<

MONDAY ECONOMIC REPORT

Essential Takes on Leading Economic Indicators

By Chad Moutray, Ph.D., CBE - June 10, 2019 - SHARE

Manufacturing Activity, Hiring Slowed Notably in Latest Data

The Weekly Toplines

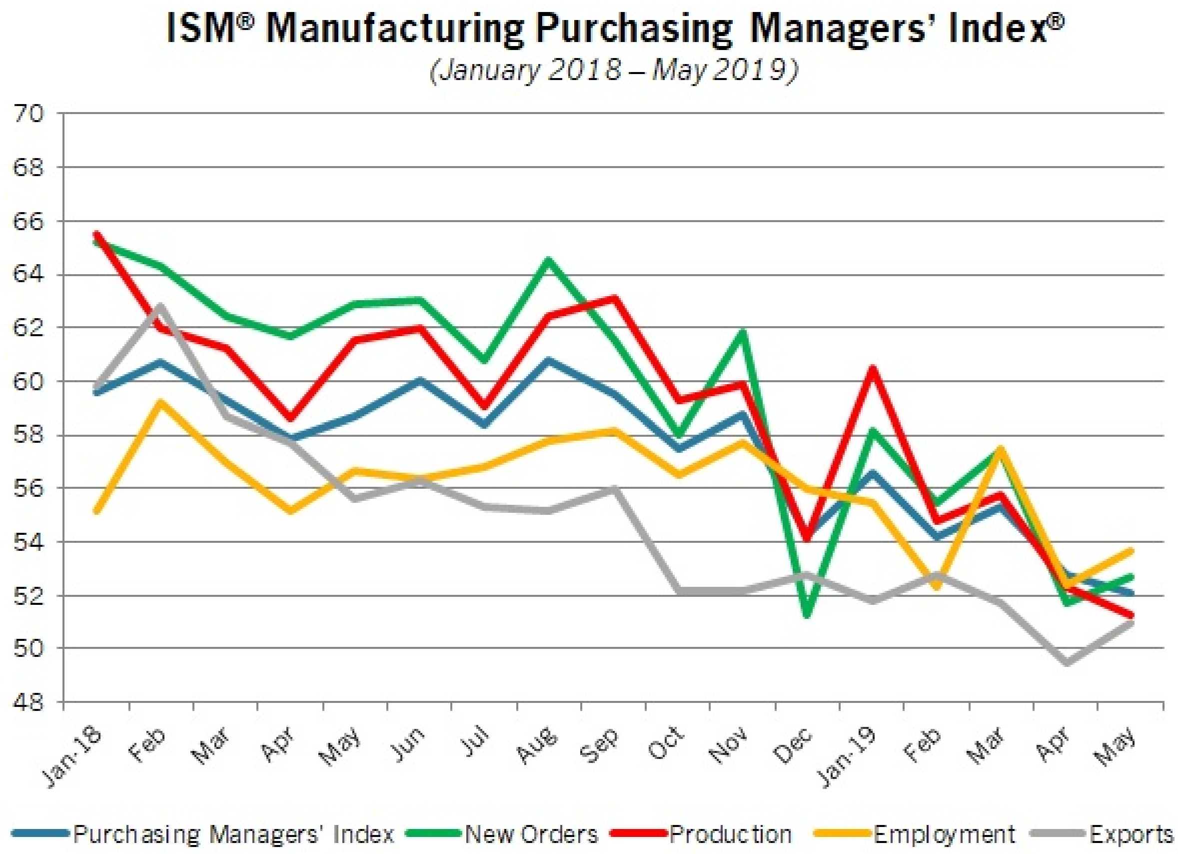
- The Institute for Supply Management's Manufacturing Purchasing Managers' Index grew at the slowest pace since October 2016, with the headline index declining from 52.8 in April to 52.1 in May. Trade concerns were front and center in respondents' minds, according to the sample comments. With that said, the sector has now expanded for 33 straight months, albeit with more softening, and the pace of new orders improved in the May survey.
- Weaker U.S. and global growth has impacted overall hiring negatively. Manufacturing employment rose by 3,000 workers in May, with the sector's pace of job growth remaining more sluggish than desired for the fourth straight month. Indeed, manufacturers have added just 13,000 employees since February--a stark contrast to the 93,000 workers created in the sector over the four prior months.
- With that said, there were 12,839,000 employees in manufacturing in May, the most since December 2008. In addition, firms continue to cite a difficulty in obtaining talent as a top concern, with elevated job openings data. It is hoped this would signal stronger job growth moving forward.
- In the larger economy, nonfarm payrolls increased by just 75,000 workers in May, and there were sizable downward revisions in the March and April data. Still, the unemployment rate stayed at 3.6 percent, remaining the lowest rate since December 1969. As such, the labor market remains tight overall despite some softness in the May data. Moreover, the so-called "real unemployment rate" fell to 7.1 percent, a rate not seen since December 2000.

- New orders for manufactured goods fell 0.8 percent in April, but increased 0.3 percent with transportation equipment excluded. Overall, factory orders have risen just 1.0 percent over the past 12 months, highlighting some flattening in sales growth for the sector in recent months. In addition, new orders for core capital goods (or nondefense capital goods excluding aircraft)--a proxy for capital spending in the U.S. economy--decreased 1.0 percent in April, and over the past 12 months, core capital goods spending has increased 1.2 percent.

- Private manufacturing construction spending fell 7.2 percent in the latest data, down from $73.59 billion at the annual rate in March to $68.33 billion in April. As such, construction activity plummeted from the best reading since November 2016 to a three-month low. Nonetheless, the value of construction put in place in manufacturing has jumped 11.5 percent from one year ago.

- The U.S. trade deficit edged slightly lower in April, with the decline in goods imports outpacing the decrease in goods exports for the month. More worrisome perhaps, U.S.-manufactured goods exports have decreased 1.18 percent year to date in 2019 relative to the first four months of 2018, highlighting weaker international demand and a turnaround from better data in the past two years.

- The Federal Open Market Committee meets June 18-19, and the softer-than-desired jobs data (along with weaker growth in other indicators) increase the likelihood of the Federal Reserve cutting interest rates, either at that meeting or the next one, which will be July 30-31. Pricing pressures have decelerated in recent months, including the closely watched PCE deflator, which allow participants the luxury of being more "dovish" in setting monetary policy.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, June 3
Construction Spending
ISM Manufacturing Purchasing Managers' Index

Tuesday, June 4
Factory Orders and Shipments

Wednesday, June 5
ADP National Employment Report

Thursday, June 6
International Trade Report
Productivity and Costs (Revision)

Friday, June 7
BLS National Employment Report

This Week's Indicators:

Monday, June 10
Job Openings and Labor Turnover Survey

Tuesday, June 11
NFIB Small Business Survey
Producer Price Index

Wednesday, June 12
Consumer Price Index

Thursday, June 13
None

Friday, June 14
Industrial Production
Retail Sales
University of Michigan Consumer Sentiment

- **ADP National Employment Report:** Manufacturing employment fell by 3,000 workers in May, according to ADP estimates, declining for the second time in the past three months. This suggests that hiring has softened notably recently, especially relative to the solid pace last year, as activity in the sector has slowed and trade uncertainties have mounted. To further illustrate that point, manufacturers have added 40,000 workers through the first five months of 2019, down from 108,000 for the same period in 2018.

  Meanwhile, total nonfarm private employment rose by just 27,000 in May, the slowest pace of job growth since March 2010 and well below the consensus estimate of around 185,000. Goods-producing sectors, including manufacturing, lost 43,000 workers for the month, with small business employment (e.g., those with fewer than 50 employees) down by 52,000. Despite the weaker data in May, the private sector has added 940,000 workers year to date, but that was somewhat slower than the 1,137,000 jobs created in the first five months of last year.

- **BLS National Employment Report:** Manufacturing employment rose by 3,000 workers in May, with the sector's pace of job growth remaining more sluggish than desired for the fourth straight month. Indeed, manufacturers have added just 13,000 employees since February--a stark contrast to the 93,000 workers created in the sector over the four prior months. This suggests that hiring growth has slowed recently, coinciding with weaker-than-desired demand and production figures, both in the U.S. and globally. With that said, there were 12,839,000 employees in manufacturing in May, the most since December 2008. In addition, firms continue to cite a difficulty in obtaining talent as a top concern, with elevated job openings data. It is hoped this would signal stronger job growth moving forward.

  In the larger economy, nonfarm payrolls increased by just 75,000 workers in May, and there were sizable downward revisions in March and April, which subtracted 75,000 in total from prior estimates. Still, over the past 12 months, the U.S. economy has added 196,000 workers on average per month, and the unemployment rate stayed at 3.6 percent, remaining the lowest rate since December 1969. As such, the labor market remains tight overall despite some softness in the May data. Moreover, the so-called "real unemployment rate" fell to 7.1 percent, a rate not seen since December 2000.

  Beyond hiring, earnings growth has also slowed. Production and nonsupervisory employees in nonfarm private businesses earned $785.57 on average for the week in May, up 2.7 percent from one year ago. In the manufacturing sector, production and nonsupervisory workers earned $916.45 on average for the week in May, up 1.8 percent year-over-year. �

- **Construction Spending:** Private manufacturing construction spending fell 7.2 percent in the latest data, down from $73.59 billion at the annual rate in March to $68.33 billion in April. As such, construction activity plummeted from the best reading since November 2016 to a three-month low. This is discouraging news, but overall, it continues to represent progress over the past year. Private manufacturing construction spending was just $60.77 billion at the annual rate in May 2018, for instance, which was the lowest level since September 2014. Along those lines, the value of construction put in place in manufacturing has jumped 11.5 percent from one year ago. Nonetheless, manufacturing construction activity remains below the all-time high of $82.1 billion in May 2015.

Meanwhile, total construction spending was flat in April. Private residential and nonresidential spending decreased 0.6 percent and 2.9 percent, respectively. However, public sector construction rose 4.8 percent. Over the past 12 months, private nonresidential construction activity has risen 0.6 percent, but private residential construction has declined 11.4 percent.

- **Factory Orders and Shipments:** New orders for manufactured goods fell 0.8 percent in April, pulling back after rising 1.3 percent in March. Transportation equipment sales declined 5.9 percent, with motor vehicles and nondefense aircraft off 1.7 percent and 25.2 percent, respectively. Aircraft demand is highly volatile from month to month. Excluding transportation equipment, factory orders increased 0.3 percent in April for the third straight month. Overall, factory orders have risen just 1.0 percent over the past 12 months, highlighting some flattening in sales growth for the sector in recent months.

  In addition, new orders for core capital goods (or nondefense capital goods excluding aircraft)--a proxy for capital spending in the U.S. economy--decreased 1.0 percent in April, and over the past 12 months, core capital goods spending has increased 1.2 percent.

  Meanwhile, shipments declined 0.5 percent in April, but edged up 0.2 percent with transportation equipment excluded. Since April 2018, manufactured goods shipments have increased 2.2 percent, with core capital goods shipments up a modest 2.9 percent year-over-year.

- **International Trade Report:** The U.S. trade deficit edged slightly lower, down from $51.91 billion in March to $50.79 billion in April. In the latest figures, goods exports (down from $141.32 billion to $136.94 billion) fell to the lowest level year to date, but goods imports (down from $214.04 billion to $208.66 billion) declined by more and to the slowest pace since January 2018. For good exports, all major categories declined except for foods, feeds and beverages, which were boosted by increased exports for animal feeds, corn and wheat. Beyond goods, the service-sector trade surplus rose to a 10-month high, up from $20.81 billion to $20.92 billion.

  In non-seasonally adjusted data, U.S.-manufactured goods exports totaled $373.42 billion through the first four months of 2019, down 1.18 percent from $377.87 billion for the same period in 2018. This suggests that international demand for U.S.-manufactured goods has weakened so far this year after experiencing better data in both 2017 and 2018.

- **ISM Manufacturing Purchasing Managers' Index:** The Institute for Supply Management reported that manufacturing activity expanded at the slowest pace since October 2016 in May. The composite index declined from 52.8 in April to 52.1 in May, largely on softening production data. The sample comments also point to ongoing concerns on the trade front, which were front and center in respondents' minds. With that said, the manufacturing sector continued to expand for the 33rd straight month, albeit with more softening. In addition, the pace of new orders and employment improved in May, growing somewhat modestly, and export orders increased after declining in the prior survey.

  There were two other things of note in the latest report. First, pricing pressures--a major concern several months ago--have lessened substantially since then. While the index for prices rose from 50.0 to 53.2, this remains well below the robust pace of input cost growth seen for much of last year. In May 2018, for instance, this measure registered a robust 79.5. Meanwhile, customer inventories remained well below ideal levels, and this would likely necessitate higher production needs if demand strengthened substantially.

- **Productivity and Costs:** Manufacturing labor productivity edged up 0.4 percent in the first quarter, reflecting a sizable downward revision from the prior estimate of 1.7 percent growth. The lower figure reflected weaker output activity, which fell 2.0 percent for the quarter. It was previously reported to be a decline of 1.0 percent. At the same time, hours worked fell 2.4 percent in the first quarter, with unit labor costs up 2.0 percent. Labor productivity for durable goods firms declined 0.6 percent in the first quarter, while up 1.6 percent for nondurable goods manufacturers. In addition, durable and nondurable goods output fell 2.8 percent and 1.1 percent, respectively.

  In contrast to manufacturing, nonfarm business labor productivity was revised higher, up from a previous estimate of 2.4 percent growth in the first quarter to 3.4 percent, the best pace of quarterly growth since the third quarter of 2014. Nonfarm output jumped 3.9 percent, with unit labor costs down 1.6 percent.

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

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Manufacturers