4.8%), Delaware (4.6%), Washington (4.6%) and Illinois (4.5%).

- **University of Michigan Consumer Sentiment (Preliminary):** The Index of Consumer Sentiment fell from 67.0 in February to 63.4 in March, the lowest since December, according to preliminary data from the University of Michigan and Thomson Reuters. Assessments of current and future economic conditions both decreased for the month, with the failure of Silicon Valley Bank and worries about the health of financial markets accounting for the bulk of the decrease in sentiment. Expectations for inflation also moderated.
- **Weekly Initial Unemployment Claims:** The week ending March 11 saw 192,000 initial unemployment claims, down from 212,000 for the week ending March 4. In addition, the week ending March 4 saw 1,684,000 continuing claims, down from 1,713,000 for the week ending Feb. 25. Overall, the labor market remains solid and is a bright spot in the economy.

Take Action
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### **Your Response Needed: Employee Engagement and Culture Development Survey**

In partnership with Colonial Life, the Manufacturing Institute—the workforce development and education partner of the NAM—is conducting a survey to learn more about what manufacturers are doing to create and maintain an engaged workforce and positive company culture. If you have not already done so, please take a moment to [complete the survey](#). Responses are due by **Friday, March 31, at 5:00 p.m. EDT**. As always, all responses are anonymous.

### **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 MI gathered data regarding current industry DE&I policies. The MI surveyed manufacturers across the country 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 31 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 MI's Solution Series: Recruitment Workshop**

Is your company having difficulty recruiting new talent? Join the MI 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.

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