

MONDAY ECONOMIC REPORT



Manufacturing Production Remained Resilient, Rising 0.9% in March

By Chad Moutray – April 18, 2022

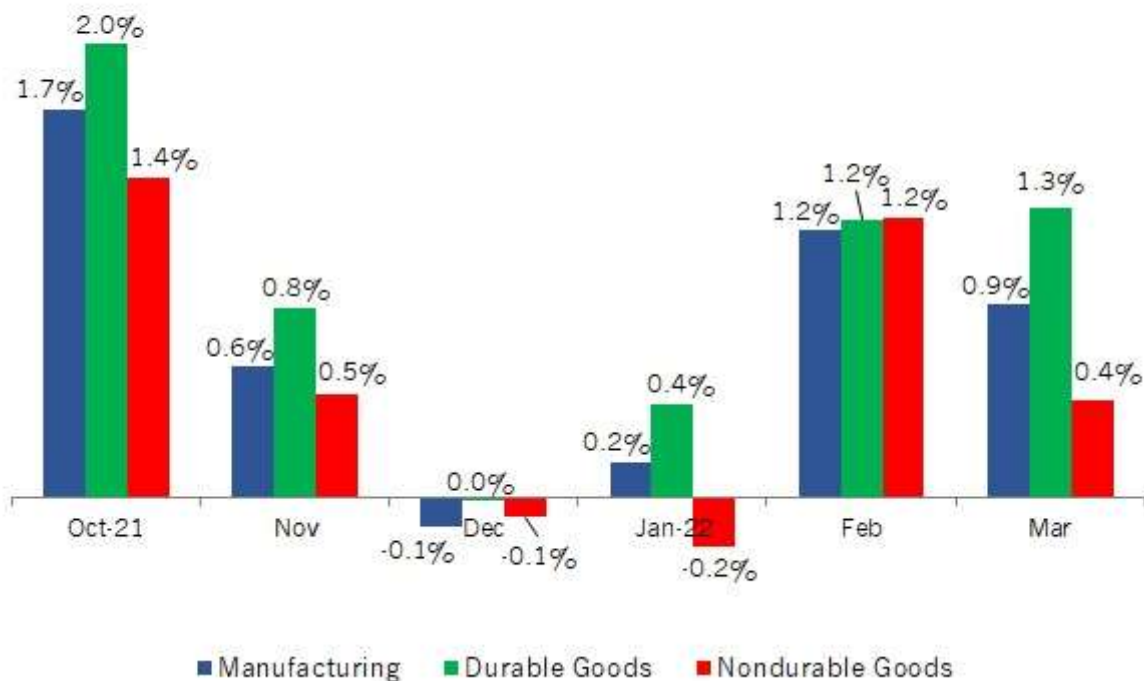
The Weekly Toplines

- [Manufacturing production](#) rose 0.9% in March. These data continued to show the resilience of the sector, which reported strong growth despite significant challenges from supply chain bottlenecks, workforce shortages, soaring production costs and COVID-19.
- Indeed, manufacturing capacity utilization jumped to 78.7% in March, the highest reading since December 2007. Overall, manufacturing production has risen 3.9% post-pandemic.
- After declining in March at the fastest pace since May 2020, manufacturing activity in the New York Federal Reserve Bank's district [rebounded strongly](#) in April. Orders and shipments bounced back, and the index for input prices soared to a new record rate, for a series dating to July 2001. Manufacturers in the region were less positive in their outlook for the next six months.
- [Consumer prices](#) jumped 1.2% in March, the strongest monthly gain since September 2005. Food and energy prices increased 1.0% and 11.0%, respectively, with gasoline costs soaring 18.3%. Nonetheless, excluding food and energy, core consumer prices rose 0.3%, the slowest monthly gain in six months.
- The consumer price index has risen 8.6% over the past 12 months (seasonally adjusted), the fastest year-over-year pace since December 1981. At the same time, core inflation increased 6.4% year-over-year in March, remaining the biggest increase since August 1982.
- Likewise, [producer prices](#) for final demand goods and services soared 1.4% in March, and producer prices for final demand goods rose 2.3% in March, remaining the largest monthly gain on record for a series dating to November 2009. In March, food and energy costs jumped 2.4% and 5.7%, respectively, with 16.2% and 36.5% growth year-over-year.
- Over the past 12 months, producer prices for final demand goods and services jumped 11.2%, the largest increase on record. At the same time, core producer prices increased 7.0% year-over-year in March, just shy of the record 7.1% seen in December.
- The March data reflected very rapid growth in producer prices, exacerbated by the Russian invasion in Ukraine and building on inflationary pressures seen in prior months. On the other hand, the core inflation rate has averaged 6.9% over the past five months. While core price growth for raw materials remained highly elevated and

near record paces, the data also suggested some plateauing, giving some hope for deceleration in the coming months.

- These data will put continued pressure on the Federal Reserve to tackle inflation. The Federal Open Market Committee is likely to increase the federal funds rate by 50 basis points at the upcoming May 3–4 meeting, building on the 25 basis-point hike seen at its March 15–16 meeting. Further increases are widely expected at other upcoming meetings, and the Federal Reserve will also start reducing its balance sheet, perhaps as soon as the next meeting.
- Meanwhile, [retail sales](#) grew 0.5% in March, slowing from 0.8% growth in February. With that said, gasoline station sales soared 8.9% in March, buoyed by higher prices. Excluding motor vehicles and parts and gasoline stations, retail sales increased 0.2% for the month. Retail spending has risen 6.9% year-over-year, consistent with the opening of the economy and with pent-up demand and excess savings.
- As such, these data provided mixed news on the consumer, with spending pulled lower by weaker sales at auto dealers and nonstore retailers. Yet, retail sales grew overall despite higher prices and consumer worries about inflation. In addition, the larger trend remained a positive one, with significant gains in spending seen over the past year.

Monthly Percentage Changes in Manufacturing Production
(October 2021 – March 2022)



Economic Indicators

Last Week's Indicators:

This Week's Indicators:

(Summaries Appear Below)

Monday, April 11

None

Tuesday, April 12

Consumer Price Index

NFIB Small Business Survey

Wednesday, April 13

Producer Price Index

Thursday, April 14

Retail Sales

University of Michigan Consumer Sentiment

Weekly Initial Unemployment Claims

Friday, April 15

Industrial Production

New York Fed Manufacturing Survey

State Employment Report

Monday, April 18

NAHB Housing Market Index

Tuesday, April 19

Housing Starts and Permits

Wednesday, April 20

Existing Home Sales

Thursday, April 21

Conference Board Leading Indicators

Philadelphia Fed Manufacturing Survey

Weekly Initial Unemployment Claims

Friday, April 22

S&P Global Flash U.S. Manufacturing PMI

Deeper Dive

- **[Consumer Price Index](#)**: Consumer prices jumped 1.2% in March, up from 0.8% in February and the strongest monthly gain since September 2005. In March, food and energy prices increased 1.0% and 11.0%, respectively, with gasoline costs soaring 18.3%. Over the course of the past 12 months, food and energy costs have increased 8.8% and 32.0%, respectively. Excluding food and energy, core consumer prices rose 0.3%, down from 0.5% in February and the slowest monthly gain in six months.

The consumer price index has risen 8.6% over the past 12 months (seasonally adjusted), up from 7.9% in January and the fastest year-over-year pace since December 1981. (The non-seasonally adjusted figure was 8.5% year-over-year.) At the same time, core inflation (which excludes food and energy) increased 6.4% year-over-year in March, the same pace as in February and remaining the biggest increase since August 1982. (The non-seasonally adjusted figure was 6.5% year-over-year.)

Overall, price pressures for consumers remained very elevated—a trend that will continue over the coming months. With the Russian invasion of Ukraine, prices are likely to remain accelerated, particularly for food, energy and certain commodities. However, the knowledge that core inflation moderated in the latest data offered some comfort.

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- **[Industrial Production](#)**: Manufacturing production rose 0.9% in March, extending the 1.2% gain seen in February. In March, durable and nondurable goods production increased 1.3% and 0.4%, respectively. These data continued to show the resilience of the sector, which reported strong growth despite significant challenges from supply

chain bottlenecks, workforce shortages, soaring production costs and COVID-19. Indeed, manufacturing capacity utilization jumped from 78.1% in February to 78.7% in March, the highest reading since December 2007. Overall, manufacturing production has risen 4.9% year-over-year, with 3.9% growth relative to February 2020's pre-pandemic pace.

The underlying manufacturing data were mostly positive, led by strength in the automotive sector, which has struggled with supply chain issues and the chip shortage over the past year. The sectors with the largest production increases in March included motor vehicles and parts (up 7.8%), aerospace and miscellaneous transportation equipment (up 1.9%), plastics and rubber products (up 1.1%), electrical equipment and appliances (up 1.0%) and machinery (up 0.8%). In contrast, primary metals (down 1.7%), textiles and products (down 1.6%), furniture and related products (down 1.5%), nonmetallic mineral products (down 1.2%), printing and related support activities (down 1.1%) and paper (down 0.7%) production fell in March.

Thirteen of the major manufacturing sectors have experienced increased production since February 2020, or since the pandemic began. These increases included sizable gains in output in aerospace and miscellaneous transportation equipment (up 16.4%), computer and electronic products (up 12.1%), miscellaneous durable goods (up 10.5%), machinery (up 8.3%), chemicals (up 7.4%) and wood products (up 7.0%), among others.

Meanwhile, total industrial production rose 0.9% in March, the same pace as in February, with the industrial production index reaching a new high. In addition to increased output for manufacturing, output also climbed higher for mining (up 1.7%) and utilities (up 0.4%). On a year-over-year basis, industrial production has increased 5.5%, and over the past 12 months, mining and utilities output rose 7.0% and 7.5%, respectively. Total capacity utilization soared from 77.7% to 78.3%, the best reading since January 2019.

- **[New York Fed Manufacturing Survey:](#)** After declining in March at the fastest pace since May 2020, manufacturing activity rebounded strongly in April, with the composite index jumping from -11.8 in March to 24.6 in April. New orders and shipments bounced back, and the average employee workweek strengthened. At the same time, hiring and inventory spending slowed somewhat. Delivery times were longer, consistent with ongoing supply chain woes. More importantly, input prices soared to a new record rate, for a series dating to July 2001.

Meanwhile, manufacturers in the region were less positive in their outlook for the next six months, and the forward-looking composite index fell from 36.6 in March to 15.2 in April, a two-year (and post-pandemic) low. Expectations for new orders, shipments and the average workweek slowed notably, and although anticipated hiring and capital spending eased more modestly, they remained solid overall. Technology spending was expected to strengthen. Respondents anticipated raw material prices would increase at a pace not far from January's record rate.

- **[NFIB Small Business Survey:](#)** The National Federation of Independent Business reported that the Small Business Optimism Index declined from 95.7 in February to 93.2 in March, the lowest level since April 2020. Supply chain disruptions, workforce shortages and inflation continued to challenge small business owners. Small businesses suggesting that the next three months were a "good time to expand" edged down from 8% to 6%, a 13-month low, and sales and earnings expectations remained challenged.

Respondents cited inflation as the top “single most important problem,” followed by difficulties in obtaining enough qualified labor. Pricing measures remained very elevated. In March, the net percentage of respondents reporting higher prices today than three months ago jumped from 68% to a record 72%. In addition, the net percentage planning a price increase over the next three months rose from 46% to 50%, not far from the all-time high seen in November (54%).

The labor market remained tight despite some easing in recent months. The percentage of respondents suggesting they had job openings they were unable to fill inched down from 48% to 47%, and the percentage of respondents citing few or no qualified applicants for job openings eased from 57% to 55%. With that said, the net percentage of respondents planning to increase hiring over the next three months edged up from 19% to 20%.

- **Producer Price Index:** Producer prices for final demand goods and services soared 1.4% in March, continuing to rise very solidly. At the same time, producer prices for final demand goods rose 2.3% in March, the same pace as in February and remaining the largest monthly gain on record for a series dating to November 2009. In March, food and energy costs jumped 2.4% and 5.7%, respectively, with 16.2% and 36.5% growth year-over-year.

Excluding food and energy, producer prices for final demand goods increased 1.1% in March, the largest monthly gain in 10 months. Meanwhile, producer prices for final demand services rose 0.9% in March, with transportation and warehousing costs up 5.5% for the month.

Over the past 12 months, producer prices for final demand goods and services jumped 11.2%, the largest increase on record. At the same time, core producer prices increased 7.0% year-over-year in March, just shy of the record 7.1% seen in December. Manufacturers [continued to cite](#) soaring raw material costs and supply chain disruptions as two of their top challenges, with the rapid acceleration in prices in this data over the past year helping to explain why.

The March data reflected very rapid growth in producer prices, exacerbated by the Russian invasion in Ukraine and building on inflationary pressures seen in prior months. On the other hand, the core inflation rate has averaged 6.9% over the past five months. While core price growth for raw materials remained highly elevated and near record paces, the data also suggested some plateauing, giving some hope for deceleration in the coming months.

- **Retail Sales:** Retail sales grew 0.5% in March, slowing from 0.8% growth in February. With that said, gasoline station sales soared 8.9% in March, buoyed by higher prices. With gasoline station sales excluded, retail spending fell 0.3%. Automotive sales were also lower, down 1.9% in March, as the motor vehicle sector continued to grapple with supply chain issues and the chip shortage. Excluding motor vehicles and parts and gasoline stations, retail sales increased 0.2% for the month.

The year-over-year comparisons were largely favorable, consistent with the opening of the economy and with pent-up demand and excess savings. Indeed, retail spending has risen 6.9% year-over-year, or 6.2% with gasoline stations and motor vehicles and parts sales excluded.

As such, these data provided mixed news on the consumer, with spending pulled

lower by weaker sales at auto dealers and nonstore retailers. Yet, retail sales grew overall despite higher prices and consumer worries about inflation. In addition, the larger trend remained a positive one, with significant gains in spending seen over the past year.

Looking at the underlying data, the largest increases in retail spending in March occurred for gasoline stations (up 8.9%), general merchandise stores (up 5.4%), electronics and appliance stores (up 3.3%), sporting goods and hobby stores (up 3.3%) and clothing and accessories stores (up 2.6%), among others. In contrast, retail sales declined for nonstore retailers (down 6.4%), motor vehicle and parts dealers (down 1.9%), health and personal care stores (down 0.3%) and department stores (down 0.3%).

On a year-over-year basis, the greatest gains in sales since March 2021 occurred at gasoline stations (up 37.0%), food services and drinking places (up 19.4%), miscellaneous store retailers (up 13.3%), grocery stores (up 9.5%), department stores (up 7.4%) and clothing and accessories stores (up 7.3%). Note that these data are expressed in nominal terms, reflecting higher prices as well as increased volume.

- **[State Employment Report](#):** Michigan created the most net new manufacturing jobs in March, adding 8,100 workers. Other states with notable employment growth for the month included Texas (up 5,600), Florida (up 4,500), North Carolina (up 3,200), Ohio (up 2,900) and California (up 2,900). Seventeen states have notched increased manufacturing employment since February 2020. States with the largest gains post-pandemic included Florida (up 16,000), Utah (up 11,500), Arizona (up 6,400), Georgia (up 4,400) and Nevada (up 4,400).

In the latest data from March, the [U.S. unemployment rate](#) declined to 3.6%, and rates also fell in 37 states. At 2.0%, Nebraska and Utah had the lowest unemployment rates nationally, followed closely by Indiana (2.2%), Montana (2.3%), Kansas (2.5%), Minnesota (2.5%), New Hampshire (2.5%) and South Dakota (2.5%). At the other end of the spectrum, the District of Columbia had the highest unemployment rate in the country at 6.0%. Other states with elevated rates included New Mexico (5.3%), Alaska (5.0%), Nevada (5.0%), California (4.9%) and Pennsylvania (4.9%).

- **[University of Michigan Consumer Sentiment](#):** The Index of Consumer Sentiment jumped from 59.4 in March, the lowest reading since August 2011, to 65.7 in April, according to preliminary data from the University of Michigan and Thomson Reuters. The “surprising” increase in confidence stemmed largely from improved economic expectations, likely driven by strong labor market and wage gains. With that said, consumer sentiment remained lower than desired, with Americans continuing to worry about inflation and with lingering uncertainties related to the Russian invasion of Ukraine. Final data will be released on April 29.
- **[Weekly Initial Unemployment Claims](#):** The week ending April 9 saw 185,000 initial unemployment claims, up from 167,000 for the week ending April 2, which was the lowest level since the week ending Nov. 30, 1968. At the same time, the week ending April 2 saw 1,475,000 continuing claims, down from 1,523,000 for the week ending March 26 and the lowest level since the week ending March 14, 1970. Overall, these data continued to reflect a labor market that has improved significantly across the past year.

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