



October 15, 2012

Manufacturing Job Hires & Separations

(in thousands of workers, January 2010 to August 2012)



The Federal Reserve Board's most recent Beige Book noted some modest improvement during the past month. However, it is hard to deny that the current economic environment remains weak, particularly for manufacturers. While production activity has either picked up or at least stabilized in some regions of the country, there continues to be increasing uncertainty regarding a slowing global economy and the looming fiscal abyss.

Surveys released last week echoed this sentiment. Surveys from Chapman University in California and the Manufacturers Alliance for Productivity and Innovation (MAPI) found that manufacturing activity eased from the previous quarter, led by slower sales, especially for exports. The exception was high-tech manufacturers, which continue to show strong growth. Survey respondents mentioned the fiscal abyss as a challenge, with more than 40 percent of those taking the MAPI survey pessimistic that Congress will avert a crisis. Meanwhile, the National Federation of Independent Business (NFIB) reported that its Small Business Optimism Index remained virtually unchanged, even as owners experienced weaker sales and earnings growth.

Other data points were more mixed. The University of Michigan's Consumer Sentiment Index rose from 78.3 in September to 83.1 in October, its highest point in five years. This index was buoyed by improved expectations of

the future, possibly a counterintuitive measure given the looming fiscal abyss. Yet, it is consistent with other consumer surveys. It might also seem at odds with the latest jobs data, particularly for manufacturers. The latest Job Openings and Labor Turnover Survey findings indicate that the number of job openings in the sector fell for the third straight month, and net hiring turned negative.

Meanwhile, the U.S. trade deficit widened in August, with lower export and import activity overall. Much of the change in the trade balance, however, could be attributed to the increased trade deficit in petroleum markets. Higher per barrel petroleum costs contributed to this shift. For their part, manufactured goods exports were higher in August and on a year-over-year basis, despite significant easing in the demand for our goods.

This week, several data points will add further detail to this analysis. Tomorrow, we will get the latest statistics on industrial production and consumer prices. Producer prices were higher on Friday mainly due to higher energy costs, even as overall inflation remains modest. Expect the same on the consumer front. Regarding production, we saw declining manufacturing activity in August, and the consensus estimates for September are for little, if any, growth. The other key number comes out on Wednesday. Housing starts have been promising this year, and they are expected to increase from the 750,000 annualized units found in August's figures.

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[{Back to top}](#)

Economic Indicators

Last Week's Indicators:

(Summaries Appear Below)

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

This Week's Indicators:

Monday, October 15

Business Inventories

Empire State Manufacturing Survey

Retail Sales

Tuesday, October 16

Consumer Price Index

Industrial Production

NAHB Housing Market Index

Wednesday, October 17

Housing Starts and Permits

Thursday, October 18

Conference Board Leading Indicators

Philadelphia Fed Manufacturing Survey

Friday, October 19

Existing Home Sales

Regional and State Employment

[{Back to top}](#)

Summaries of Last Week's Economic Indicators

California Manufacturing Survey

Growth in California's manufacturing sector has slowed in the fourth quarter, according to the [A. Gary Anderson Center for Economic Research at Chapman University](#). The composite Purchasing Managers' Index (PMI) in its latest survey declined from 61.1 in the third quarter (July) to 58.0 in the fourth quarter (October). These readings suggest that manufacturers in the state continue to experience growth, but at a slower pace than earlier in the year.

The high-tech industries continue to show strong growth, with the PMI for the sector only off slightly from 62.0 to 61.7. Meanwhile, other manufacturers in the state have seen slower growth. The PMI for other durables (aside from high-tech firms) declined from 58.7 to 56.8, and the index for nondurables fell from 62.7 to 57.4. Measures for production, new orders and employment eased their rates of growth in this survey. Raw material prices should rise in the coming months.

Federal Reserve Beige Book

The [Federal Reserve's Beige Book](#) noted some improvements in economic activity since its last report. However, manufacturing activity was mostly mixed. Where production picked up, the gains were mostly modest. This included data from the Boston, Richmond, Atlanta, St. Louis, Kansas City and San Francisco regions. Elsewhere, manufacturers experienced weaker activity levels, including in Dallas, New York, Chicago and Minneapolis.

As shown in other news surrounding manufacturing, there remains a tremendous level of uncertainty right now, with concerns about the global and domestic economies, which the Beige Book summary hinted somewhat. It stated, "Manufacturing contacts in the St. Louis District were tentative about the outlook for 2013, and contacts in the Dallas District noted some uncertainty about the outlook due to the upcoming election." These sentiments were also pointed out in the section on consumer spending, which said, "A number of reports noted various factors affecting sales, such as rising gasoline prices, political uncertainty, concerns about the 'fiscal cliff' and weather." Such comments are woven throughout the district-by-district summaries, as well.

On the jobs front, employment growth remains weak. While some districts indicated that employment levels were flat or up slightly, other regions observed some sluggishness in light of overall weaknesses in the marketplace. As with previous reports, the skills gap—something that remains a top concern for manufacturers—was mentioned. The Beige Book added, "Several districts continued to report that employers were having difficulty filling skilled positions. In response, a few districts noted that firms were starting to increase training programs to meet their staffing needs."

Other key points the report made include modest gains in consumer spending, continued improvements in the residential housing market and modest inflationary pressures. However, some prices were higher—most notably for petroleum and feed prices. Some of the latter was related to the drought. Natural gas prices, on the other hand, have drifted lower.

International Trade

The [Bureau of Economic Analysis and the Census Bureau](#) reported that the U.S. trade deficit was \$44.2 billion in August, an increase from the \$42.5 billion observed in July. The widening of the overall deficit was mostly attributable to a drop in goods exports that was larger than the decline in goods imports. Goods exports decreased from \$130.7 billion to \$128.5 billion; meanwhile, goods imports fell from \$188.5 billion to \$187.8 billion. Slowing global growth is sapping trade activity for both exports and imports.

The petroleum sector can be credited for a fair share of the widening of the trade deficit, most likely due to higher per barrel costs. The petroleum trade balance grew from \$21.0 billion in July to \$23.5 billion in August. Petroleum exports decreased by \$840 million for the month, whereas petroleum imports grew by \$1.6 billion. The non-petroleum trade balance actually *narrowed* from \$36.3 billion to \$35.3 billion with both export and import activity lower. In other words, trade shifts in the petroleum market contributed to the widening of the overall trade deficit.

Total goods exports were lower for the month. The largest declines were in industrial supplies and materials (down \$1.2 billion); foods, feeds and beverages (down \$1.1 billion); consumer goods (down \$422 million); and automotive vehicles and parts (down \$87 million). In contrast, non-automotive capital goods exports increased \$382 million.

On the bright side, manufactured goods exports were higher in August, up from \$80.9 billion to \$86.1 billion (not seasonally adjusted). This data has been highly volatile; however, during the past couple months, as it was \$89.4 billion in June. Therefore, the more important figure to consider is the year-to-date figure. There have been \$680.4 billion in manufactured goods exports in the first eight months of 2012, which is \$43.6 billion more than during the same time period in 2011. Despite the number of headwinds facing the industry, export growth has been positive, albeit significantly below the pace of the previous two years.

Job Openings and Labor Turnover Survey

[The Bureau of Labor Statistics \(BLS\) reported that the number of manufacturing job openings dropped from 273,000 in July to 255,000 in August.](#) This is its lowest level since December 2011, with job postings declining for three straight months.

The other big headline for manufacturing is that net hiring turned negative. The BLS [employment report](#) showed that manufacturing jobs decreased in September for the second consecutive month. In August, manufacturers hired 233,000 workers, down from 244,000 in July. This number is the lowest since June 2009. At the same time, separations—which include layoffs, quits and retirements—rose from 228,000 to 248,000. This suggests net separations of 15,000 workers in August, a reversal of the net hiring of 16,000 observed in July.

The news was less severe for the larger economy. Total job openings declined from 3,593,000 in July to 3,561,000 in August. Both figures represent 2.6 percent of the total workforce, suggesting little change in the number of job postings (even with the slight decrease). Hiring picked up overall, with increases in the professional business services, education and healthcare, accommodation and food services, retail trade, and government sectors. These were somewhat offset by declines in construction; manufacturing; and arts, entertainment, and recreation. Net hiring remained positive, but declined for the month from 190,000 to 36,000.

MAPI Manufacturing Survey

[MAPI reported that its composite index of manufacturing activity eased from 61 in the second quarter to 56 in the third quarter.](#) Interestingly, this index has declined every quarter since the second quarter of 2010, when it stood at just above 80. Despite this quarter's decline, the measure remains over 50, suggesting continued expansion for the sector, albeit at a slower pace.

Still, the lower manufacturing activity levels are consistent with other measures noting recent marketplace weaknesses. New orders had the steepest decline, with sales dipping from 70 to 57. Included in this figure are exports, which have been pulled lower by slower global growth. The index for new export orders declined from 63 to 53, but one year ago, it was 80, illustrating the deterioration in growth for global trade.

Various other components were also weaker, including shipments, inventories, capacity utilization and investment. Shipments of manufactured goods, both to the United States and abroad, are expected to grow at a slower pace in the fourth quarter. In short, manufacturing activity is anticipated to increase, but there is significant softness expected.

Survey respondents were somewhat split between what is the greater threat to the economy—the fiscal abyss or the challenges in Europe. More than 42 percent of respondents believe the sovereign debt crisis in Europe is the biggest threat to the economy, while 39 percent believe the fiscal abyss is the biggest threat. Manufacturers who answered this survey are optimistic that the fiscal abyss can be averted, with 59.3 percent of them feeling that Congress will not allow it to happen. However, that leaves a sizable percentage (more than 40 percent) feeling otherwise.

NFIB Small Business Survey

[The NFIB reported that its Small Business Optimism Index remained virtually unchanged in September.](#) The

index edged slightly lower from 92.9 in August to 92.8 in September. While this is an improvement from June and July, when the index was 91.4 and 91.2, respectively, it is lower than the sentiment observed in April and May when the index was 94.5 and 94.4, respectively.

One year ago, the index stood at 88.9, suggesting some improvement over the past 12 months. Still, historically, a strongly expanding small business sector corresponds to index values of 100 or greater, indicating there is significant room for growth.

Slower sales and reduced earnings have been the main drivers lowering the index over the past four months. The net percentage of sales turned negative in June and has worsened since then, currently standing at -13 percent. Sales are also the most important reason for lower profits. Another concerning data point is the net percentage of small business owners planning to hire in the next three months, which fell from 10 percent to 4 percent for the month. This suggests that hiring intentions eased in September.

However, the net percentage of respondents saying that the next three months would be a good time to expand rose from 4 percent to 7 percent. This is a modest gain, albeit one that suggests weak growth ahead. Small business owners are anxious about the economy, the upcoming elections and the looming fiscal abyss. Respondents saying that the next three months were not good for expansion cited economic conditions and the political climate as the main reasons. The single most important problem according to small business owners was a three-way tie between taxes, poor sales and government regulations and red tape.

Producer Price Index

[The BLS reported that producer prices rose 1.1 percent in September, building on the 1.7 percent gain from August.](#) Energy costs were up 6.4 percent and 4.7 percent, respectively, in August and September. Food prices were also higher, but these increases were mainly at the intermediate and crude levels.

Core prices—which exclude food and energy costs—were unchanged, suggesting that overall inflationary pressures remain modest, at least for now. Finished producer prices have risen 2.2 percent in the past 12 months, with core prices up 2.3 percent.

For manufacturers, producer prices rose 1 percent in September, or 2 percent year-over-year. The past two months have been the beginning of an uptick in pricing pressures after some easing in raw material costs over the spring and summer. Sectors with the fastest growth in input prices include petroleum and coal products (up 5.5 percent), primary metals (up 1.2 percent), food products (up 0.7 percent), wood products (up 0.6 percent) and chemicals (up 0.5 percent). The top manufacturing sectors with declining costs were textile mills, computer and electronic products, and furniture (all with a gain of 0.4 percent).

Meanwhile, costs of intermediate and crude goods rose 1.5 percent and 2.8 percent, respectively, suggesting continued pricing pressures down the line in the production process. This was mainly due to increased food and energy prices. Sharply higher feeds costs—presumably the result of the recent drought—lifted overall food prices.

University of Michigan Consumer Sentiment

[The University of Michigan and Thomson Reuters reported that consumer sentiment rose from 78.3 in September to 83.1 in October, its highest level since late 2007.](#) This was the third consecutive monthly increase, having risen from 72.3 in July. The measure had been expected to decline somewhat, so this result reflects increased optimism among the public. Given the many headwinds facing the economy right now, this is somewhat surprising.

Yet, this report is consistent with a similar one from the Conference Board a couple weeks ago, which reported Americans more cautiously upbeat about the future. Indeed, the primary driver of this month's gain was the improved outlook for the coming months.

Again, this might seem counterintuitive, especially for those who are more concerned about the consequences of the fiscal abyss and/or slowing in the global economy. However, these types of indicators often are a snapshot of

feelings right now, and it may be the case that the public does not feel that the threats from the fiscal abyss are as real as they are political. That disconnect is one that will be discussed more and more as we approach the end of the year, with policymakers attempting to avert the crisis.

Wholesale Trade

The Census Bureau reported that wholesale sales rose 0.9 percent in August, an improvement from the 0.2 percent decline observed in July. The gain was the same for both durable and nondurable goods sales. The strongest increases were in the petroleum, automotive and farm products sectors and miscellaneous durable and nondurable goods. Drugs, chemicals, apparel and miscellaneous nondurables all declined.

Meanwhile, wholesale inventories increased 0.5 percent, or 0.1 percent for durables and 1.2 percent for nondurables. Petroleum had the greatest growth in inventories, most likely the result of higher prices. The remaining sectors were mostly mixed on the inventory front. Gains in machinery, metals and farm products were offset by declines in computer equipment, miscellaneous durables and paper inventories.

[{Back to top}](#)

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