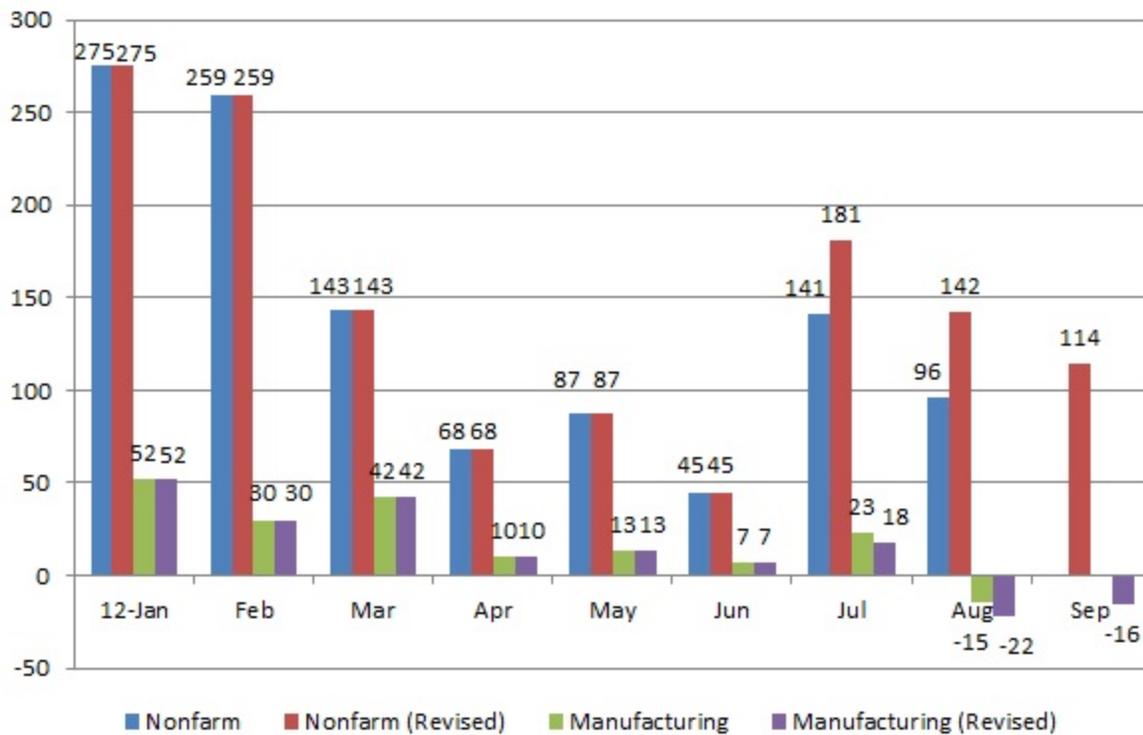




October 9, 2012

Monthly Employment Changes, in Thousands of Workers

(Job Gains or Losses Estimated This Month vs. Last Month)



On Friday, the Bureau of Labor Statistics (BLS) announced that the unemployment rate fell from 8.1 percent in August to 7.8 percent in September. This unexpected drop was largely the result of 873,000 additional employees counted in the household survey, with a sizable portion of that stemming from more people working part time because they could not find full-time work. The household survey is more volatile than the separate survey of business establishments (from which the sector-by-sector job gains or losses are derived). As such, it will be closely watched next month to see if this increase holds. I suspect that it will not, with the unemployment rate possibly creeping back up to 8 percent or more in the coming months.

The lower unemployment rate does not change the fact that the economy remains weak, especially for the manufacturing sector. There were just 114,000 non-farm payroll jobs added in September, with 16,000 fewer manufacturing workers. This was the seventh consecutive month of overall disappointing non-farm payroll growth, and manufacturers have now lost 38,000 employees in just the past two months. This speaks to the significant weaknesses seen in the global economy and uncertainties about U.S. growth heading into 2013.

Data on manufacturing activity last week was mixed. The Census Bureau noted steep declines in new durable

goods orders. This decrease was mainly in the transportation sector, particularly for aircraft, but sales and shipments of durable goods were largely down across-the-board. However, nondurable goods activity was higher. The Census Bureau also found that manufacturing construction spending declined in August for the third straight month.

Meanwhile, two other datasets reported recent improvements. The Institute for Supply Management's (ISM) Purchasing Managers' Index surprisingly rose from 49.6 in August to 51.5 in September. New orders helped to lift the overall index, even as export sales continued to contract. The importance of this data is that the ISM index suggested modest growth last month, ending what would have been the fourth consecutive month of contracting activity. Part of these gains could have been in the auto sector, as AutoData reported that motor vehicle sales jumped last month from 14.5 million to 14.9 million units sold at the annual rate.

This week, one of the highlights will be the international trade numbers, which come out on Thursday. As noted in our new publication, [Global Manufacturing Economic Update](#), six of our top 10 trading partners are experiencing contracting activity right now, hurting our ability to grow exports there. The July trade numbers reflected this weaker activity, with August export and import data expected to be similar. Other economic indicators to look for in the coming days include the latest Beige Book findings from the Federal Reserve and information on job openings, consumer sentiment and producer prices. Manufacturing surveys will also be released from both the Manufacturers Alliance for Productivity and Innovation (MAPI) and Chapman University in California.

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Economic Indicators

Last Week's Indicators:

(Summaries Appear Below)

Monday, October 1

Construction Spending
ISM Manufacturing Index

Tuesday, October 2

Motor Vehicle Sales

Wednesday, October 3

ADP Employment Report

Thursday, October 4

Factory Orders

Friday, October 5

BLS Employment Report
Consumer Credit

This Week's Indicators:

Monday, October 8

COLUMBUS DAY HOLIDAY

Tuesday, October 9

California Manufacturing Survey
NFIB Small Business Survey

Wednesday, October 10

Federal Reserve Beige Book
Job Openings and Labor Turnover Survey
Wholesale Trade

Thursday, October 11

International Trade
MAPI Manufacturing Survey

Friday, October 12

Producer Price Index
University of Michigan Consumer Sentiment

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Summaries of Last Week's Economic Indicators

ADP Employment Report

[Automated Data Processing \(ADP\) reported that total non-farm payrolls rose 162,000 in September, below the 189,000 workers added in August.](#) This suggests modest growth in employment last month, and the figure was slightly above expectations, which were around 140,000. The bulk of the net new jobs came from the service sector, which added 144,000 employees on net.

Manufacturers hired just 4,000 more workers on net in September, making it the sixth consecutive month in a row of lackluster job growth for the sector. This corresponds with weaker global growth and rising anxieties about the future of the U.S. market. For the goods-producing sector as a whole (including construction, mining and utilities), there was a net gain of 18,000 employees.

As with past reports, small and medium-sized establishments accounted for most of the net job gains, or 89.5 percent of them in September. In fact, large goods producers added just 1,000 workers for the month.

BLS Employment Report

[The unemployment rate dropped unexpectedly from 8.1 percent in August to 7.8 percent in September, according to the BLS.](#) The unemployment rate stems from a survey of households, which showed a large jump in the number of employed individuals (up from 142.1 million in August to 143.0 million in September). With such a large increase, the unemployment rate fell. These numbers are often volatile. Time will tell if these numbers hold when the October numbers are released on November 2. The unemployment rate could go back over 8 percent at that time, particularly if the participation rate rises or the increase in part-time employment proves temporary.

Monthly employment changes come from a different survey of business establishments. Using this survey, significant revisions to the July and August data were behind the improvement. As you can see in the attached graphic, July's non-farm payrolls rose from 141,000 to 181,000, while August's non-farm payrolls rose from 96,000 to 142,000. This suggests an increase of 86,000 workers more than originally stated. For manufacturers, the revisions show that the sector lost more jobs in July and August than we thought, with the industry adding 18,000 workers in July (instead of 23,000) and shedding 22,000 workers in August (instead of 15,000).

Despite the lower unemployment rate, the economy remains weak. In fact, only 114,000 non-farm payroll workers were added in September, continuing a disappointing streak of job creation since the spring. Manufacturing lost 16,000 workers, bringing its two-month loss to 38,000 employees.

Looking at specific manufacturing sectors, durable goods businesses were hit harder in September than nondurables, with both seeing declines (down 13,000 and 3,000, respectively). Sectors with the largest declines included computer and electronic products (down 5,500), primary metals (down 3,400), printing and related support activities (down 3,200), transportation (down 3,000), and miscellaneous manufacturing (down 1,500). However, some sectors increased, including wood products (up 1,700), chemicals (up 1,600) and food manufacturing (up 600).

Despite the lower employment numbers overall, manufacturing workers did have a slight uptick in the average workweek, up from 40.5 hours to 40.6 hours (mainly from durable goods sectors). The average amount of overtime was the same at 3.2 hours. Likewise, the average weekly earnings for manufacturing workers rose from \$971.60 to \$976.02.

Construction Spending

[The Census Bureau reported that construction spending fell 0.6 percent in August, extending the 0.4 percent decline in July.](#) The decrease stemmed entirely from weaknesses in the nonresidential sector, which was off 1.3 percent. Residential construction grew 0.9 percent for the month, building on its rebound over the past year. In fact, residential construction spending is up 16.1 percent since August 2011.

Manufacturing spending peaked at an annualized \$49.4 billion in May. Since then, it has declined for three straight months, with August spending of \$46.9 billion at the annual rate. August's decrease was 0.7 percent. Nonetheless, manufacturers have increased their investments in construction projects over the course of the past year overall, with year-over-year growth of 6.1 percent.

Other nonresidential sectors with decreases in August include communications (down 3.7 percent), power (down 3.7 percent), commercial (down 1.3 percent), religious (down 1.2 percent) and educational (down 0.9 percent). Only two major sectors had gains in nonresidential data: amusement and recreation (up 1.2 percent) and transportation (up 0.2 percent).

Public construction spending was also lower, down 0.9 percent for the month and down 2.7 percent year-over-year. Among the weakest areas for public construction spending in August were amusement and recreation (down 4.3 percent), educational (down 3.4 percent), conservation and development (down 3.0 percent), office (down 2.9 percent) and transportation (down 1.6 percent). Public construction spending was higher, however, for commercial (up 4.6 percent), public safety (up 3.2 percent), health care (up 3.0 percent), sewage and waste disposal (up 2.7 percent) and power (up 2.6 percent) projects.

Consumer Credit

The Federal Reserve Board reported that consumer credit outstanding rose 8 percent in August, reversing its decline in July. Total borrowing rose from \$2.708 trillion in July to \$2.726 trillion in August. Both revolving and nonrevolving loans were higher for the month, up 5.9 percent and 9.0 percent, respectively.

Revolving loans, which include credit cards and other credit lines, bounced back from declines in June and July. This increase in borrowing corresponds with higher consumer spending in July and August. This uptick in purchasing obviously coincided with more Americans pulling out their credit cards, as the savings rate dipped to 3.7 percent in August.

Meanwhile, nonrevolving credit has grown significantly over the past year or so, led by strong gains in auto and student loans. However, August's gain essentially brought this borrowing back closer to where it was in June before July's decline.

Factory Orders

The Census Bureau reported that new orders for manufactured goods fell a dramatic 5.2 percent in August. Some of this decline is not news, as it had already been announced that durable goods orders were down 13.2 percent. The bulk of this decline came from the fact that there were no nondefense aircraft orders reported in August. Motor vehicle, defense aircraft and shipbuilding numbers were also weaker. Overall, transportation orders declined 34.9 percent.

If you exclude transportation from the analysis, new orders would have risen 0.7 percent in August. This increase clearly came from the nondurables sector, which saw a 2.2 percent gain for the month. The declines among durable goods sectors were fairly broad-based, with the electrical equipment and appliances sector being the lone major component with increased sales in August (up 3.8 percent). Decreases were observed in the machinery (down 5.0 percent), computers and electronic products (down 3.4 percent), primary metals (down 2.1 percent), fabricated metal products (down 0.4 percent) and furniture (down 0.4 percent) sectors.

Meanwhile, shipments of manufactured goods decreased 0.3 percent in August. Once again, the transportation sector led in pulling the durable goods statistics lower (down 2.9 percent). Nondurable goods shipments rose 2.2 percent. Shipments in petroleum and coal products increased 6.9 percent, making it the fastest gainer in the nondurable goods sector.

ISM Manufacturing Index

The expectation had been for the ISM to report a fourth consecutive month of contracting activity in September. Instead, ISM's Purchasing Managers' Index surprised everyone with an increase from 49.6 in August to 51.5 in September. This moved the figure into expansionary territory for the first time since May.

The increase in the September ISM appears to be due to a slight increase in domestic sales. The index for new orders increased from 47.1 to 52.1. However, even with the increase in domestic sales, we saw a decline in September in export sales given the slowing economy in Europe and other parts of the world.

The production measure of the report also reflected continued contraction, albeit with gains which brought its index to near neutral (from 47.2 to 49.5). As a result, the backlog of orders has slowed its rate of decline. Another area of concern is pricing pressures, which began to accelerate again, consistent with other surveys.

Overall, today's ISM numbers were a surprise suggesting a degree of positivity that other data points have not reported, particularly as they related to new sales. If true, it would be welcome news, as it could suggest modest improvements in manufacturing activity in the coming months. Yet, concerns remain, particularly regarding still-contracting exports and uncertainties about the upcoming fiscal abyss. These headwinds have the ability to continue to derail economic growth and production moving forward, particularly if they are not addressed before the end of the year.

Motor Vehicle Sales

[According to AutoData, motor vehicle sales jumped from an annualized 14.5 million units in August to 14.9 million units in September.](#) This increase was in both automobiles (up from 7.4 million to 7.7 million units) and light trucks (up from 7.1 million to 7.3 million units). For the most part, it suggests the weaker volumes in late summer have started to rebound, with the current rate at its highest point since March 2008. On a year-over-year basis, motor vehicle sales were up 13.7 percent.

Looking specifically at domestic versus foreign automakers, the bulk of the increase in September stemmed from imported vehicles. Imported motor vehicle sales rose from 2.08 million to 2.37 million units, and imported trucks increased from 0.86 million to 0.97 million units. Meanwhile, domestic car and truck volumes were mostly unchanged in September at 5.31 million and 6.29 million units, respectively.

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