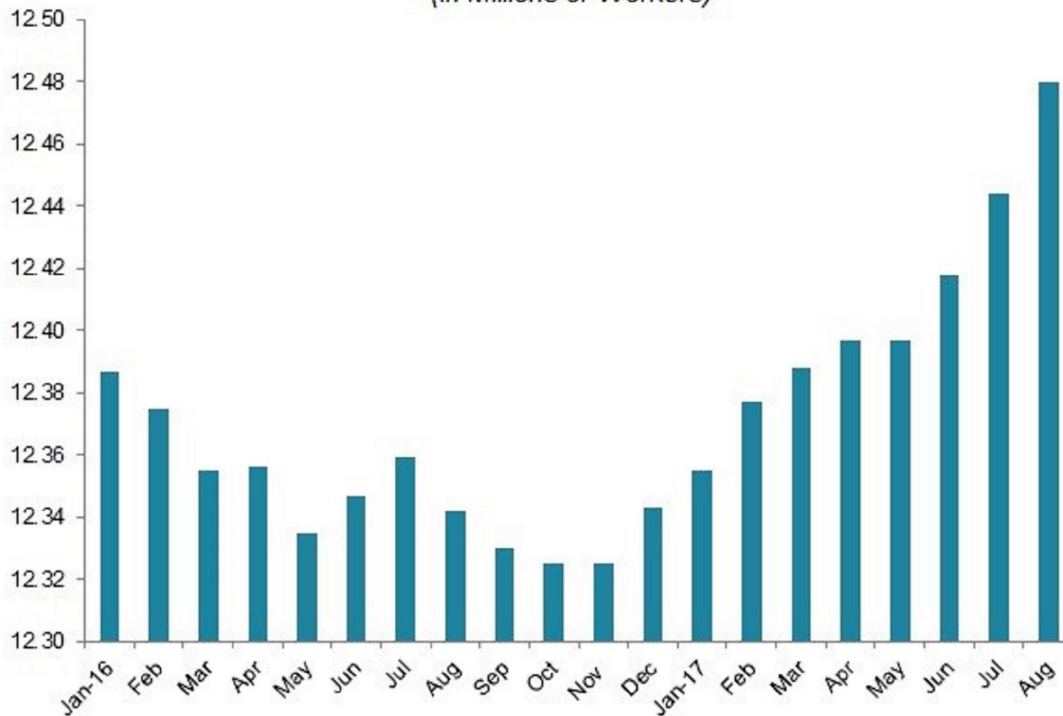




Manufacturing Employment, 2016–2017 (in Millions of Workers)



Manufacturers [added](#) 36,000 net new workers in August, its fastest monthly gain in five years and increasing for the third consecutive month. In addition, the June and July data were revised higher, increasing employment in the sector by a total of 19,000 more than originally estimated. As such, manufacturing was a bright spot in the latest jobs data—a sign that the sector has rebounded from global headwinds over the past two years. Indeed, over the past nine months, manufacturing employment has risen by 155,000, averaging 17,222 per month. That is a definite improvement following the loss of 16,000 workers on net for 2016. Moreover, total manufacturing employment rose to 12.48 million, rising by 1.03 million since the Great Recession and its highest level since January 2009.

At the same time, the U.S. economy increased nonfarm payroll employment by 156,000 in August, which was lower than the consensus estimate of around 180,000. Unlike the manufacturing data described above, the nonfarm payroll data were revised lower in June and July, subtracting a total of 41,000 from those two months' original estimates. The unemployment rate inched up from 4.3 percent in July to 4.4 percent in August. Despite the softer job growth in August, nonfarm payrolls have risen by an average of 175,625 per month year to date, which is a decent pace, and in general, we continue to see strength in the labor market.

There were also strong employment data in the latest [ISM Manufacturing Purchasing Managers' Index](#) (PMI), which increased from 56.3 in July to 58.8 in August, its fastest pace

since April 2011. Growth in hiring also increased at levels not seen in more than six years. In addition, the indices for new orders and production exceeded 60 for the third straight month (and seven of the past nine months), illustrating strong growth in demand and output in the sector overall. In contrast, one year ago, the manufacturing sector contracted slightly with the headline PMI at 49.4, and since then, we have seen tremendous progress. On the international front, exports pulled back a little in this report, but international sales continued to expand modestly overall, rising for the 18th consecutive month. In a similar way, manufacturing activity in the Dallas Federal Reserve Bank's district also [remained strong](#) in August, with leaders very positive about sales and output for the next six months.

Meanwhile, real GDP [grew](#) an annualized 3.0 percent in the second quarter, revised up from an earlier estimate of 2.6 percent. This was also an improvement from the 1.2 percent growth rate in the first quarter. As a result, real GDP increased 2.1 percent at the annual rate in the first half of 2017. For the year as a whole, I am predicting real GDP growth of 2.2 percent, with 2.8 percent growth for the current third quarter. This is not far from the 2.1 percent average growth rate since the Great Recession, but I continue to believe there is upward potential in the forecast, especially for 2018, if pro-growth policies are enacted. The higher figure in this revision stemmed largely from stronger consumer and business spending than estimated in the advance release.

Along those lines, [personal spending](#) rose 0.3 percent in July, extending the 0.2 percent gains in both May and June. Since the spring, we have seen consumer spending pull back from robust growth, even as purchases continued to rise at a modest pace overall. In this report, personal spending increased 4.2 percent year-over-year, up from 4.1 percent in the prior release. To put that number in perspective, it was higher than the 3.8 percent year-over-year rate in July 2016 but off from the healthy 5.1 percent pace in March. The saving rate mirrored the recent acceleration in spending, falling from 4.1 percent in February to 3.5 percent in July. That was the lowest level so far in 2017. For comparison purposes, the saving rate was 5.1 percent one year ago. This is a sign that Americans have stepped up their purchases in general over the past 12 months.

This week, there will be just a handful of economic releases. The highlights include new data on factory orders and shipments, international trade, labor productivity and wholesale trade.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, August 28
Dallas Fed Manufacturing Survey
International Trade in Goods (Preliminary)

Tuesday, August 29

This Week's Indicators:

Monday, September 4
LABOR DAY HOLIDAY

Tuesday, September 5
Factory Orders and Shipments

Conference Board Consumer Confidence

Wednesday, August 30

ADP National Employment Report
Gross Domestic Product (Revised)

Thursday, August 31

Personal Income and Spending

Friday, September 1

BLS National Employment Report
Construction Spending
ISM Manufacturing Purchasing Managers' Index

Wednesday, September 6

International Trade Report

Thursday, September 7

Productivity and Costs (Revised)

Friday, September 8

Wholesale Trade



Summaries for Last Week's Economic Indicators

ADP National Employment Report

According to ADP, after slightly declining by 1,000 in July, manufacturing employment [rebounded](#) in August, with the sector adding 16,000 net new workers for the month. This was the fastest pace since March, and since November, manufacturers have increased their workforce by an average of nearly 14,650 per month. That continues to represent a turnaround relative to one year ago, with manufacturing employment down by 19,000 in August 2016 and hiring flat for 2016 as a whole. We hope this bodes well for continued job growth moving forward.

Meanwhile, total private employment increased by 237,000 workers in August, up from a revised 201,000 gain in July. (July's increase was estimated originally to be 178,000.) Nonfarm private payrolls have risen by 222,952 per month on average year to date, notably higher than the 179,327 workers added each month in the second half of 2016. As such, the labor market has strengthened so far in 2017, which is promising. In addition to manufacturing, the largest employment growth in August included trade, transportation and utilities (up 56,000), leisure and hospitality (up 51,000), education and health services (up 45,000), professional and business services (up 39,000), construction (up 18,000) and financial activities (up 11,000). Small and medium-sized businesses (i.e., those with fewer than 500 employees) accounted for just more than half of all net new workers in August.

BLS National Employment Report

The Bureau of Labor Statistics reported that manufacturers [added](#) 36,000 net new workers in August, its fastest monthly gain in five years and increasing for the third consecutive month. In addition, the June and July data were revised higher, increasing employment in the sector by a total of 19,000 more than originally estimated. As such, manufacturing was a bright spot in the latest jobs data-a sign that the sector has rebounded from global headwinds over the past two years. Indeed, over the past nine months, manufacturing employment has risen by 155,000, averaging 17,222 per month. That is a definite improvement following the loss of 16,000 workers on net for 2016. Moreover, total manufacturing employment rose to 12.48 million, rising by 1.03 million since the Great Recession and its highest level since January 2009.

Durable and nondurable goods firms added 28,000 and 8,000 workers, respectively, for the month. The largest boost in employment came from the motor vehicles and parts segment (up 13,700), with growth also seen for food manufacturing (up 6,600), fabricated metal products (up 5,200), computer and electronic products (up 3,900) and plastics and rubber products (up 2,600), among other sectors. In contrast, employment fell for apparel (down 2,200), miscellaneous nondurable goods (down 1,100) and chemicals (down 400).

Despite the positive jobs numbers for the sector, average weekly earnings for manufacturing workers dropped from \$1,091.21 in July to \$1,079.77 in August, and average weekly hours edged down from 40.9 to 40.7. With that said, average weekly earnings in the sector have risen 2 percent over the past 12 months.

Meanwhile, the U.S. economy increased nonfarm payroll employment by 156,000 in August, which was lower than the consensus estimate of around 180,000. Unlike the manufacturing data described above, the nonfarm payroll data were revised lower in June and July, subtracting a total of 41,000 from those two months' original estimates. The unemployment rate inched up from 4.3 percent in July to 4.4 percent in August. Despite the softer job growth in August, nonfarm payrolls have risen by an average of 175,625 per month year to date, which is a decent pace, and in general, we continue to see strength in the labor market.

Conference Board Consumer Confidence

The Conference Board reported that consumers' confidence grew in August for the second straight month. The [Consumer Confidence Index](#) rose from 120.0 in July to 122.9 in August, its highest level since March's 16-year high (124.9). To illustrate the jump in sentiment, the headline index has averaged 118.7 through the first eight months of 2017, up from 99.8 in 2016 as a whole. In this report, the improvement in perceptions stemmed from a better assessment of both current (up from 145.4 to 151.2) and future (up from 103.0 to 104.0) economic conditions, with the former at levels not seen since July 2001. Americans were more upbeat, largely on improvements in the labor market and in their income expectations.

Along those lines, more consumers said business conditions were "good," up from 32.5 percent to 34.5 percent, with fewer citing "bad" conditions, down from 13.5 percent to 13.1 percent. In addition, the percentage of respondents feeling that jobs were "plentiful" rose from 33.2 percent to 35.4 percent, with those saying jobs were "hard to get" dropping from 18.7 percent to 17.3 percent. Similarly, the percentage expecting their incomes to increase ticked up from 20.0 percent to 20.9 percent, with those feeling that their incomes would fall in the coming months declining from 9.5 percent to 7.8 percent.

Construction Spending

The Census Bureau reported that private [manufacturing construction spending](#) remained soft in July, down 0.5 percent. The value of construction put in place in the sector declined from \$65.94 billion in June to \$65.58 billion in July, its lowest level since September 2014. Construction spending in the sector has averaged \$69.20 billion year to date in 2017, down from the average of \$74.61 billion in 2016 as a whole. While manufacturing construction has largely increased over the past few years, activity has trended lower since achieving the all-time high of \$82.13 billion in May 2015. Nonetheless, we would continue to expect a turnaround in construction activity in the coming months, especially in light of the improved outlook of late.

Overall, private nonresidential construction spending declined 0.4 percent in July, but with 4.1 percent growth year-over-year. The sector-by-sector breakdowns were lower across the board. The largest declines included commercial (down 4.7 percent), religious (down 4.3 percent), educational (down 4.1

percent), health care (down 2.4 percent), lodging (down 2.3 percent), amusement and recreation (down 1.9 percent) and communication (down 1.3 percent).

Meanwhile, private residential construction spending rose 0.8 percent in July, with a healthy 11.6 percent year-over-year gain. For the month, single-family construction increased 0.8 percent, whereas multifamily activity decreased at the same pace. Since July 2016, single-family and multifamily construction spending rose 10.4 percent and 2.6 percent, respectively. In addition to those components, public construction spending dropped 1.4 percent in July, with a 5.6 percent decrease year-over-year.

Dallas Fed Manufacturing Survey

The Dallas Federal Reserve Bank [reported](#) that manufacturing activity remained strong in August. The composite index of general business activity edged up from 16.8 in July to 17.0 in August, a three-month high. Overall, the data reflect some progress in the Texas economy, with the headline index jumping from an average of 4.0 in the second half of 2016 to 18.3 through the first eight months of 2017. However, many of the underlying data points reflected some easing for the month despite remaining at healthy levels of expansion, including new orders (down from 16.1 to 14.3), production (down from 22.8 to 20.3), capacity utilization (down from 18.1 to 12.2) and employment (down from 11.2 to 9.9). More positively, shipments (up from 11.6 to 18.1), hours worked (up from 9.8 to 14.5) and capital expenditures (up from 11.6 to 14.5) all accelerated in August.

Moving forward, manufacturing leaders remained very positive about the next six months, even with the forward-looking measure declining from 31.6 to 29.2. More than 56 percent of respondents felt that new orders would increase in the coming months, and 37.7 percent and 28.9 percent anticipate more hiring and capital spending, respectively.

Gross Domestic Product (Revised)

The Bureau of Economic Analysis reported that the U.S. economy [grew](#) an annualized 3.0 percent in the second quarter, revised up from an earlier estimate of 2.6 percent. This was also an improvement from the 1.2 percent growth rate in the first quarter. As a result, real GDP increased 2.1 percent at the annual rate in the first half of 2017. For the year as a whole, I am predicting real GDP growth of 2.2 percent, with 2.8 percent growth for the current third quarter. This is not far from the 2.1 percent average growth rate since the Great Recession, but I continue to believe there is upward potential in the forecast, especially for 2018, if pro-growth policies are enacted.

The higher figure in this revision stemmed largely from stronger consumer and business spending than estimated in the advance release. Personal consumption expenditures added 2.28 percentage points to top-line growth in the second quarter, up from 1.93 percent in the prior report. Likewise, the contribution from nonresidential fixed investment improved from 0.64 to 0.85 percentage points to real GDP growth for the quarter. In addition, there were marginal improvements for private inventory spending and net exports, but the drag from state and local government spending was bigger than previously thought.

Some of the highlights of the report include the following:

- Personal consumption expenditures rose 3.3 percent in the second quarter, accelerating from the 1.9 percent pace in the first quarter on an increased willingness to purchase goods. Along those lines, durable goods spending was marginally negative in the first quarter with consumers more cautious but jumped 8.9 percent at the annual rate in the second quarter. However, motor vehicles spending remained softer than desired.
- Nonresidential fixed investment increased 6.9 percent in the second quarter, extending the 7.2 percent growth rate from the first quarter. Most promisingly, equipment spending soared in the latest data to its fastest pace since the third quarter of 2015, up 8.8 percent, with 6.2 percent

growth in structures spending.

- Residential investment fell 6.5 percent in the second quarter, pulling back from strong gains in both of the prior quarters. At the same time, private inventories stabilized in the second quarter but added just 0.02 percentage points to headline growth. The drag came mainly from the farm sector.
- The trade picture has improved so far in 2017 relative to challenges in the past two years, with positive contributions to real GDP in both the first and second quarters. Goods exports increased 2.3 percent in the second quarter, with goods imports up 1.6 percent. The export of services rose 6.5 percent in this release. Therefore, net exports added 0.21 percentage points to real GDP growth.

International Trade in Goods (Preliminary)

The Census Bureau released [advance statistics](#) on international trade in goods. Specifically, the goods trade deficit rose from \$64.01 billion in June to \$65.10 billion in July in preliminary data. The higher figure stemmed from a reduction in goods exports (down from \$128.76 billion to \$127.11 billion) that was enough to offset a smaller decline in goods imports (down from \$192.76 billion to \$192.22 billion). Final data will be released on September 6. Note that a surplus in service-sector activity, which [was](#) \$21.60 billion in June, also assisted the U.S. trade deficit.

In July, the largest declines in goods exports included automotive vehicles (down \$1.09 billion), consumer goods (down \$731 million) and industrial supplies (down \$406 million), with gains for capital goods (up \$638 million) and foods, feeds and beverages (up \$53 million). Meanwhile, goods imports were mixed for the month. Higher imports for capital goods (up \$1.03 billion) and foods, feeds and beverages (up \$183 million) were not enough to counteract lower imports for automotive vehicles (down \$852 million), industrial supplies (down \$682 million), other goods (down \$165 million) and consumer goods (down \$67 million).

ISM Manufacturing Purchasing Managers' Index

The Institute for Supply Management (ISM) reported that manufacturing activity grew robustly in August, expanding at its fastest pace since April 2011. The [ISM Manufacturing Purchasing Managers' Index](#) (PMI) increased from 56.3 in July to 58.8 in August. The sample comments tended to echo the strong data, with mostly positive feedback from respondents on healthy gains in sales and an optimistic business outlook. Along those lines, the indices for new orders (down from 60.4 to 60.3) and production (up from 60.6 to 61.0) exceeded 60 for the third straight month (and seven of the past nine months), illustrating strong growth in demand and output in the sector overall. In contrast, one year ago, the manufacturing sector contracted slightly with the headline PMI at 49.4, and since then, we have seen tremendous progress.

Other figures also reflected that strength. For instance, employment grew at its quickest rate since June 2011 (up from 55.2 to 59.9), helping to lift the headline index. In a similar way, supplier deliveries (up from 55.4 to 57.1) and inventories (up from 50.0 to 55.5) both accelerated in August, with the latter at its highest level in almost seven years. On the international front, exports pulled back a little in this report (down from 57.5 to 55.5), but international sales continued to expand modestly overall, rising for the 18th consecutive month. Given the drag from exports on the U.S. economy and on manufacturing sentiment over the past two years, the recent strength in export orders has been entirely welcome.

Meanwhile, prices for raw materials remained elevated (unchanged at 62.0), continuing to expand at their fastest pace since April. While we have seen decelerating pricing pressures in general since the spring, this more recent pickup reflects a rebound in some commodity costs.

Personal Income and Spending

The Bureau of Economic Analysis reported that [personal spending](#) rose 0.3 percent in July, extending the 0.2 percent gains in both May and June. (The June increase was revised up from an earlier estimate of 0.1 percent.) Durable and nondurable goods spending both increased in July. Since the spring, we have seen consumer spending pull back from robust growth, even as purchases continued to rise at a modest pace overall. In this report, personal spending increased 4.2 percent year-over-year, up from 4.1 percent in the prior release. To put that number in perspective, it was higher than the 3.8 percent year-over-year rate in July 2016 but off from the healthy 5.1 percent pace in March.

The saving rate mirrored the recent acceleration in spending, falling from 4.1 percent in February to 3.5 percent in July. That was the lowest level so far in 2017. For comparison purposes, the saving rate was 5.1 percent one year ago. This is a sign that Americans have stepped up their purchases in general over the past 12 months.

Meanwhile, personal incomes jumped 0.4 percent in July, rebounding after being flat in June. Over the past 12 months, personal incomes have risen 2.7 percent, the same rate as in June but down from 3.4 percent in February and March. In addition, manufacturing wages and salaries rose 0.8 percent from \$830.7 billion in June to \$837.5 billion in July.

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