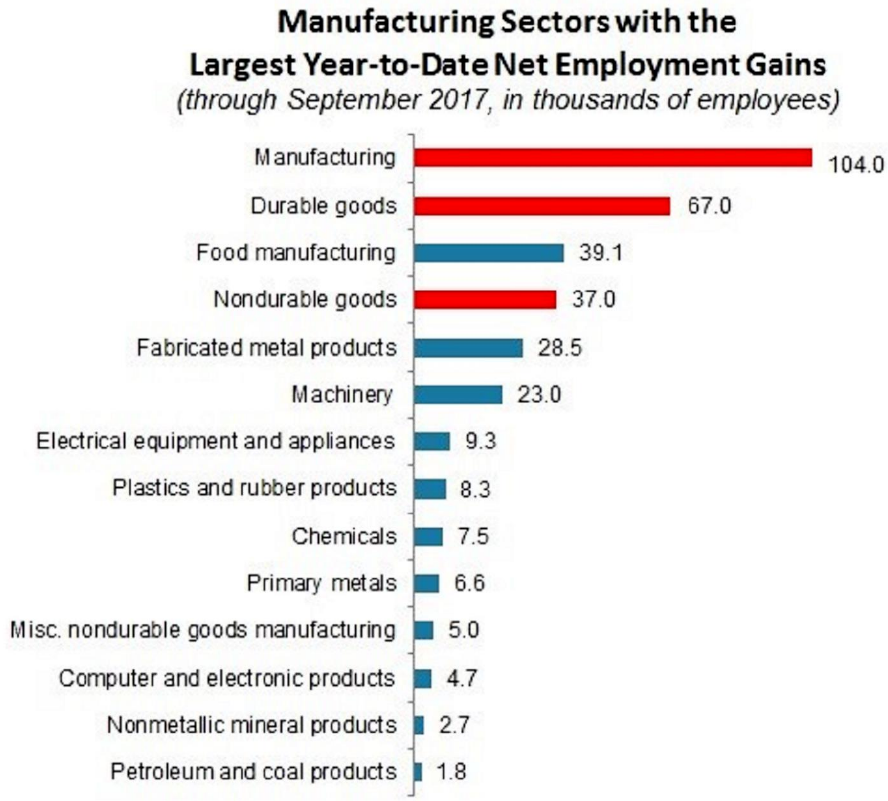

Manufacturers lost 1,000 workers in September, with the overall jobs numbers negatively impacted by damaging hurricanes in the month. In addition, the July and August data were revised lower, subtracting 32,000 from prior manufacturing job growth estimates. Despite the disappointing figures in September, the reduced hiring is likely a temporary phenomenon, with employment expectations continuing to be very strong overall. Indeed, manufacturers have accelerated the pace of hiring since December, adding 122,000 workers on net over that 10-month time frame. That is a definite improvement following the loss of 16,000 workers seen in 2016 as a whole, and it was another sign that firms have stepped up their hiring as a result of a stronger economic outlook and increased demand and production activity.

Reflecting recent improvements in the labor market, the unemployment rate fell to 4.2 percent, its lowest level since February 2001. At the same time, though, the U.S. economy lost 33,000 workers on net in September, its first decline in seven years. Again, that was mostly hurricane-related losses, and we would expect that hiring growth should bounce back in the coming months.

Coincidentally, the jobs numbers were released on Manufacturing Day. It is important to remember that the ability to attract and retain a quality workforce is in a virtual tie for first place as one of the top challenges, according to the latest NAM Manufacturers' Outlook Survey. As the labor market has tightened, workforce development challenges have become more pressing for business leaders in the sector. In addition, we have also seen some upward pressure on wages. In this release, average weekly earnings for manufacturing workers rose from $1,080.99 in August to $1,085.88 in September, with that figure up 2 percent over the past 12 months.

One of the reasons that we remain upbeat about employment growth moving forward is the optimism seen in sentiment surveys. For instance, the Institute for Supply Management (ISM) said that manufacturing activity expanded robustly in September, expanding at its fastest pace since May 2004. The ISM Manufacturing Purchasing Managers' Index (PMI) increased from 58.8 in August to 60.8 in September. In September, new orders and production both grew at rates not seen since February, and more importantly, hiring accelerated at its briskest pace since June 2011. The index for new orders has now exceeded 60-a measure consistent with strong expansions in activity-in eight of the past 10 months.

In addition, exports have expanded for 19 straight months in the ISM survey, highlighting how international sales have also turned a corner after serving as a drag for much of the past couple years. Along those lines, the U.S. trade deficit fell to its lowest level in 11 months, and we have seen U.S.-manufactured goods exports rise 4 percent year-to-date through August. That is a welcome development after export demand was challenged so markedly in each of the past two years. Beyond improvement in the global economy, we have also seen the U.S. dollar depreciate over the course of this year, down more than 8 percent year-to-date against major currencies. That has also provided a lift for manufacturing exports.

Moreover, new factory orders bounced back somewhat in August, up 1.2 percent in August after falling by 3.3 percent in July. New orders of manufactured goods increased from $466.2 billion in July to $471.7 billion in August. It was only the second increase over the past five months, illustrating some choppiness in the data since the spring. Much of that volatility has come from large swings from month to month in the nondefense aircraft and parts sector, but motor vehicle sales have also been quite soft year-to-date. Excluding transportation, new orders were up 0.4 percent from $392.4 billion to $394.1 billion in this report. Overall, new factory orders-which have struggled mightily over the past couple years-have largely trended in the right direction more recently, up 5.7 percent since August 2016. Excluding transportation, the gains were somewhat larger, up 6.2 percent year-over-year.

Meanwhile, private manufacturing construction spending has remained a weak spot in the economy, falling 4.3 percent in August. Recent hurricane activity likely negatively impacted the latest figures, but the data have been soft for some time. The value of construction put in place in the sector declined to nearly a three-year low in August. While manufacturing construction has largely trended higher 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 increased by 0.5 percent in August, but it has dropped by 2.5 percent over the past 12 months.

This week, we will get further clues on the current thinking of the all-important consumer. Retail sales have been softer than desired in recent months. Yet, at the same time, consumer spending has continued to increase modestly on a year-over-year basis, up 3.2 percent in August. We would expect some strengthening in the pace of purchases in September, but there could also be some lingering impacts from hurricane damages seen in the data. Other highlights for the week include new figures on consumer and producer prices, job openings and small business optimism.

Chad Moutray, Ph.D., CBE
Chief Economist
National Association of Manufacturers

Share The Monday Economic Report with your social network:

Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, October 2
Construction Spending
ISM Manufacturing Purchasing Managers' Index

Tuesday, October 3
None

Wednesday, October 4
ADP National Employment Report

Thursday, October 5
Factory Orders and Shipments
International Trade Report

Friday, October 6
BLS National Employment Report

This Week's Indicators:

Monday, October 9
COLUMBUS DAY HOLIDAY

Tuesday, October 10
NFIB Small Business Survey

Wednesday, October 11
Job Openings and Labor Turnover Survey

Thursday, October 12
Producer Price Index

Friday, October 13
Consumer Price Index
Retail Sales
University of Michigan Consumer Sentiment

Summaries for Last Week`s Economic Indicators

ADP National Employment Report

ADP said that manufacturing employment remained a bright spot in September, with the sector adding 18,000 net new workers for the month. As such, it extended the rather robust increase seen in August, and year-to-date, manufacturers have hired 158,000 additional employees on net. That translates into an average of just over 17,500 per month, and it represents a significant turnaround from 2016's more-sluggish pace of hiring. This is another sign that the labor market has tightened in the sector as the overall outlook has improved, and we hope that this bodes well for continued job growth moving forward.

With that said, total nonfarm private employment rose by just 135,000 in September, off from 228,000 in August. These numbers were likely negatively impacted by devastating hurricanes in the month. Even with some softness in the latest figures, nonfarm private payrolls have increased by nearly 222,000 per month on average year-to-date, which was notably higher than the 179,327 workers added each month in the second half of 2016. In September, the largest employment growth included professional and business services (up 51,000), construction (up 29,000), education and health services (up 29,000), and leisure and hospitality (up 20,000).

BLS National Employment Report

The Bureau of Labor Statistics said that manufacturers lost 1,000 workers in September, with the overall jobs numbers negatively impacted by damaging hurricanes in the month. In addition, the July and August data were also revised lower, subtracting 32,000 from prior manufacturing job growth estimates. Despite the disappointing figures in September, the reduced hiring is likely a temporary phenomenon, with employment expectations continuing to be very strong overall. Indeed, manufacturers have accelerated the pace of hiring since December, adding 122,000 workers on net over that 10-month time frame. That is a definite improvement following the loss of 16,000 workers seen in 2016 as a whole, and a sign that firms have stepped up their hiring as a result of a stronger economic outlook and increased demand and production activity. Indeed, since the end of the Great Recession, manufacturing employment has risen by nearly 1 million workers, with 12.45 million employees in the sector in this report.

It is important to remember that the ability to attract and retain a quality workforce is in a virtual tie for first place as one of the top challenges, according to the latest NAM Manufacturers' Outlook Survey. As the labor market has tightened, workforce development challenges have become more pressing for business leaders in the sector. In addition, we have also seen some upward pressure on wages. In this release, average weekly earnings for manufacturing workers rose from $1,080.99 in August to $1,085.88 in September, with that figure up 2.0 percent over the past 12 months.

In September, durable goods employment rose by 4,000, but this was offset by a decline of 5,000 for nondurable goods businesses. The largest declines were in printing and related services (down 3,600), motor vehicles and parts (down 3,200), chemicals (down 2,000), apparel (down 1,900), primary metals (down 1,800), textile product mills (down 1,500) and wood products (down 1,500), among others. Those declines were enough to counterbalance increased employment for food manufacturing (up 4,200), fabricated metal products (up 3,800), computers and electronic products (up 3,000) and machinery (up 1,700).

Meanwhile, nonfarm payrolls were also lower, down by 33,000 in September and the first decline in employment in the U.S. economy since September 2010. As noted above, the decrease in hiring should be transitory, and in general, we have seen strength in the overall labor market. From January through August, nonfarm payroll employment gains averaged 170,875 per month. That trend matters more than the hurricane-induced decline seen in this report. Along those lines, the unemployment rate fell from 4.4 percent to 4.2 percent, its lowest level since February 2001.

Construction Spending

The Census Bureau said that private manufacturing construction spending fell 4.3 percent in August, with recent hurricane activity likely negatively impacting the latest figures. The value of construction put in place in the sector declined from $63.47 billion in July to $60.75 billion in August, its lowest level since September 2014. Construction spending in the sector has averaged $67.67 billion year-to-date in 2017, down from the average of $74.61 billion in 2016 as a whole. While manufacturing construction has largely trended higher 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 increased by 0.5 percent in August, but it has dropped by 2.5 percent over the past 12 months. In August, most of the sector-by-sector breakdowns were positive except for manufacturing and communication (down 0.5 percent). The largest increases in August were in the following segments: transportation (up 4.4 percent), amusement and recreation (up 3.5 percent), educational (up 3.4 percent), lodging (up 3.2 percent) and health care (up 2.6 percent). Year-over-year growth was strongest for transportation (up 17.6 percent), commercial (up 10.4 percent), amusement and recreation (up 9.8 percent) and communication (up 5.9 percent) projects.

Meanwhile, private residential construction spending rose by 0.4 percent in August, with a healthy 11.6 percent year-over-year gain. For the month, single-family and multifamily construction were up 0.3 percent and 0.9 percent, respectively. Since August 2016, single-family and multifamily construction spending rose 11.1 percent and 2.3 percent, respectively. In addition to those components, public construction spending was up 0.7 percent in August, but with a decline of 5.1 percent year-over-year.

Factory Orders and Shipments

The Census Bureau said that new factory orders bounced back somewhat, up 1.2 percent in August after falling by 3.3 percent in July. New orders of manufactured goods increased from $466.2 billion in July to $471.7 billion in August. It was only the second increase over the past five months, illustrating some choppiness in the data since the spring. Much of that volatility has come from large swings from month to month in the nondefense aircraft and parts sector, but motor vehicle sales have also been quite soft year-to-date. Excluding transportation, new orders were up 0.4 percent from $392.4 billion to $394.1 billion in this report. Overall, new factory orders-which have struggled mightily over the past couple years - have largely trended in the right direction more recently, up 5.7 percent since August 2016. Excluding transportation, the gains were somewhat larger, up 6.2 percent year-over-year.

Looking specifically at durable goods activity in August, the data were mixed but mostly higher. Demand was stronger for electrical equipment and appliances (up 1.7 percent), primary metals (up 1.2 percent), computers and related products (up 1.0 percent), motor vehicles and parts (up 0.7 percent) and machinery (up 0.3 percent). In contrast, orders were lower for furniture and related products (down 0.7 percent) and fabricated metal products (down 0.2 percent). Core capital goods-or nondefense capital goods excluding aircraft-rose by 1.1 percent in August, with a gain of 4.0 percent over the past 12 months.

Meanwhile, shipments of manufactured goods increased by 0.5 percent in August, rising for the fourth straight month. Durable and nondurable goods orders were up by 0.5 percent and 0.4 percent, respectively. On a year-over-year basis, factory shipments have risen 5.3 percent since August 2016, or 5.9 percent with transportation excluded.

International Trade Report

The Bureau of Economic Analysis and the Census Bureau said that the U.S. trade deficit fell from $43.56 billion in July to $42.40 billion in August, its lowest level in 11 months. The improvement in the deficit in August came from somewhat higher goods exports (up from $128.64 billion to $129.21 billion) combined with a slight decline in goods imports (down from $193.93 billion to $193.63 billion). In addition, the service sector trade surplus (up from $21.74 billion to $22.03 billion) was at its highest point since June 2015.

The underlying goods exports data were mixed. There were increased exports for consumer goods (up $1.02 billion), non-automotive capital goods (up $407 million) and automotive vehicles and parts (up $60 million), with reduced exports for both industrial supplies (down $954 million) and foods, feeds and beverages (down $417 million). On the positive side, capital goods exports were at levels not seen since April 2015. Likewise, the data for goods imports were also varied. There were fewer goods imports for industrial supplies (down $523 million), non-automotive capital goods (down $495 million) and foods, feeds and beverages (down $80 million). Those declines were enough to offset increased imports for automotive vehicles and parts (up $675 million) and consumer goods (up $99 million).

For manufacturers, exports have trended in the right direction through the first eight 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 $722.20 billion year-to-date in August, up 4.04 percent from $694.16 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 $178.76 billion to $186.41 billion), Mexico (up from $151.30 billion to $159.40 billion), China (up from $69.73 billion to $80.21 billion), Japan (up from $40.73 billion to $43.90 billion), and Germany (up from $32.54 billion to $34.76 billion). The lone exception was our fifth largest trading partner, the United Kingdom (down from $36.86 billion to $34.12 billion), with marginally softer exports to that nation year-to-date this year versus last.

ISM Manufacturing Purchasing Managers' Index

The Institute for Supply Management (ISM) said that manufacturing activity expanded robustly in September, expanding at its fastest pace since May 2004. The ISM Manufacturing Purchasing Managers' Index (PMI) increased from 58.8 in August to 60.8 in September. The sample comments tended to echo the strong data, with mostly positive feedback from the respondents on healthy gains in sales and an optimistic business outlook, but they also noted labor shortages and challenges from recent hurricanes. In September, new orders (up from 60.3 to 64.6) and production (up from 61.0 to 62.2) both grew at rates not seen since February, and more importantly, hiring (up from 59.9 to 60.3) accelerated at its briskest pace since June 2011.

Overall, these data continue to reflect a healthy manufacturing sector, buoyed by solid growth in demand and output and improvements in the global economy. In that way, the results were quite consistent with the latest results for the NAM Manufacturers' Outlook Survey, which found that nearly 90 percent of respondents were positive about their own company's business outlook. In the ISM data, new orders have now exceeded 60-a measure consistent with strong expansions in activity-in eight of the past 10 months. In addition, exports (up from 55.0 to 57.0) have expanded for 19 straight months, highlighting how international sales have also turned a corner after serving as a drag for much of the past couple years.

Meanwhile, prices for raw materials (up from 62.0 to 71.5) picked up notably in September, with that index rising to its highest level since May 2011. While we have seen decelerating pricing pressures in general since the spring months, this recent pickup reflects a rebound in some commodity costs. The increase in the latest month could be related to Hurricane Harvey, according to some of the businesses responding to the survey.

Contact Chief Economist Chad Moutray at cmoutray@nam.org

To update your subscription profile, click here.