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MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE – January 7, 2019 – SHARE

Manufacturing Job Growth in 2018 Was the Best Since 1997, with Solid Workforce Gains in December

The Weekly Toplines

- Manufacturers added 32,000 workers in December, the best reading of the year and continuing a trend of solid job growth in the sector. Manufacturing firms have generated 284,000 net new employees over the past 12 months, or nearly 24,000 workers per month. In addition, average weekly earnings for nonsupervisory and production workers in manufacturing have increased 3.3 percent over the past 12 months, continuing an upward appreciation in wages due to the tight labor market.

- Nonfarm payroll employment rose a very robust 312,000 in December, the strongest monthly gain since February and well above the consensus estimate of 180,000. At the same time, the unemployment rate increased to 3.9 percent, largely on more Americans entering the labor market, an encouraging sign.

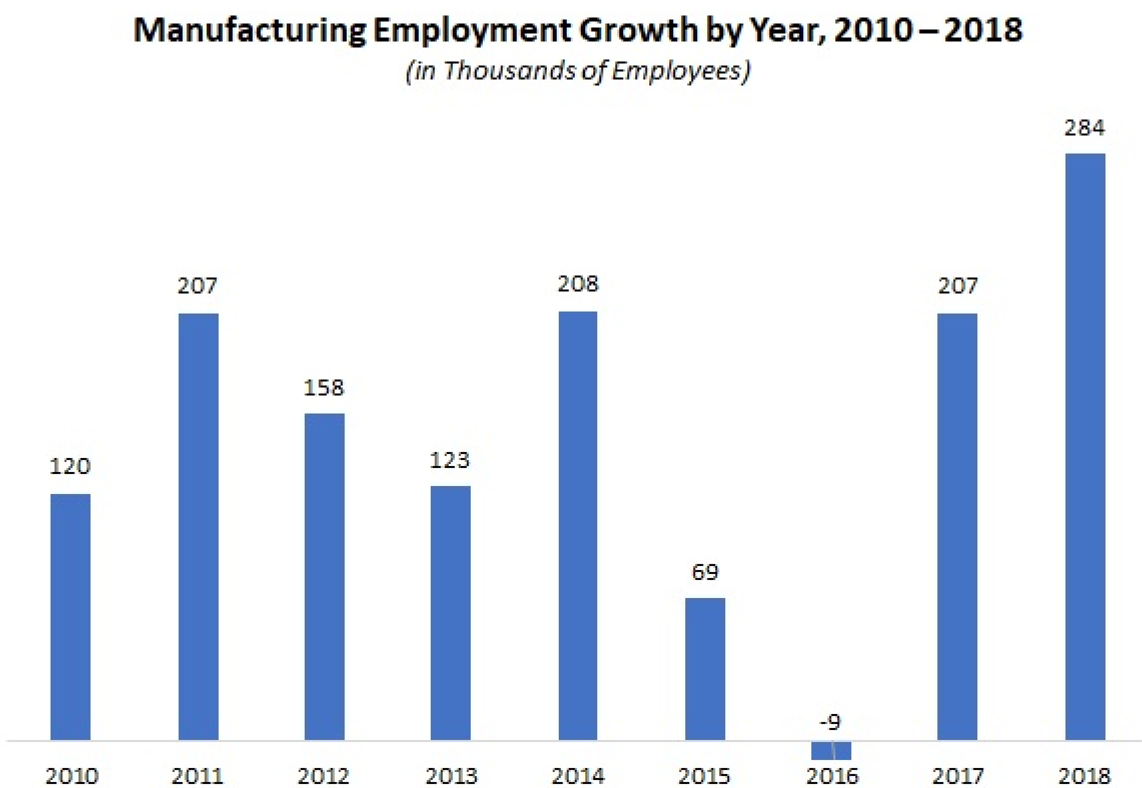
- Overall, businesses remain committed to adding to their workforce on strength in the overall outlook despite recent volatility in financial markets and uncertainties about the global economy and trade. Note that the inability to attract and retain workers remains manufacturers' top problem, with job openings in the sector at an all-time high. (There will be an update on job openings on January 8, but it is likely to continue to show there are more postings than people who are actively looking for work.)

- The positive employment news stands in contrast to signs that the global economy is slowing. The ISM® Manufacturing Purchasing Managers' Index® provided some evidence of this, weakening to the slowest pace since November 2016, with survey respondents citing global growth and trade uncertainties as concerns.

- The good news—such as it is—is that manufacturing activity in the ISM® release continued to expand in the latest data, but sentiment has clearly softened as manufacturers digest volatilities in the marketplace. Financial markets, for instance, worry about global growth in light of weaknesses in China, including warnings about corporate earnings and contracting manufacturing activity for the first time since May 2017. (For more on international conditions, see the latest Global Manufacturing Economic Update, which will be out on January 10.)

- Despite those worries, it is important to keep it all in perspective. For the most part, the forecasts for this year call for slowing, not declining, growth in real GDP, and while the risk of a downturn rises as the year progresses, a recession is not necessarily in the cards for 2019. For instance, I would peg the risk of a recession over the next 12 months at around 20 percent, increasing to about 40 percent by year's end and into 2020. Those chances are not insignificant, but they suggest that a recession is not imminent.

- The U.S. economy will likely have expanded by 2.9 percent in 2018, the fastest pace since 2005, according to my estimates, with a fourth quarter reading of 2.6 percent. In 2019, the forecast is for 2.5 percent growth, but downside risks could push that outlook somewhat lower.



Economic Indicators

Last Week's Indicators:

This Week's Indicators:

(Summaries Appear Below)

Monday, December 31
NEW YEAR'S EVE

Tuesday, January 1
NEW YEAR'S DAY

Wednesday, January 2
None

Thursday, January 3
ADP National Employment Report
*Construction Spending**
ISM® Manufacturing Purchasing Managers' Index®

Friday, January 4
BLS National Employment Report

Monday, January 7
*Factory Orders and Shipments**

Tuesday, January 8
Consumer Credit
*International Trade Report**
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, January 9
None

Thursday, January 10
Philadelphia Fed Manufacturing Survey

Friday, January 11
Consumer Price Index

**This indicator will not be released on schedule due to the partial government shutdown.*

Deeper Dive

- **ADP National Employment Report:** Manufacturers added 12,000 workers in December, according to ADP estimates, rebounding from November's pace (2,000), which was the slowest monthly gain since December 2016. In addition, the sector has added roughly 16,400 employees per month over the past 12 months, a relatively healthy pace. Meanwhile, total nonfarm private employment increased by 271,000 in December, the best reading since February 2017 and an improvement from the gain of 157,000 in November. (The November job gain was estimated originally to be 179,000.) The labor market has grown robustly overall, with just more than 206,000 employees generated per month on average over the past 12 months. Eighty percent of the net new jobs created in December came from small and medium-sized businesses.

- **BLS National Employment Report:** Manufacturers added 32,000 workers in December, the best reading of the year and continuing a trend of solid job growth in the sector. Manufacturing firms have generated 284,000 net new employees over the past 12 months, or nearly 24,000 workers per month. As such, 2018 was the best year for manufacturing employment growth since 1997, improving upon the 207,000 workers added in 2017. Indeed, manufacturing was a bright spot last year, buoyed by tax reform, smart regulatory policies and a stronger economic outlook.

  Overall, businesses remain committed to adding to their workforce on strength in the overall outlook despite recent volatility in financial markets and uncertainties about the global economy and trade. Indeed, there were 12,842,000 manufacturing workers in December, with almost 1.4 million employees added since the end of the Great Recession. That is the most workers in the sector since December 2008.

Average weekly earnings for nonsupervisory and production workers in manufacturing have increased 3.3 percent year-over-year to $915.60, continuing an upward appreciation in wages due to the tight labor market. To illustrate that point, the year-over-year rate averaged 3.4 percent in 2018, up from the average of 2.4 percent in 2017.

Meanwhile, nonfarm payroll employment rose a very robust 312,000 in December, the strongest monthly gain since February and well above the consensus estimate of 180,000. At the same time, the unemployment rate ticked up from 3.7 percent, the lowest since December 1969, to 3.9 percent. This was the result of an increased labor participation rate from 62.9 percent to 63.1 percent, the highest since March 2014. This is a sign that more Americans are entering the labor market, which is encouraging.

- **Construction Spending:** This indicator from the Census Bureau will be updated once the partial government shutdown ends.

- **ISM® Manufacturing Purchasing Managers' Index® :** Manufacturing activity weakened materially in December to the slowest pace since November 2016, according to the Institute for Supply Management® (ISM®). The headline index dropped from 59.3 in November to 54.1 in December, with survey respondents citing global growth and trade uncertainties as concerns. Indeed, growth in new orders, production and employment all eased for the month. The index for sales growth, for instance, dropped from a robust reading of 62.1 in November to a modest gain of 51.1 in December, the weakest rate of growth since August 2016. The good news—such as it is—is that activity continued to expand in the latest data, but sentiment has clearly softened as manufacturers digest volatilities in the marketplace.

Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.

NATIONAL ASSOCIATION OF Manufacturers