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MONDAY ECONOMIC REPORT

The Federal Reserve Boosted Rates by 50 Basis Points, with More to Come

By Chad Moutray – May 9, 2022

The Weekly Toplines

- In an effort to combat inflationary pressures in the economy, the Federal Open Market Committee voted to increase the federal funds rate by 50 basis points at the conclusion of its May 3–4 meeting, consistent with expectations, with the current range being 0.75–1.00%. It is widely anticipated that the Federal Reserve will hike interest rates by another 50 basis points at its upcoming June 14–15 meeting, with additional increases forthcoming at later meetings.

- In addition to increases in the federal funds rate, the FOMC also voted to start reducing the size of its balance sheet, which has ballooned to nearly $9 trillion, beginning on June 1. It will reduce its holdings of Treasury securities by up to $30 billion each month and of mortgage-backed securities by up to $17.5 billion each month. Then, after three months, it will step up those reductions to $60 billion and $35 billion each month, respectively.

- The ISM® Manufacturing Purchasing Managers' Index® slowed to the lowest reading since July 2020. While continuing to expand somewhat modestly, the sector is grappling with challenges related to supply chains, workforce shortages and soaring costs and with uncertainties related to the Russian invasion of Ukraine and to shutdowns in China related to COVID-19.

- The latest factory orders data, which rose 2.2% in March to a new record, once again illustrate the resilience of the manufacturing sector. New orders for manufactured goods have soared 14.2% year-over-year.

- At the same time, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—rose 1.3% to a record $81.1 billion in March. Core capital goods orders increased a solid 10.6% over the past 12 months.

- Manufacturing employment rose by 55,000 in April, the strongest monthly gain in nine months, with robust hiring despite significant ongoing challenges. Through the first four months of 2022, the sector hired 174,000 employees, building on the 365,000 workers added in calendar year 2021, the most since 1994.

- Currently, the manufacturing sector has 12,729,000 employees, with 56,000 fewer workers today relative to February 2020. Manufacturing employment is on track to return to pre-pandemic levels by the third quarter of this year.

- Average hourly earnings of production and nonsupervisory workers in manufacturing rose 0.3% to $24.78 in April, up 5.5% from one year ago and just shy of March's 5.5% year-over-year pace, which was the fastest since August 1982.

- Meanwhile, nonfarm payroll employment increased by 428,000 in April, matching the gain in March. The unemployment rate remained at a post-pandemic low of 3.6%, but the labor force participation rate declined from 62.4% to 62.2%.

- There were 860,000 manufacturing job openings in March. In the larger economy, nonfarm business job openings increased to a record 11,549,000 in March. There were 5,952,000 unemployed Americans in March, which translated into a record 51.5 unemployed workers for every 100 job openings in the U.S. economy.

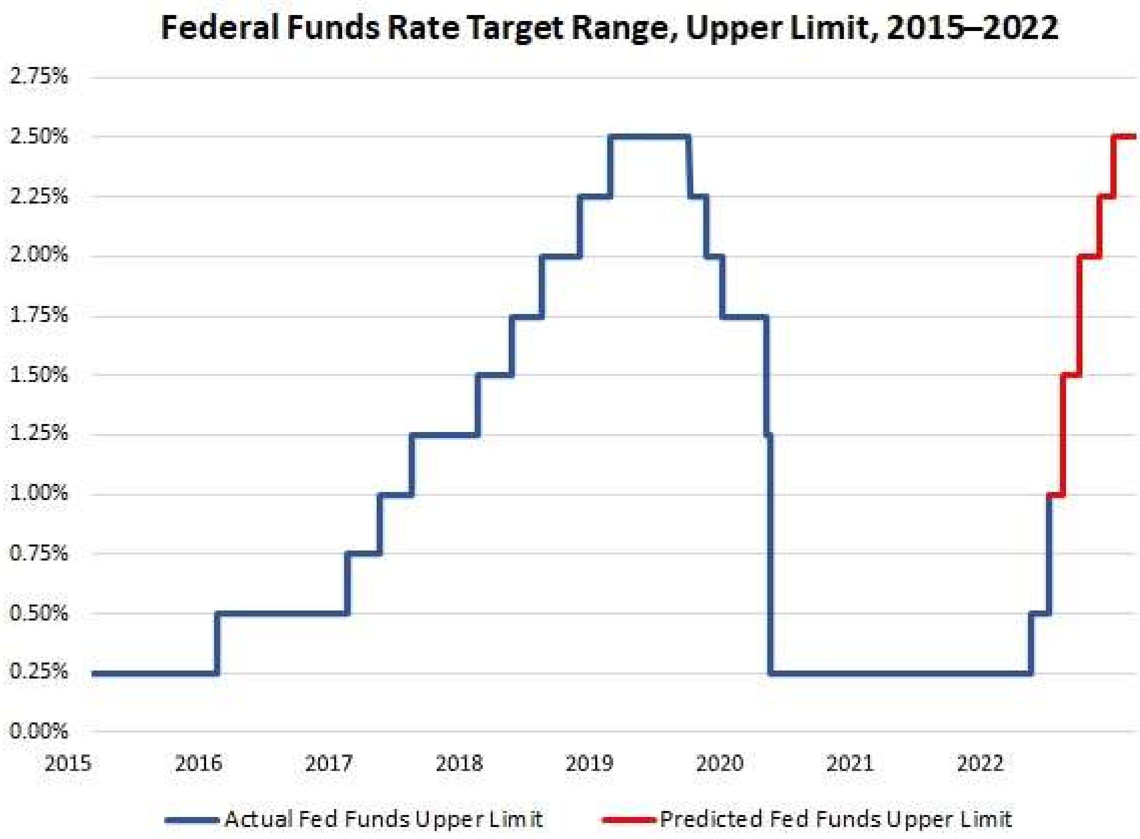
- In addition, total quits in the manufacturing sector rose from 345,000 in February to 360,000 in March, a new record. At the same time, the March survey reported 4,536,000 quits in the nonfarm business economy, up from 4,384,000 in February and also a record pace.

- Private manufacturing construction spending declined 1.6% from a record $95.64 billion at the annual rate in February to $94.11 billion in March. Despite some easing in the latest data, private construction activity in the sector soared 31.8% over the past 12 months.

- The U.S. trade deficit jumped from $89.80 billion in February to $109.80 billion in March, an all-time high. February's trade deficit was the previous record. These data continued to be skewed by supply chain disruptions, higher petroleum prices and stronger economic growth in the U.S. relative to other markets.

- The goods trade deficit also soared to new heights, up from $107.78 billion to $128.14 billion. Goods imports rose from $266.79 billion to a record $298.79 billion, with that increase enough to offset the gain in goods exports, which were up from $159.01 billion to a record $170.65 billion.

- U.S.-manufactured goods exports totaled $300.83 billion in the first quarter of 2022, using non-seasonally adjusted data, soaring 15.66% from $260.09 billion in the first three months of 2021.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, May 2
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Tuesday, May 3
Factory Orders and Shipments
Job Openings and Labor Turnover Survey

Wednesday, May 4
ADP National Employment Report
FOMC Monetary Policy Statement
International Trade Report

Thursday, May 5
Productivity and Costs
Weekly Initial Unemployment Claims

Friday, May 6
BLS National Employment Report

This Week's Indicators:

Monday, May 9
None

Tuesday, May 10
NFIB Small Business Survey

Wednesday, May 11
Consumer Price Index

Thursday, May 12
Producer Price Index
Weekly Initial Unemployment Claims

Friday, May 13
University of Michigan Consumer Sentiment

- **[ADP National Employment Report]:** Manufacturing employment rose by 25,000 in April, extending the gain of 53,000 in March, according to ADP estimates. At the same time, the U.S. economy added 247,000 employees in April, down from the increase of 479,000 in March and the slowest in 23 months. Employment at small establishments (with fewer than 50 employees) fell by 120,000 in April, with net hiring at medium-sized (with 50 to 499 employees) and large establishments (with 500 or more employees) rising by 367,000 for the month. On average, private nonfarm and manufacturing employment has risen solidly year to date, up by 460,000 and 42,000 each month, respectively.

  In April, in addition to manufacturing, the largest increases in employment came in the leisure and hospitality (up 77,000), professional and business services (up 50,000), education and health services (up 48,000), construction (up 16,000) and trade, transportation and utilities (up 15,000) sectors.

- **[BLS National Employment Report]:** Manufacturing employment rose by 55,000 in April, the strongest monthly gain in nine months, with durable and nondurable goods net job growth of 31,000 and 24,000, respectively. Overall, hiring in the sector remained robust despite significant ongoing challenges with supply chain disruptions, workforce shortages and soaring costs. Through the first four months of 2022, the sector hired 174,000 employees, building on the 365,000 workers added in calendar year 2021, the most since 1994. Currently, the manufacturing sector has 12,729,000 employees, with 56,000 fewer workers today relative to February 2020. Manufacturing employment is on track to return to pre-pandemic levels by the third quarter of this year.

  The sector continued to report significant upward pressure on wages, with manufacturers citing difficulties in finding workers. The average hourly earnings of production and nonsupervisory workers in manufacturing rose 0.3% from $24.71 in March to $24.78 in April, up 5.5% from $23.48 one year ago. The year-over-year pace of wage growth edged down from 5.6% in March, which was the fastest since August 1982, but remained not far from that nearly 40-year high.

  Meanwhile, nonfarm payroll employment increased by 428,000 in April, matching the gain in March. The unemployment rate remained at a post-pandemic low of 3.6%, but the labor force participation rate declined from 62.4%, the best rate since March 2020, to 62.2%. That suggests that some workers returned to the sidelines. Of note, the participation rate remains below pre-pandemic levels, with 63.4% in February 2020. The so-called “real unemployment rate”—a term that refers to those marginally attached to the workforce, including discouraged workers and the underemployed—inched up from 6.9%, the lowest level since January 2020, to 7.0%.

  In April, the largest increases in manufacturing employment occurred in transportation equipment (up 13,700, including 6,100 from motor vehicles and parts), food manufacturing (up 7,900), machinery (up 7,400) and plastics and rubber products (up 5,700), among others. In contrast, sectors that reported reduced employment in April included miscellaneous durable goods (down 1,400), furniture and related products (down 1,100), apparel (down 600) and textile product mills (down 400).

  Eight major manufacturing sectors have exceeded their pre-pandemic employment levels as of April: chemicals (up 35,500), food manufacturing (up 35,200), miscellaneous nondurable goods (up 28,000), plastics and rubber products (up 24,000), wood products (up 23,000), electrical equipment and appliances (up 12,000), miscellaneous durable goods (up 10,000) and furniture and related products (up 2,000).

- **Construction Spending:** Private manufacturing construction spending declined 1.6% from a record $95.64 billion at the annual rate in February to $94.11 billion in March. Despite some easing in the latest data, private construction activity in the sector has trended strongly higher since bottoming out at $65.92 billion in December 2020. Over the past 12 months, activity has soared 31.8%. These data speak to the strength of the manufacturing sector and the need to increase capacity to meet demand.

  Total private nonresidential construction spending fell 1.2% in March, but with activity rising 8.5% over the past 12 months. In addition, total private construction spending edged up 0.2% for the month, with a 1.0% gain for private residential construction. Private single-family construction increased 1.3% for the month, while private multifamily activity fell 0.5%. Overall, total private construction has soared 14.6% since March 2021, with private residential activity up 18.4%. Meanwhile, public construction spending declined 0.2% in March, although activity rose 1.7% year-over-year.

- **Factory Orders and Shipments:** New orders for manufactured goods rose 2.2% from $545.5 billion in February to a record $557.3 billion in March, accelerating strongly after edging up just 0.1% in the prior month. Durable and nondurable goods orders increased 1.1% and 3.2% in March, respectively. Defense and nondefense aircraft and parts sales, which can be highly volatile from month to month, fell sharply in March, but motor vehicles and parts orders rebounded with a 3.0% gain for the month. Overall, transportation equipment orders rose 0.4%. Excluding transportation equipment, manufacturing orders jumped 2.5% from $462.0 billion in February to a record $473.4 billion in March, with durable goods orders excluding transportation up 1.4% for the month.

  Despite lingering supply chain, workforce and pricing pressures, the manufacturing sector has proved quite resilient over the past year. New factory orders have soared 14.2% year-over-year, or 14.3% with transportation equipment excluded.

  At the same time, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—rose 1.3% from $80.1 billion in February to a record $81.1 billion in March. Core capital goods orders increased a solid 10.6% over the past 12 months.

  Meanwhile, factory shipments increased 2.3% from $543.7 billion in February to $556.4 billion in March, an all-time high. On a year-to-date basis, factory shipments have risen 14.5%, a very strong figure, or 15.4% with transportation equipment excluded. In addition, core capital goods shipments increased 0.4% from $79.6 billion in February to a record $79.9 billion in March, with 11.2% growth over the past 12 months.

- **FOMC Monetary Policy Statement:** The Federal Open Market Committee voted to increase the federal funds rate by 50 basis points at the conclusion of its May 3–4 meeting, consistent with expectations, with the current range being 0.75–1.00%. The statement reads, "Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices and broader price pressures." The Federal Reserve also notes that the Russian invasion in Ukraine and

COVID-19-related closures in China exacerbate pricing and supply chain challenges. The FOMC's moves are meant to cool inflationary pressures in the economy, and it is widely anticipated that the Federal Reserve will hike interest rates by another 50 basis points at its upcoming June 14–15 meeting, with additional increases forthcoming at later meetings.

In addition to increases in the federal funds rate, the FOMC also voted to start reducing the size of its balance sheet, which has ballooned to nearly $9 trillion, beginning on June 1. It will reduce its holdings of Treasury securities by up to $30 billion each month and of mortgage-backed securities by up to $17.5 billion each month. Then, after three months, it will step up those reductions to $60 billion and $35 billion each month, respectively.

Despite the more-hawkish steps taken by the Federal Reserve as it attempts to dampen inflationary pressures, the U.S. notes continuing strength in the economy. For instance, business and consumer spending remain robust, and the labor market continues to be very tight. At the same time, there are significant challenges that present uncertainties to the outlook, and FOMC participants will focus on incoming data before deciding future moves in monetary policy.

- **International Trade Report:** The U.S. trade deficit soared from $89.80 billion in February to $109.80 billion in March, an all-time high. February's trade deficit was the previous record. These data continued to be skewed by supply chain disruptions, higher petroleum prices and stronger economic growth in the U.S. relative to other markets.

  The goods trade deficit also jumped to new heights, up from $107.78 billion to $128.14 billion. Goods imports rose from $266.79 billion to a record $298.79 billion, with that increase enough to offset the gain in goods exports, which were up from $159.01 billion to a record $170.65 billion. At the same time, the service-sector trade surplus increased from $17.98 billion to $18.34 billion.

  In March, goods exports for industrial supplies and materials rose sharply (up $7.41 billion) to a new record, lifted by increased petroleum and natural gas exports. In addition, there were more exports for automotive vehicles, parts and engines (up $1.01 billion), foods, feeds and beverages (up $799 million), non-automotive capital goods (up $689 million) and consumer goods (up $422 million).

  Meanwhile, there were very sizable increases across the board for goods imports, including industrial supplies and materials (up $11.32 billion), consumer goods (up $9.95 billion), non-automotive capital goods (up $5.24 billion), automotive vehicles, parts and engines (up $3.18 billion) and foods, feeds and beverages (up $1.05 billion).

  U.S.-manufactured goods exports totaled $300.83 billion in the first quarter of 2022, using non-seasonally adjusted data, soaring 15.66% from $260.09 billion in the first three months of 2021. Likewise, manufactured goods imports grew 20.21% year to date from $557.84 billion in 2021 to $670.57 billion in 2022.

- **ISM® Manufacturing Purchasing Managers' Index®:** Manufacturing activity slowed in April—while continuing to expand somewhat modestly—as the sector grappled with challenges related to supply chains, workforce shortages and soaring costs and with uncertainties related to the Russian invasion of Ukraine and to shutdowns in China related to COVID-19. The ISM® Manufacturing Purchasing Managers' Index® declined from 57.1 in March to 55.4 in April, the lowest reading since July 2020. New orders (down from 53.8 to 53.5), production (down from 54.5 to 53.6), employment (down from 56.3 to 50.9) and exports (down from 53.2 to 52.7) softened materially in April. Despite the pullback in the employment measure, manufacturers continue to cite difficulties in attracting and retaining workers, with respondents noting significant turnover in the labor market.

Cost pressures continued to be highly elevated, even with the index for prices declining from 87.1 in March to 84.6 in April. The index for supplier deliveries (up from 65.4 to 67.2) reflected longer wait times for deliveries for the month, consistent with the supply chain challenges seen over much of the past year. Imports (down from 51.8 to 51.4) and inventories (down from 55.5 to 51.6) also decelerated in April. Customer inventories (up from 34.1 to 37.1) improved slightly for the month but remained too low. This should be a positive for future production if orders accelerate further, as it would necessitate additional manufacturing activity to meet that demand.

- **Job Openings and Labor Turnover Survey:** There were 860,000 manufacturing job openings in March, up from a revised 785,000 in February, with increased postings for both durable and nondurable goods firms. Over the past 12 months, job openings in the sector have averaged nearly 865,000, including the record 943,000 in July. The number of job postings continued to be well above pre-pandemic levels, as companies ramped up activity and looked for more workers to meet the additional capacity.

  Manufacturers hired 508,000 workers in March, up from 500,000 in February and a new all-time high. Total separations rose from 473,000 in February to 484,000 in March, the most since April 2020. Therefore, net hiring (or hiring minus separations) was 24,000 in March, easing from 27,000 in February. Net hiring has averaged 34,364 over the past 11 months.

  In the larger economy, nonfarm business job openings increased from 11,344,000 in February to a record 11,549,000 in March. There were 5,952,000 unemployed Americans in March, which translated into a record 51.5 unemployed workers for every 100 job openings in the U.S. economy. That number speaks to the extreme tightness of the labor market, with significantly more job openings than people looking for work.

  In addition, total quits in the manufacturing sector rose from 345,000 in February to 360,000 in March, a new record. That translated into 2.7% of the manufacturing workforce and continued a trend of very significant “churn” in the labor market, exacerbating the workforce difficulties that companies are experiencing. At the same time, the March survey reported 4,536,000 quits in the nonfarm business economy, up from 4,384,000 in February and also a record pace.

- **Productivity and Costs:** Manufacturing labor productivity rose 0.7% in the first quarter of 2022, bouncing back somewhat after declining in each of the prior two quarters. Output in the sector soared 5.7%, continuing to reflect solid growth in demand for goods despite ongoing challenges with supply chain and workforce issues. The number of hours worked rose 5.1% in the first quarter, with unit labor costs up 2.1%.

  Labor productivity for durable goods increased 1.4% in the first quarter, with output jumping 7.9%. The number of hours worked rose 6.4%. Unit labor costs increased 0.5% in the first quarter. At the same time, labor productivity for nondurable goods firms rose 0.5% in the first quarter, with output up 3.4%. The number of hours worked increased 2.9%, with hourly compensation up 4.2%. Unit labor costs for nondurable goods manufacturers rose 3.7%.

Meanwhile, nonfarm business labor productivity fell 7.5% in the first quarter, a sharp decline following the 6.3% gain in the fourth quarter. Output decreased 2.4%, but with the number of hours worked rising 5.5%. As a result, unit labor costs rose 11.6%.

- **Weekly Initial Unemployment Claims:** The week ending April 30 saw 200,000 initial unemployment claims, up from 181,000 for the week ending April 23 and the highest since the week ending Feb. 12. At the same time, the week ending April 23 saw 1,384,000 continuing claims, down from 1,403,000 for the week ending April 16 and the lowest level since the week ending Jan. 17, 1970. Overall, these data continued to reflect a labor market that has improved significantly across the past year.

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