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MONDAY ECONOMIC REPORT



Manufacturing Construction, Core Capital Goods Orders Strengthen in January

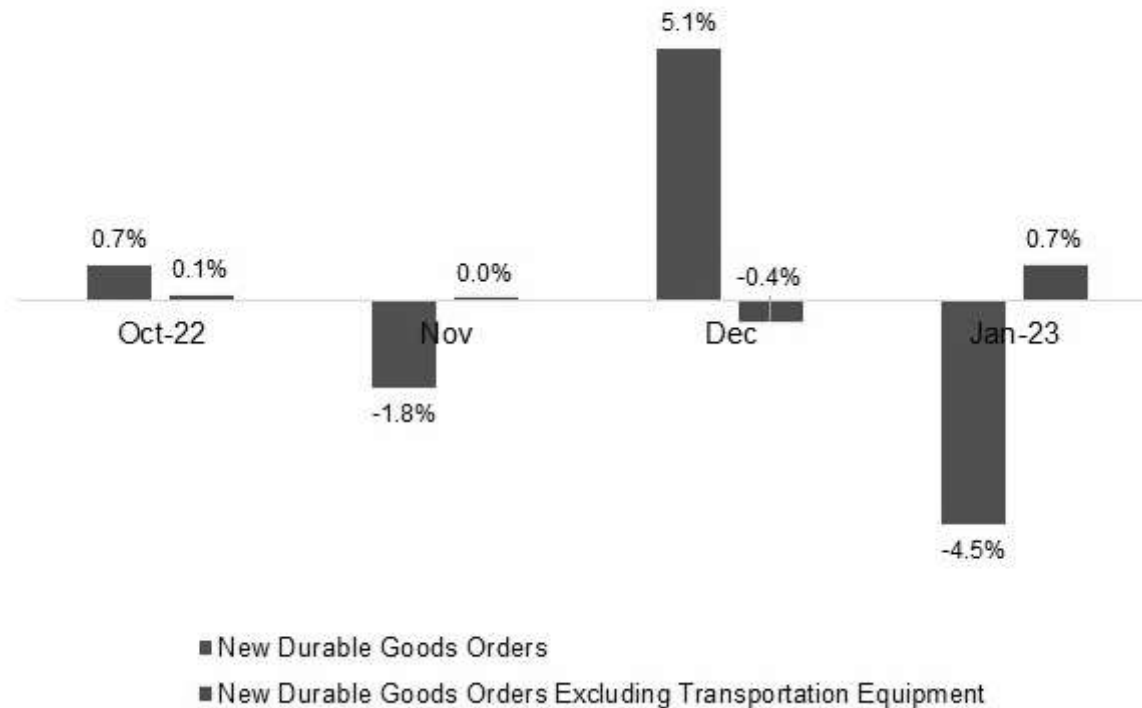
By Chad Moutray – March 6, 2023

The Weekly Toplines

- New orders for durable goods fell 4.5% in January, pulling back after jumping by 5.1% in the previous report. The decline in January can be explained largely by swings in nondefense aircraft and parts, which can be highly volatile from month to month. Excluding transportation equipment, new durable goods orders increased 0.7% from \$178.2 billion to \$179.4 billion.
- Even amid numerous challenges in the global outlook, the manufacturing sector continues to show signs of resilience despite the drop in the headline number. Over the past 12 months, new durable goods orders rose a modest 3.0%, or 1.6% year-over-year with transportation equipment excluded.
- Orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—rose 0.8% from \$74.7 billion in December to a record \$75.3 billion in January. Over the past 12 months, core capital goods orders have risen 4.3%.
- Private manufacturing construction jumped 6.0% to a record \$139.4 billion in January. 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 53.8%.
- The ISM® Manufacturing Purchasing Managers' Index® contracted for the fourth straight month but inched up from a post-pandemic low of 47.4 in January to 47.7 in February. Interestingly, the sample comments provide a more mixed view of manufacturing activity. While some respondents cite some slowdowns, others note steady (but cautious) business growth despite lingering challenges.
- In the ISM® report, raw material prices rose slightly in February after declining for four consecutive months. The data continued to reflect progress on supply chain challenges, with supplier deliveries rising in the past three months at rates not seen since March 2009.
- Surveys from the Dallas and Richmond Federal Reserve Banks also reported continued contractions in manufacturing activity in February with mixed assessments of the outlook.

- Consumer confidence pulled back for the second straight month, according to the Conference Board. 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.
- Manufacturing labor productivity fell 2.7% at the annual rate in the fourth quarter, with output down 3.0%. At the same time, the number of hours worked slipped 0.4% in the fourth quarter, with hourly compensation up 4.8%. Unit labor costs among manufacturers jumped 7.7%.
- On an annual basis, labor productivity in the manufacturing sector declined 1.0% in 2022, off from 2.6% in 2021 and the weakest since 2019.

Monthly Percentage Changes in Manufactured Durable Goods Orders (October 2022 – January 2023)



A Message from Plante Moran



7 Ways to Turn Disruption into Opportunity

A flexible-operating model can champion change as opportunity rather than challenge. Capitalize on disruptions and evolving consumer tastes with scalability, strategic alliances and data analytics.

Economic Indicators

Last Week's Indicators:

(Summaries Appear Below)

Monday, Feb. 27

*Dallas Fed Manufacturing Survey
Durable Goods Orders and Shipments*

Tuesday, Feb. 28

*Conference Board Consumer Confidence
International Trade in Goods (Preliminary)
Richmond Fed Manufacturing Survey*

Wednesday, March 1

*Construction Spending
ISM® Manufacturing Purchasing Managers'
Index®*

Thursday, March 2

*Productivity and Costs (Revision)
Weekly Initial Unemployment Claims*

This Week's Indicators:

Monday, March 6

Factory Orders and Shipments

Tuesday, March 7

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

Friday, March 3

None

Deeper Dive

- **Conference Board Consumer Confidence:** Consumer confidence pulled back for the second straight month, according to the Conference Board, with the headline index dropping from 106.0 in January to 102.9 in February. 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” slipped from 19.9% to 17.8%, while the percentage feeling that conditions were “bad” decreased from 19.0% to 17.7%. At the same time, the percentage of respondents suggesting jobs were “plentiful” increased from 48.1% to 52.0%, while those saying jobs were “hard to get” declined from 11.1% to 10.5%.

Regarding the outlook, the percentage of consumers anticipating better business conditions over the next six months decreased from 18.4% to 14.5%, while those predicting a worsening of conditions slipped from 22.6% to 21.9%. Meanwhile, the percentage of respondents expecting more jobs in the next six months fell from 17.7% to 14.5%, while those expecting fewer jobs decreased from 21.4% to 20.3%. In addition, 13.4% of consumers predict higher incomes in the months ahead, down from 17.4%, while the percentage anticipating reduced incomes fell from 13.4% to 11.6%.

- **Construction Spending:** Private manufacturing construction jumped 6.0% from \$131.5 billion in December to a record \$139.4 billion in January. 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 53.8%. As such, these data continue to speak to the resilience of the manufacturing sector, even with slowing global growth and lingering challenges, with firms expanding their capacity to meet demand and their long-term objectives. Higher costs have likely also impacted these figures, which are in nominal terms.

Total private nonresidential construction spending increased 0.9% in January, with activity rising 19.1% over the past 12 months. In January, total private construction spending was flat, with private residential construction down 0.6% for the month. Private single-family construction dropped 1.7% in January, but new multifamily activity increased 0.4%. On a year-over-year basis, total private construction has risen 4.4% since January 2022, but with private residential activity down 3.9%. Private single-family residential construction has declined 18.4% over the past 12 months.

Meanwhile, public construction spending decreased 0.6% in January, but with activity up 11.1% year-over-year.

- **Dallas Fed Manufacturing Survey:** Manufacturing activity declined for the 10th straight month, with the composite index of general business conditions dropping from -8.4 in January to -13.5 in February. New orders deteriorated further, and production, capacity utilization and capital expenditures turned negative once again. Hiring contracted for the first time since June 2020. On the other hand, the number of

hours worked strengthened, and wages and benefits continued to expand solidly. Raw material costs accelerated, also rising at an elevated pace. The sample comments were highly varied, with some respondents citing stabilization and renewed strength in the first few months of the year while others noted the opposite.

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 improving from -9.1 to -2.9. Respondents expect new orders, capacity utilization, hours worked and capital spending to soften, but for production and shipments to improve. Respondents anticipate employment to increase steadily over the coming months, with input costs rising more strongly as well.

- **Durable Goods Orders and Shipments:** New orders for durable goods fell 4.5% from a record \$285.2 billion in December to \$272.3 billion in January, pulling back after jumping by 5.1% in the previous report. The decline in January can be explained largely by swings in nondefense aircraft and parts, which can be highly volatile from month to month. Excluding transportation equipment, new durable goods orders increased 0.7% from \$178.2 billion to \$179.4 billion. Even amid numerous challenges in the global outlook, the manufacturing sector continues to show signs of resilience despite the drop in the headline number. Over the past 12 months, new durable goods orders rose a modest 3.0%, or 1.6% year-over-year with transportation equipment excluded.

In January, the underlying data were mixed. Durable goods sectors with increased new orders included machinery (up 1.6%), electrical equipment, appliances and components (up 0.6%), computers and electronic products (up 0.5%), other durable goods (up 0.5%), primary metals (up 0.5%), motor vehicles and parts (up 0.2%) and fabricated metal products (up 0.1%).

Orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—rose 0.8% from \$74.7 billion in December to a record \$75.3 billion in January. Over the past 12 months, core capital goods orders have risen 4.3%.

Meanwhile, durable goods shipments edged down 0.1% from a record \$277.5 billion in December to \$277.2 billion in January. Excluding transportation equipment, shipments of durable goods rose 0.8% from \$183.7 billion to \$185.1 billion, a new all-time high. On a year-over-year basis, durable goods shipments have risen 6.8% since January 2022, or 3.5% excluding transportation equipment. In addition, core capital goods shipments increased 1.1% from \$74.6 billion to a record \$75.4 billion.

- **International Trade in Goods (Preliminary):** The U.S. goods trade deficit increased for the second consecutive month, rising from \$89.67 billion in December to \$91.50 billion in January, according to preliminary figures. The higher goods trade deficit for the month was the result of growth in goods imports (up from \$256.56 billion to \$265.34 billion) that outpaced the increase in goods exports (up from \$166.88 billion to \$173.84 billion). Both were three-month highs. Final data, which will include the service-sector trade surplus, will be released March 8.

Goods exports (up \$6.96 billion) were boosted by strength in consumer goods (up \$2.96 billion), capital goods (up \$2.08 billion), automotive vehicles (up \$1.18 billion) and foods, feeds and beverages (up \$579 million). Meanwhile, goods imports increased \$8.79 billion in January, buoyed by consumer goods (up \$4.01 billion), automotive vehicles (up \$3.16 billion), capital goods (up \$1.29 billion) and foods, feeds and beverages (up \$815 million). Imports of industrial supplies decreased \$453 million for the month.

- **ISM® Manufacturing Purchasing Managers' Index®**: Manufacturing activity contracted for the fourth straight month, but with the ISM® Manufacturing Purchasing Managers' Index® inching up from a post-pandemic low of 47.4 in January to 47.7 in February. New orders (up from 42.5 to 47.0) declined at a much slower pace in the latest survey, with exports (up from 49.4 to 49.9) nearly stabilizing. The manufacturing sector remains sluggish amid uncertainties in the global economic outlook. Indeed, production (down from 48.0 to 47.3) weakened further in February, and hiring (down from 50.6 to 49.1) fell once again after increasing in the two prior surveys. With that said, the release states, "Labor management sentiment at panelists' companies still favors attempting to hire rather than reducing employment levels," and difficulties in finding workers remains a challenge.

Interestingly, the sample comments provide a more mixed view of manufacturing activity. While some respondents cite some slowdowns, others note steady (but cautious) business growth despite lingering challenges.

Meanwhile, raw material prices (up from 44.5 to 51.3) rose slightly in February after declining for four consecutive months. The data continued to reflect progress on supply chain challenges, with supplier deliveries rising in the past three months at rates not seen since March 2009.

- **Productivity and Costs (Revision)**: Manufacturing labor productivity fell 2.7% at the annual rate in the fourth quarter, extending the 3.9% decline in the third quarter. Output in the sector decreased 0.8% and 3.0% in the third and fourth quarters, respectively. At the same time, the number of hours worked slipped 0.4% in the fourth quarter, with hourly compensation up 4.8%. Unit labor costs among manufacturers jumped 7.7%. On an annual basis, labor productivity in the manufacturing sector declined 1.0% in 2022, off from 2.6% in 2021 and the weakest since 2019.

Labor productivity for durable goods decreased 3.1% in the fourth quarter, building on the 4.7% decline in the third quarter, with output down 3.5%. The number of hours worked pulled back 0.4%, with hourly compensation increasing 4.0% and unit labor costs rising 7.4% in the fourth quarter. In contrast, labor productivity for nondurable goods fell 2.2% in the fourth quarter, with output down 2.5%. The number of hours worked edged down 0.3%, with hourly compensation up 6.2%. Unit labor costs for nondurable goods manufacturers increased 8.6%.

Meanwhile, nonfarm business labor productivity increased 1.7% at the annual rate in the fourth quarter, extending the 1.2% gain in the third quarter. Output rose 3.1% in the fourth quarter, with hours worked and hourly compensation up 1.4% and 4.9%, respectively. Unit labor costs increased 3.2% for the quarter. Overall, nonfarm business labor productivity dropped 1.7% in 2022, pulling back from 2.2% growth in 2021 and the largest annual decline in productivity since 1974.

- **Richmond Fed Manufacturing Survey**: Manufacturing activity contracted for the seventh time in the past nine months, according to the Richmond Federal Reserve Bank, with the composite index of general business activity down from -11 in January to -16 in February. New orders have not expanded in 11 months, with declines in the latest data also seen for shipments, capacity utilization, capital expenditures, hiring and local business conditions. With that said, wage growth remains solid, albeit with some easing, and raw materials and finished goods inventories continued to expand. Moving forward, manufacturers in the district feel cautiously positive in their outlook. Respondents predict new orders, shipments and capacity utilization to rebound, and while they anticipate hiring to soften slightly, wage growth should remain very healthy.

The inflation data were mixed, with elevated input costs but some moderation in prices received. Costs for raw materials rose 7.90% in February, with the prices received for goods and services up 5.54%. In addition, respondents anticipate an annualized 4.52% increase in costs six months from now, with the expected prices received rising 2.85%.

- **Weekly Initial Unemployment Claims:** The week ending Feb. 25 saw 190,000 initial unemployment claims, little changed from 192,000 for the week ending Feb. 18. In addition, the week ending Feb. 18 saw 1,655,000 continuing claims, edging down from 1,660,000 for the week ending Feb. 11. These data continue to reflect a labor market that is solid and a bright spot in the economy.

Take Action

Your Response Needed: NAM Q1 Manufacturers' Outlook Survey

If you have not already done so, please take a moment to [complete](#) the latest NAM Manufacturers' Outlook Survey, which includes special questions on the supply chain and recession outlook, tax and regulatory priorities, infrastructure spending, the importance of global trade and workforce issues. This survey will help the NAM gauge how manufacturing sentiment has changed since the [fourth quarter survey](#). Responses are due by Tuesday, March 7, at 5:00 p.m. EST. As always, all responses are anonymous.

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.

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