Note: *Year-to-date data in 2017 are annualized through the first two quarters.*

The manufacturing data continue to trend in the right direction, with the stronger global economy and a weaker dollar helping to buoy demand and production in the sector. The U.S. dollar has fallen 8.6 percent year-to-date against major currencies, according to the Federal Reserve Board. Despite that softening, it is important to note that the dollar has still appreciated 15.6 percent since the end of June 2014. Overall, though, net exports so far in 2017 have not been the drag on the U.S. economy that they were in both 2015 and 2016-definitely a welcome development. Using non-seasonally adjusted U.S. Census data, U.S.-manufactured goods exports totaled $628.69 billion year-to-date in July, up 3.87 percent from $605.25 billion one year ago. This reflects better year-to-date figures in five of the top six markets, with slightly lower exports to the United Kingdom being the lone exception.

The latest Beige Book, which summarizes economic conditions in the Federal Reserve's 12 districts, cited modest expansions in manufacturing activity nationally. There were general improvements in the sector across most regions of the country, with notable softness in the automotive segment. Consumer and capital spending were also stronger, with the labor market tightening.

New factory orders fell for the third time in the past four months, down 3.3 percent in July. New orders of manufactured goods declined from $482.2 billion in June to $466.4 billion in July, a level not far from May's $467.1 billion figure. The bulk of July's decrease (and June's gain) stemmed from the nondefense aircraft and parts sector. Those sales are highly volatile from month to month, with the June total centering around the International Paris Air Show. Excluding transportation, new orders were up 0.5

percent from $390.4 billion in June to $392.2 billion in July. Overall, new factory orders-which have struggled mightily over the past couple years-have been much stronger over the past 12 months than the headline number might have suggested, up 4.9 percent since July 2016. Excluding transportation, the gains were even larger, up 5.7 percent year-over-year.

Meanwhile, manufacturing labor productivity grew modestly by 2.9 percent in the second quarter, rebounding from the 0.2 percent gain seen in the first quarter. This was revised up slightly from an earlier estimate of 2.5 percent, and it was the third straight quarterly increase in productivity in the sector, improving from two consecutive declines in mid-2016. The latest data indicate some progress, but the longer-term trend remains a concern. Labor productivity in the sector has been essentially stagnant since the Great Recession, but through the first half of 2017, the annual rate was 1.5 percent. Still, that is well below the 5.2 percent pace for manufacturing output per worker experienced from 2002 to 2008.

A number of releases this week may offer signs of continued expansion in the manufacturing sector. There will be a report on industrial production, which was softer for manufacturers than desired in July, especially for motor vehicles and other durable goods. It is hoped the August figures for manufacturing output rebounded. It is also hoped the September survey from the New York Federal Reserve Bank will show continued progress in activity. Also coming this week are the latest figures on consumer confidence, consumer and producer prices, job openings, retail sales, small business optimism and state employment.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, September 4
LABOR DAY HOLIDAY

Tuesday, September 5
Factory Orders and Shipments

Wednesday, September 6
International Trade Report

Thursday, September 7
Productivity and Costs (Revised)

Friday, September 8
Wholesale Trade

This Week's Indicators:

Monday, September 11
None

Tuesday, September 12
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, September 13
Producer Price Index

Thursday, September 14
Consumer Price Index

Friday, September 15
Industrial Production
New York Fed Manufacturing Survey
Retail Sales

State Employment Report
University of Michigan Consumer Sentiment

Summaries for Last Week`s Economic Indicators

Factory Orders and Shipments

The Census Bureau said that new factory orders fell for the third time in the past four months, down 3.3 percent in July. New orders of manufactured goods declined from $482.2 billion in June to $466.4 billion in July, a level not far from May's $467.1 billion figure. The bulk of July's decrease (and June's gain) stemmed from the nondefense aircraft and parts sector. Those sales are highly volatile from month to month, with the June total centering around the International Paris Air Show. Excluding transportation, new orders were up 0.5 percent from $390.4 billion in June to $392.2 billion in July. Overall, new factory orders-which have struggled mightily over the past couple years-have largely trended in the right direction recently, up 4.9 percent since July 2016. Excluding transportation, the gains were even larger, up 5.7 percent year-over-year.

Looking specifically at durable goods activity in July, the data were mixed but mostly higher. Demand was stronger for electrical equipment and appliances (up 2.6 percent), computers and related products (up 2.1 percent), furniture and related products (up 1.9 percent), fabricated metal products (up 0.5 percent) and primary metals (up 0.2 percent). In contrast, orders were lower for machinery and motor vehicles and parts (both down 0.9 percent). Core capital goods-or nondefense capital goods excluding aircraft-rose by 1.0 percent in July, with a gain of 3.9 percent over the past 12 months.

Meanwhile, shipments of manufactured goods increased by 0.3 percent in July, rising for the third straight month. Durable and nondurable goods orders were up by 0.2 percent and 0.4 percent, respectively. On a year-over-year basis, factory shipments have risen 4.9 percent since July 2016, or 5.7 percent with transportation excluded.

International Trade Report

The Bureau of Economic Analysis and the Census Bureau said that the U.S. trade deficit inched up from $43.54 billion in June, its lowest level since October 2016, to $43.69 billion in July. In July, the slight decreases in goods exports (down from $129.05 billion to $128.61 billion) and goods imports (down from $194.40 billion to $193.94 billion) essentially offset one another, with the increase in the trade deficit stemming from the reduction in the service sector surplus (down from $21.81 billion to $21.64 billion). To be fair, though, the service sector surplus has trended higher, with June's figure at a two-year high.

The underlying goods exports data were mixed. There were increased exports for non-automotive capital goods (up $941 million) and foods, feeds and beverages (up $352 million), with reduced exports for consumer goods (down $670 million), automotive vehicles and parts (down $597 million) and industrial supplies and materials (down $110 million). Likewise, the data for goods imports were also varied. There were reduced goods imports for automotive vehicles and parts (down $827 million) and industrial supplies and materials (down $714 million), which were enough to offset higher imports for non-automotive capital goods (up $1.27 billion) and foods, feeds and beverages (up $196 million).

For manufacturers, exports have trended in the right direction through the first seven months of this year-a welcome development after weaker data in each of the past two years. Using non-seasonally adjusted data, U.S.-manufactured goods exports totaled $628.69 billion year-to-date in July, up 3.87 percent from $605.25 billion one year ago.

This reflects better year-to-date figures in five of the top six markets for U.S.-manufactured goods: Canada (up from $155.49 billion to $161.91 billion), Mexico (up from $131.34 billion to $138.53 billion), China (up from $60.36 billion to $69.28 billion), Japan (up from $35.27 billion to $38.49 billion) and Germany (up from $28.40 billion to $30.28 billion). The lone exception was our fifth-largest trading partner, the United Kingdom (down from $32.18 billion to $31.55 billion), with marginally softer exports to that nation year-to-date compared with 2016.

Productivity and Costs (Revised)

The Bureau of Labor Statistics reported that manufacturing labor productivity grew modestly in the second quarter, up 2.9 percent, rebounding from the 0.2 percent gain seen in the first quarter. This was revised up slightly from an earlier estimate of 2.5 percent, and it was the third straight quarterly increase in productivity in the sector, improving from two consecutive declines in mid-2016. In this release, manufacturing output rose by 2.1 percent, up from the prior estimate of 1.6 percent but slowing somewhat from the first quarter's 2.4 percent increase. The increase in productivity stemmed from a 0.7 percent decrease in hours worked, and as a result, unit labor costs edged down 0.4 percent in the second quarter.

There were large sectoral differences in the data, with labor productivity for durable goods firms jumping 3.8 percent in the second quarter and bouncing back from a 1.0 percent decline in the first quarter. Durable goods output was up 1.0 percent in the second quarter, with unit labor costs off by 0.6 percent. In contrast, labor productivity for nondurable goods manufacturers rose by 0.5 percent, an improvement from the earlier estimate of being down by 0.1 percent, but off from a 2.6 percent gain in the first quarter. Nondurable goods output rose 3.4 percent in the latest data, its best quarterly increase in nearly seven years, but this was offset by more hours worked. Unit labor costs for nondurable goods businesses increased by 1.0 percent.

Overall, this report represents some progress in terms of overall manufacturing productivity, but the longer-term trend remains a concern. Labor productivity in the sector has been essentially stagnant since the Great Recession, down 0.05 percent, and in 2016 it averaged just 0.2 percent. Through the first half of 2017, the annual rate was 1.5 percent. Still, that is well below the 5.2 percent pace for manufacturing output per worker experienced from 2002 to 2008. In general, manufacturers have benefited from being leaner, but the recent sluggishness in productivity and output growth has meant that unit labor costs have risen 9.1 percent since the end of 2011.

In the larger economy, non-farm labor productivity increased by 1.5 percent in the second quarter. This was better than both its prior estimate of 0.9 percent and the 0.1 percent gain seen in the first quarter. Non-farm output rose 4.0 percent in the second quarter, up from the earlier estimate of 3.4 percent and its fastest rate in more than two years. Hours worked and unit labor costs rose by 2.5 percent and 0.6 percent, respectively. Similar to the manufacturing data described above, non-farm labor productivity has slowed considerably since the Great Recession, averaging 0.5 percent per year from 2011 to 2016. It was up by only 0.2 percent in 2016, with an annualized 0.8 percent increase through the first half of 2017. This compares with 2.7 percent growth from 2000 to 2007.

Questions or comments?

Questions

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