MONDAY ECONOMIC REPORT

New Record: Manufacturing Output Soared to $2.77 Trillion in Q2

By Chad Moutray – October 3, 2022

The Weekly Toplines

- The U.S. economy shrank 0.6% at the annual rate in the second quarter, extending the decline of 1.6% in the first quarter. The current forecast is for 0.8% growth in real GDP in the third quarter, with 1.6% annual growth in 2022. In 2023, the outlook is for 1.0% growth, but that forecast has sizable downside risks. Indeed, more than 63% of respondents to the NAM Manufacturers’ Outlook Survey predicted there would be an official recession in 2022 or 2023.

- Real GDP in the manufacturing sector fell by an annualized 8.5% in the second quarter, serving as a drag on growth in three of the past four quarters.

- With that said, manufacturing value-added output increased to $2.768 trillion in the second quarter, an all-time high. Manufacturing accounted for 11.0% of value-added output in the U.S. economy in the second quarter, the highest percentage since the fourth quarter of 2019.

- Yet, real value-added output in the manufacturing sector decreased for the second consecutive quarter from a record pace at the end of 2021, as expressed in chained 2012 dollars, suggesting that higher prices were inflating the record-setting nominal output data.

- New orders for durable goods declined 0.2% in August, edging down for the second straight month. Excluding transportation equipment, new durable goods orders increased 0.2% to a record $180.7 billion. On a year-over-year basis, new durable goods orders have increased 8.8% since August 2021, or 6.1% with transportation equipment excluded.

- Core capital goods—a proxy for capital spending in the U.S. economy—jumped 1.3% to a record $75.6 billion in August, with 8.8% growth year-over-year. Meanwhile, durable goods shipments increased 0.7% to a record $272.1 billion in August, with 10.8% growth year-over-year.

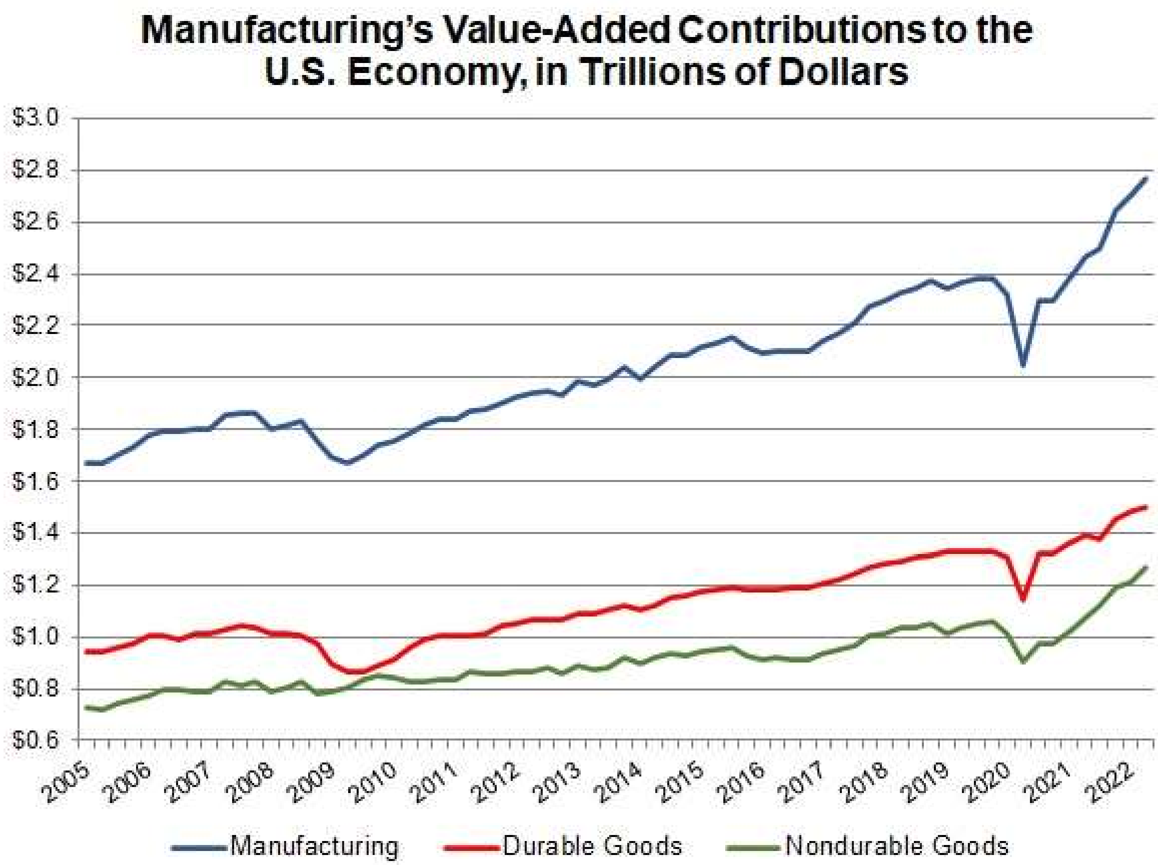
- Manufacturing surveys from the Dallas and Richmond Federal Reserve Banks were mixed in September, but with both showing declining new orders. Respondents continued to note challenges with inflation, recession worries, supply chain disruptions, long delivery times and workforce shortages. Wage growth remained elevated.

- The personal saving rate was unchanged at 3.5% in August and was up from 3.0% in June, which was the lowest since April 2008. As such, while Americans have generally been more willing to dip into their savings this year, savings have picked up somewhat in July and August.

- The PCE deflator rose 0.3% in August. Energy prices fell for the second straight month, helping to moderate the headline index. Yet, food costs increased 0.8%, continuing to rise solidly year to date. Excluding food and energy prices, the PCE deflator increased 0.6% in August.

- Overall, the PCE deflator has risen 6.2% over the past 12 months, decelerating for the second month from the 7.0% year-over-year pace in June, which was the strongest since December 1981. Excluding food and energy, core PCE inflation was 4.9% in August, up from 4.7% year-over-year in July but down from 5.0% in June. The core PCE deflator was 5.4% year-over-year in February and March, both of which were the fastest paces of inflation since April 1983.

- The two measures of consumer confidence both reflected upticks in sentiment in September. Americans remain anxious about inflation, even with some moderation (especially in gasoline prices), and overall assessments remain lower than desired on economic uncertainties.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Sept. 26
Chicago Fed National Activity Index
Dallas Fed Manufacturing Survey

This Week's Indicators:

Monday, Oct. 3
Construction Spending
ISM® Manufacturing Purchasing Managers'

Index®

Tuesday, Sept. 27
Conference Board Consumer Confidence
Durable Goods Orders and Shipments
New Home Sales
Richmond Fed Manufacturing Survey

Wednesday, Sept. 28
International Trade in Goods (Preliminary)

Thursday, Sept. 29
Gross Domestic Product (Second Revision)
Real GDP by Industry
Weekly Initial Unemployment Claims

Friday, Sept. 30
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)

Tuesday, Oct. 4
Factory Orders and Shipments
Job Openings and Labor Turnover Survey

Wednesday, Oct. 5
ADP National Employment Report
International Trade Report

Thursday, Oct. 6
Weekly Initial Unemployment Claims

Friday, Oct. 7
BLS National Employment Report

Deeper Dive

- **Chicago Fed National Activity Index:** The U.S. economy stalled in August, according to the National Activity Index from the Chicago Federal Reserve Bank, with the measure declining from 0.29 in July to 0.00 in August. The three-month moving average rebounded from -0.08 in July to 0.01 in August, the first positive reading (albeit barely so) since May. Positive index readings suggest that the U.S. economy is growing above trend, and these data suggest that the national economy is expanding on par with the historical average rate of growth. The underlying data were mixed. Indeed, manufacturers have had to grapple with ongoing challenges, including supply chain disruptions, workforce shortages, soaring costs, COVID-19 and geopolitical uncertainties.

Manufacturing production inched up 0.1% in August, slowing from the 0.6% gain in July but expanding for the second straight month. More importantly, output growth in the sector has been essentially unchanged (up 0.2%) since the first quarter, or over the past five months. Yet, manufacturing production has risen a modest 3.3% year-over-year and 1.9% year to date. At the same time, total industrial production decreased 0.2% in August, pulling back after rising 0.5% in July, largely on falling utilities output, which fell 2.3%. As a result, production-related indicators subtracted 0.08 from the NAI in August.

- **Conference Board Consumer Confidence**: After falling to a post-pandemic low in July (95.3), consumer confidence rebounded for the second straight month, rising from 103.6 in August to 108.0 in September, according to the Conference Board. It was the best reading since April. Americans felt more upbeat in their assessments of the current and future economic environment in August, with consumers continuing to be anxious about inflation, even with some moderation in recent data.

  The percentage of respondents suggesting that business conditions were “good” rose from 19.0% to 20.8%, while the percentage feeling that conditions were “bad” dipped from 22.6% to 21.2%. At the same time, the percentage of respondents suggesting jobs were “plentiful” increased from 47.6% to 49.4%, while those saying jobs were “hard to get” inched down from 11.6% to 11.4%.

  Regarding the outlook, the percentage of consumers anticipating better business conditions over the next six months increased from 17.3% to 19.3%, while those predicting a worsening of conditions dropped from 21.7% to 21.0%. Meanwhile, the percentage of respondents expecting more jobs in the next six months edged up from 17.1% to 17.5%, while those expecting fewer jobs decreased from 19.6% to 17.7%. In addition, 18.4% of consumers predicted higher incomes in the months ahead, up from 16.6%, while the percentage anticipating reduced incomes rose from 13.9% to 14.3%.

- **Dallas Fed Manufacturing Survey**: Manufacturing activity declined for the fifth straight month, with the composite index of general business conditions down from -12.9 in August to -17.2 in September. The underlying data were mixed. New orders fell once again, but production, shipments and raw material costs strengthened. Employment, wages and benefits, hours worked and capital expenditures softened somewhat. The sample comments noted challenges with inflation, recession worries, supply chain disruptions, long delivery times and workforce shortages.

  Looking ahead, manufacturers in the Texas district remained negative in their assessments of the economic outlook for the next six months, with the forward-looking composite measure dropping from -8.8 to -22.4. With that said, manufacturers expected new orders, production, shipments and hiring to strengthen over the coming months. They also predicted wage growth to be solid amid the tight labor market, albeit with some easing. In addition, manufacturers expected capital spending to soften slightly but remain decent.

- **Durable Goods Orders and Shipments**: New orders for durable goods declined 0.2% from $273.3 billion in July to $272.7 billion in August, edging down for the second straight month. With that said, large declines occurred in nondefense aircraft and parts orders, which can often be highly volatile from month to month. (July's large gains stemmed from the Farnborough International Airshow.) Excluding transportation equipment, new durable goods orders increased 0.2% from $180.3 billion to a record $180.7 billion. On a year-over-year basis, new durable goods orders have increased 8.8% since August 2021, or 6.1% with transportation equipment excluded.

In August, demand increased for defense aircraft and parts (up 31.2%), electrical equipment, appliances and components (up 1.0%), computers and electronic products (up 0.8%), primary metals (up 0.4%), machinery (up 0.3%), motor vehicles and parts (up 0.3%) and other durable goods (up 0.2%). New orders for fabricated metal products declined 0.7%.

Core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—jumped 1.3% from $74.7 billion in July to a record $75.6 billion in August, with 8.8% growth year-over-year.

Meanwhile, durable goods shipments increased 0.7% from $270.1 billion in July to a record $272.1 billion in August. On a year-over-year basis, durable goods shipments have soared 10.8% since August 2021, or 8.3% excluding transportation equipment. In addition, core capital goods shipments increased 0.3% from $73.9 billion to $74.2 billion, an all-time high, with 11.0% growth over the past 12 months.

While the headline number declined for the second consecutive month, the underlying durable goods data continue to reflect a surprising resilience in the manufacturing sector in the face of numerous challenges. Yet, growth has clearly slowed in some areas, even with some new records being set. It is also notable that these figures are in nominal terms, with higher prices likely inflating some of this growth.

- **Gross Domestic Product (Second Revision)**: The U.S. economy shrank 0.6% at the annual rate in the second quarter, unrevised from previous data, extending the decline of 1.6% in the first quarter. Overall, service-sector spending and net exports were bright spots in an otherwise weak quarter of activity in the U.S. economy. Goods spending was a drag on growth, along with private inventory spending, residential investment and government consumption. The current forecast is for 0.8% growth in real GDP in the third quarter, with 1.6% annual growth in 2022. In 2023, the outlook is for 1.0% growth.

  The economic outlook carries sizable downside risks. These risks include uncertainties surrounding the Russian invasion of Ukraine, weaknesses in China and the emerging markets, lingering supply chain challenges and an ever-increasing perception that a recession is imminent (or already here). Along those lines, there are signs that consumers and businesses are pulling back on spending. The housing market has also weakened significantly since the spring, weighed down by higher mortgage rates and reduced affordability.

  Note that these data included a new benchmark annual revision. Real GDP fell 2.8% in 2020, slightly better than the 3.4% contraction in the prior estimate. In addition, the U.S. economy rebounded by 5.9% in 2021 instead of the previous figure of 5.7% annual growth.

- **International Trade in Goods (Preliminary)**: After soaring to a record $126.81 billion in March, the U.S. goods trade deficit declined for the fifth straight month, down from $90.13 billion in July to $87.30 billion in August, according to preliminary figures. That is the best reading since October 2021. These data have been highly volatile over the past year, skewed by supply chain disruptions, petroleum prices and stronger economic growth in the U.S. relative to other markets. In August, the decrease in goods imports, down from $271.68 billion to $267.11 billion, outpaced the decline in goods exports, down from $181.49 billion to $179.81 billion.

Goods exports fell $1.68 billion in August, with reduced exports for industrial supplies (down $2.72 billion) and automotive vehicles (down $1.22 billion). Those declines were at least partially offset by increased exports for the month in consumer goods (up $1.62 billion), other goods (up $332 million), capital goods (up $178 million) and foods, feeds and beverages (up $131 million). Meanwhile, goods imports plummeted by $4.57 billion in August, pulled lower by reduced imports for industrial supplies (down $4.91 billion), capital goods (down $1.31 billion) and consumer goods (down $134 million). Automotive vehicle imports rose $1.28 billion, along with foods, feeds and beverages (up $415 million). Final data, which will include the service-sector trade surplus, will be released Oct. 5.

- **New Home Sales:** After declining for seven straight months, new single-family home sales jumped 28.8% from 532,000 units at the annual rate in July, which was the weakest reading since March 2016, to 685,000 units in August. Sales increased in every region of the country. Sharply higher mortgage rates and affordability issues have rocked the housing market, but with interest rates declining somewhat in August, new home sales rebounded. With that said, mortgage rates have soared once again, suggesting that the September data will be weaker. Over the past 12 months, single-family home sales edged down 0.1% since August 2021, down from 686,000 units last year.

  The supply of new single-family homes for sale on the market decreased from 10.4 months in July, which was the highest since April 2009, to 8.1 months in August. The median sales price for new homes was $436,800 in August, up 8.0% year-over-year but down from April's record ($458,200).

- **Personal Consumption Expenditures Deflator:** The PCE deflator rose 0.3% in August, rebounding after edging down 0.1% in July. Energy prices fell for the second straight month, dropping 5.5% in August, helping to moderate the headline index. Yet, food costs increased 0.8%, continuing to rise solidly year to date. Excluding food and energy prices, the PCE deflator increased 0.6% in August, bouncing back strongly after being flat in July.

  Overall, the PCE deflator has risen 6.2% over the past 12 months, decelerating for the second month from the 7.0% year-over-year pace in June, which was the strongest since December 1981. Excluding food and energy, core PCE inflation was 4.9% in August, up from 4.7% year-over-year in July but down from 5.0% in June. The core PCE deflator was 5.4% year-over-year in February and March, both of which were the fastest paces of inflation since April 1983.

  Inflation continued to be a major concern in the economy, tied with workforce challenges and closely following supply chain issues in the latest NAM Manufacturers' Outlook Survey. While there has been some moderation from 40-year-high paces seen in recent months, pricing pressures remain stubbornly high, with core inflation picking up again in August. This trend was also seen in consumer price data.

  For its part, the Federal Reserve intends to stay aggressive in its attempts to wring inflation out of the U.S. economy, with another 75-basis-point rate hike expected at its Nov. 1–2 meeting. If so, it would be the fourth consecutive meeting with such an extraordinary rate hike. A 50-basis-point increase is anticipated for the Dec. 13–14 meeting. But core inflation should remain highly elevated and above the Federal Reserve's stated goal of 2% over the long term. The current outlook is for the core PCE deflator to be roughly 4.0% year-over-year in December.

- **Personal Income and Spending**: Personal consumption expenditures rose 0.4% in August, rebounding after declining 0.2% in July. With that said, spending on durable goods edged up 0.1% in August, but nondurable goods purchasing fell 0.8%. Overall, goods purchasing decreased 0.5% for the month, but service-sector spending rose 0.8%. Despite mixed results in the latest data, personal spending increased 8.2% year-over-year.

  Meanwhile, personal income rose 0.3% in August, the same pace as in July. Wages and salaries also increased 0.3% for the month. Over the past 12 months, total wages and salaries have jumped 8.6%, with manufacturing wages and salaries rising 7.2% year-over-year.

  The personal saving rate was unchanged at 3.5% in August and was up from 3.0% in June, which was the lowest since April 2008. As such, while Americans have generally been more willing to dip into their savings this year, savings have picked up somewhat in July and August.

- **Real GDP by Industry**: The U.S. economy shrank 0.6% at the annual rate in the second quarter (see above). Real GDP in the manufacturing sector fell by an annualized 8.5% in the second quarter, extending the 3.1% decline in the first quarter. Manufacturing subtracted 0.97 percentage points from headline real GDP growth in the second quarter, being a drag on growth in three of the past four quarters.

  With that said, manufacturing value-added output increased from $2.703 trillion in the first quarter to $2.768 trillion in the second quarter, an all-time high. Value-added output rose to new record levels in the second quarter for both durable goods (up from $1.487 trillion to $1.503 trillion) and nondurable goods (up from $1.217 trillion to $1.265 trillion).

  Manufacturing accounted for 11.0% of value-added output in the U.S. economy in the second quarter, up from 10.9% in the first quarter and the highest percentage since the fourth quarter of 2019.

  Meanwhile, manufacturing gross output increased from $6.972 trillion in the first quarter to a record $7.313 trillion in the second quarter. New all-time-high readings occurred in the second quarter for both durable goods (up from $3.498 trillion to $3.630 trillion) and nondurable goods (up from $3.474 trillion to $3.683 trillion).

  Yet, those new records were buoyed by higher prices. Indeed, real value-added output in the manufacturing sector decreased for the second consecutive quarter from a record pace at the end of 2021, down from $2.306 trillion in the first quarter to $2.256 trillion in the second quarter, as expressed in chained 2012 dollars. In the second quarter, real value-added output fell from a record $1.328 trillion to $1.314 trillion for durable goods, with real value-added output for nondurable goods declining from $0.980 trillion to $0.945 trillion.

- **Richmond Fed Manufacturing Survey**: Manufacturing activity was flat in September, according to the Richmond Federal Reserve Bank. The composite index of general business activity rose from -8 in August to zero in September. New orders and the backlog of orders declined for the sixth straight month in the latest survey, with capacity utilization contracting for the fifth consecutive month. Hiring growth stalled. On the other hand, shipments rebounded, and capital expenditures and wages both strengthened.

Meanwhile, manufacturers remained positive in their outlook for the next six months, with solid gains predicted for capital spending and employment. Respondents expected wage growth to increase at very elevated rates moving forward. With that said, manufacturers anticipated local business conditions, vendor lead times and inventories to remain negative.

Inflation remained a significant challenge, even with some easing from recent highs. Costs for raw materials rose 10.34% in September, with the prices received for goods and services up 7.66%. In addition, respondents anticipated an annualized 5.14% increase in costs six months from now, with the expected prices received rising 4.50%.

- **University of Michigan Consumer Sentiment (Revision):** After dropping to a record low in June (50.0), the Index of Consumer Sentiment has risen for three straight months, edging up from 58.2 in August to 58.6 in September, according to preliminary data from the University of Michigan and Thomson Reuters. This was lower than the previous estimate of 59.5. Americans felt more upbeat in their assessments of the current economy, but their expectations for future conditions was unchanged from August. Despite some improvement from June, consumer confidence remains very low, with ongoing worries about inflation and the economic outlook.

- **Weekly Initial Unemployment Claims:** The week ending Sept. 24 saw 193,000 initial unemployment claims, down from 209,000 for the week ending Sept. 17 and the lowest since the week of May 5. This speaks to the ongoing strength in the labor market, even amid ongoing global economic challenges. In addition, the week ending Sept. 17 saw 1,347,000 continuing claims, down from 1,376,000 for the week ending Sept. 10 and an 11-week low.

Take Action

- **MFG Day Kickoff Event at SAS Headquarters**
  The NAM and The Manufacturing Institute—the workforce development and education partner of the NAM—are planning to celebrate MFG Day at a kickoff event at SAS headquarters in Cary, North Carolina, on Wednesday, Oct. 5, from 9:30 a.m. to 1:30 p.m. EDT. This live, in-person event will include an executive panel on how technology and analytics are transforming the industry and its workforce, a creators' panel spotlighting the many paths students can take into exciting, high-tech manufacturing careers and interactive exhibits of the latest analytics-driven innovations in manufacturing. If you are interested in attending, click here.

- **Be Part of Manufacturing's Premier Workforce Event**
  The MI invites you to its inaugural Workforce Summit on Oct. 18–20 at the Hyatt Regency in Cincinnati, Ohio, where manufacturers, thought leaders, educators, business association leaders and human resource and workforce development professionals will convene to discuss innovations in workforce development and the future of manufacturing. Click here for more information and to register.

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