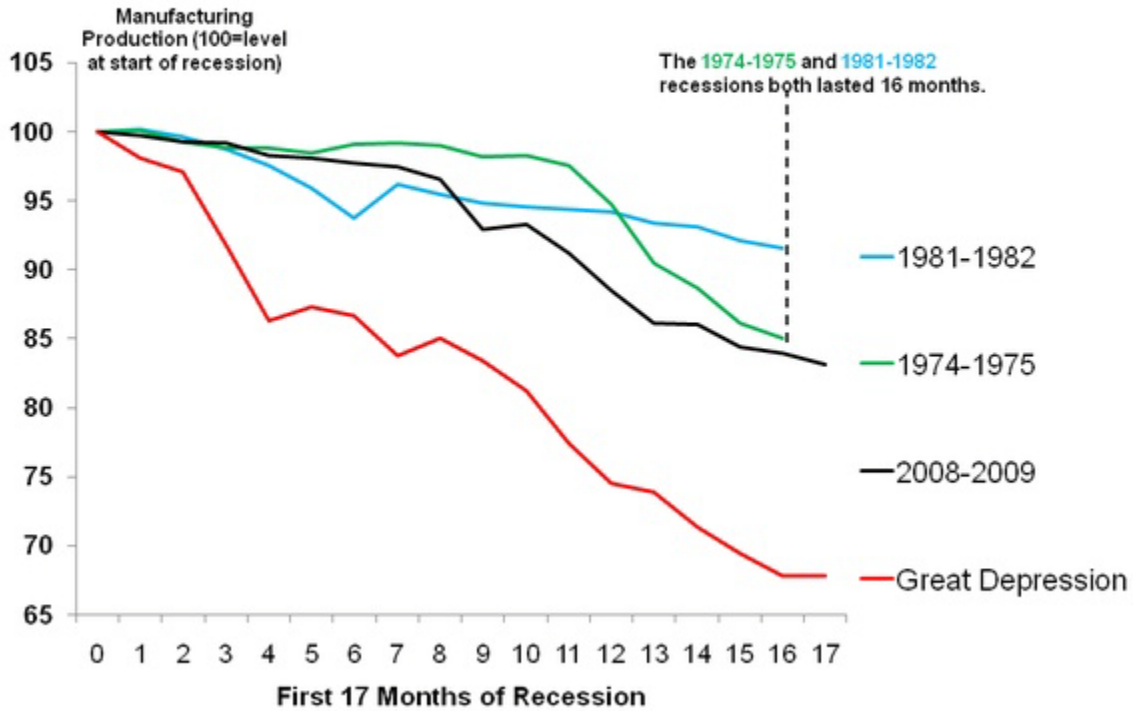




Recession Comparisons (Manufacturing)



Source: Federal Reserve

June 22, 2009

Reports from last week were mixed (*see Latest Economic Reports section below*). Manufacturing production fell 1 percent in May. While this was more than anticipated, about 40 percent of the decline was in the motor vehicles sector, due in part to idle plant activity at Chrysler, which entered bankruptcy in late April. While Chrysler restarted production operations in mid-June, GM's planned summer closures of multiple plants will likely ensure that motor vehicle production will remain a drag on overall manufacturing activity in upcoming months. Outside of motor vehicles, manufacturing production fell 0.6 percent last month. This drop mirrored the April decline and was an improvement from the 1.7-percent average monthly decline during the prior seven months (September 2008-March 2009).

Two regional reports showed mixed results for the manufacturing sector in June. While a New York Fed report showed that the manufacturing conditions deteriorated slightly in June, a Philadelphia Fed report showed a significant improvement in the region's manufacturing sector. While neither survey showed outright growth in manufacturing activity, conditions in both areas have improved significantly from the first quarter.

In the housing sector, while housing starts and building permits grew in May, the National Association of Homebuilders' overall housing market index edged down in June after rising in both April and May. This suggests that while a bottom in the housing market may have been reached, a rebound has not yet started.

On the employment front, new claims for unemployment insurance, after moderating three out of the prior four weeks, edged up to 608,000 for the week ending June 13. This marks the 20th consecutive week that new jobless claims exceeded 600,000, an ominous sign that the labor market remains under significant stress.

With the May industrial production report, mentioned above, showing that manufacturing production declined again last month, it is now clear that the current recession extended into its 17th month in May. Since the recession began in December 2007, manufacturing production has declined 17 percent. This is greater than the manufacturing downturns in both the 1974-1975 (-15 percent) and the 1981-1982 (-9 percent) recessions, both of which ended after 16 months (see chart above), and more than half as deep as the 32-percent decline in manufacturing production during the first 17 months of the Great Depression. Note: Over the course of the 43-month long Great Depression, manufacturing production declined 55 percent.

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Latest Economic Reports

Last Week's Economic Indicators:

Color Code

Positive (improving)

Positive (slowing)

Unchanged

Negative (improving)

Negative (declining)

Industrial Production (May)

Industrial production (IP) fell a sharp 1.1 percent in May. Still, this was a milder decline than earlier in the year. Manufacturing IP (which accounts for three-quarters of overall IP) fell 1 percent. Manufacturing is on track to fall at an annual rate of 10 percent this quarter, about half the pace of the first-quarter decline.

40 percent of last month's decline in manufacturing IP was due to a 7.9-percent drop in motor vehicle production (due, in part, to idle plant activity at Chrysler.) Outside of motor vehicles, manufacturing IP fell 0.6 percent in May, the same as in April.

NY Empire State Manufacturing Survey (June)

The general business conditions index of the Federal Reserve Bank of New York's manufacturing survey, at -9.41, was slightly worse in June compared to May. This ends a positive trend over the prior two months.

This Week's Indicators:

Tuesday

Existing Home Sales (May)

Richmond Fed Manufacturing Survey (June)

Wednesday

Advanced Durable Goods Orders (May)

New Home Sales (May)

FOMC Monetary Policy

Thursday

Weekly Jobless Claims

Kansas City Fed Manufacturing Survey (June)

GDP (Q1 Final)

Friday

Personal Income (May)

Even so, the index is far better than it was at the beginning of the year.

Philadelphia Fed Manufacturing Survey (June)

The Philadelphia Federal Reserve's general business conditions index jumped 20.4 points in June to -2.2 from -22.6 in May. The much larger than expected improvement puts the index at its highest level since September. If sustained, the June improvement would be consistent with a rebound in manufacturing in the second half of this year.

NAHB Housing Market Index (June)

The NAHB housing market indicator edged down in June, coming in at 15 compared with the May level of 16. Although both the present single-family sales and prospective buyer traffic components held steady in June, there was a slight drop in the expected six-month sales component, most likely caused by the jump in mortgage interest rates over the past month.

New Residential Construction (May)

At 532,000 annualized units, housing starts increased a strong 17 percent in May. This marks the second increase in the past four months. Multifamily starts are driving the rapid gain, but single-family starts also increased. Permitting is up as well, while completions are down slightly. Overall, this report is consistent with a bottom in residential construction.

Producer Prices (May)

Producer prices for finished goods rose in May by 0.2 percent, almost entirely because of rising prices for energy products. When food and energy prices are excluded, core prices edged down (-0.1 percent) last month, marking the first decline since October 2006.

Consumer Prices (May)

The CPI Index increased by 0.1 percent in May and is down 1 percent from May 2008. The core CPI also increased by 0.1 percent last month, which was a deceleration from April when it increased by 0.3 percent.

The core CPI is now up by 1.8 percent from May 2008. Energy prices increased by 0.2 percent for the month as oil and gasoline prices seem to have stabilized. Meanwhile, food prices fell by 0.2 percent.

Initial Jobless Claims (Weekly)

Initial jobless claims rose slightly (3,000) to a level of 608,000 for the week ending June 13, the first increase in five weeks. Still, initial claims are lower than earlier in the year, and continuing claims fell by 148,000 to 6.687

Questions or Comments?
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million, the first decline in 22 weeks.

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