

Manufacturers Resources

Facts About Manufacturing

ManuFACTS

Economic Data

State Manufacturing & Trade Data

Trade Financials

Export Promotion

Manufacturing Law Center

Member Services

## JOIN NOW

Ready to join? Need more information? Use the online form to contact us. A representative will be in touch with all the details you need.

JOIN THE NAM

## Monday Economic Report

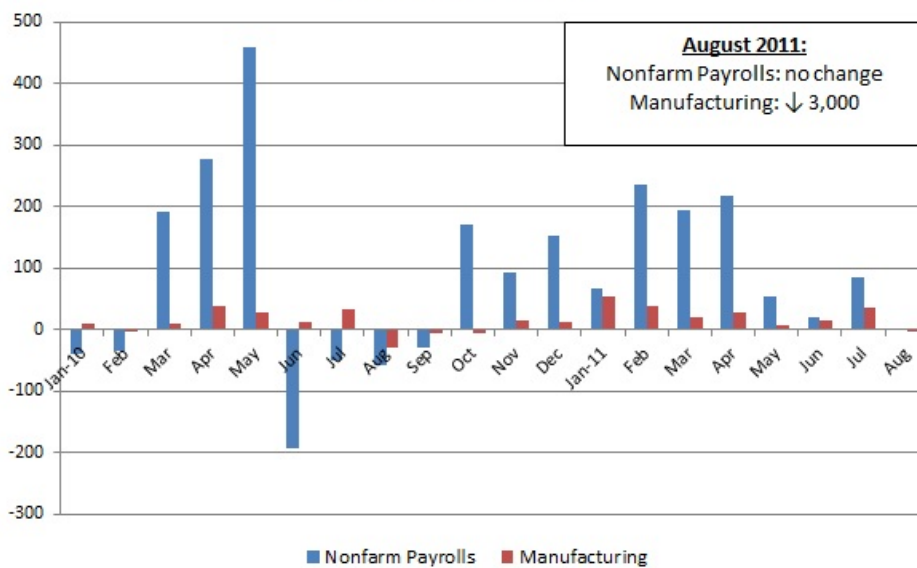
[Tweet](#) [Share](#) [Like](#) [Email](#) [Print](#)

A Publication of the National Association of Manufacturers



### Monthly Changes in Employment, 2010-2011

(Thousands of Employees)



September 6, 2011

I hope everyone had a great Labor Day holiday. Appropriately, the policy focus this week will be on job creation. On Thursday, President Obama will address both houses of Congress to present his vision for getting the economy moving again. Republicans in Congress will offer their agenda, as well. In addition, Ben Bernanke and the Federal Open Market Committee will meet on September 20 and 21 to discuss if they will pursue any new measures to prop up economic activity, perhaps including another round of quantitative easing.

The focus is on jobs because the economy is clearly stalling. Last week, the Bureau of Labor Statistics reported that there was no change in net employment between July and August, with the unemployment rate remaining at 9.1 percent. Manufacturers have been a driving force in the economy since the official end of the recession, generating over 300,000 new jobs since December 2009. Yet, overall weaknesses in the economy are dragging down sales, and production has slowed. The manufacturing sector lost 3,000 jobs in August.

Manufacturing activity has slowed significantly in recent months. Three studies released last week confirm this. Nationally, the Institute for Supply Management found that activity grew, but only barely, with its Purchasing Managers Index at 50.6 in August. This is just above the threshold of 50, signifying that growth in the sector -- and most worrisome looking ahead, new orders and production -- contracted. Similarly, regional surveys from Chicago and Texas also found slowing manufacturing output. In addition, we have seen significant decreases in both individual and business optimism, with consumer sentiment plunging to a two-year low.

Interestingly, these numbers conflict with official statistics on consumer spending and production. The Federal Reserve noted a couple of weeks ago that industrial production rose 0.9 percent in July, and the Census Bureau revised its estimate for new factory orders in July up 2.4 percent. Meanwhile, consumers increased their spending by 0.8 percent in July, led by strong increases in durable goods consumption.

The challenge moving forward will be how to turn overall confidence around to jumpstart an economy that appears to be in neutral. Federal budget deficits and the recently-passed budget deal will hamper fiscal policy efforts to move ahead with a stimulus package of any significant size, yet, it is clear that policymakers will see what they can do to enact pro-growth policies that can restart the economic recovery. Meanwhile, advocates for another round of quantitative easing (or "QE3") will meet resistance from those who question its effectiveness and/or worry about the impacts of such actions on long-term inflation.

This week, the Federal Reserve Board will release its Beige Book, highlighting how its each of its regions are faring in the economy. The slowing of overall manufacturing production will almost certainly be part of this analysis. On Thursday, we will receive new international trade numbers. Many manufacturers have said that trade represents a huge opportunity for growth for their firms, yet, with a slowing global economy, these new figures on exports will be closely watched.

**Chad Moutray**  
Chief Economist

*National Association of Manufacturers*

#### Economic Indicators

Last Week's Indicators:  
(Summaries Appear Below)

Monday, August 29  
*Personal Income and Outlays*

Texas Manufacturing Outlook Survey

Tuesday, August 30

Conference Board Consumer Confidence

Wednesday, August 31

ADP Employment Report

ISM-Chicago  
RSM McGladrey Manufacturing Survey

Thursday, September 1

Construction Spending

ISM Manufacturing Index

Friday, September 2

BLS Employment Situation

This Week's Indicators:

Monday, September 5  
**LABOR DAY**

Tuesday, September 6

ISM Nonmanufacturing Index

Wednesday, September 7

Federal Reserve Board Beige Book

Job Openings and Labor Turnover Survey

Thursday, September 8

International Trade

NAM/IndustryWeek Survey of Manufacturers

Friday, September 9

Wholesale Trade

Does your accountant know  
**COGS** from cogs?

Visit [GrantThornton.com/Manufacturing](http://GrantThornton.com/Manufacturing)



Summaries of Last Week's Economic Indicators

### Automated Data Processing Employment Report (August)

Automated Data Processing (ADP) reported last week that manufacturing employment fell by 4,000 workers in August, following the loss of 2,000 jobs in July. Overall, total nonfarm employment rose by 91,000, mostly from small- and medium-sized service providers. The goods-producing sector increased employment by 11,000, suggesting that there were gains outside of manufacturing in the construction and mining sectors.

These numbers correspond with several regional indicators of manufacturing activity, which have shown either a slowdown in growth or a contraction in production and new orders, depending on the survey. New employment intentions have fallen in tandem.

### Bureau of Labor Statistics Employment Report (August)

The Bureau of Labor Statistics reported that there were no new nonfarm payrolls jobs in August, reversing the 85,000 gain from July. The unemployment rate also stayed steady at 9.1 percent. The private sector generated 17,000 net new jobs, which were offset by a loss of 17,000 government workers for the month. Manufacturers lost 3,000 workers in August, the first decline since October 2010 (see graphic). Since December 2009, the manufacturing sector has added 301,000 jobs; this is higher than the figure from last month due to upward revisions to the June and July numbers.

Within manufacturing, durable goods industries lost 3,000 employees in August, and nondurables employment was flat. Among the sectors with the strongest growth were machinery (up 3,900), beverage and tobacco products (up 3,100), wood products (up 1,900), paper and paper products (up 1,600) and computer and electronic products (up 1,100). The largest losses were in fabricated metal products (down 5,400), food manufacturing (down 5,200), motor vehicles and parts (down 2,800) and furniture and related products (down 2,600).

The average workweek for manufacturers was virtually unchanged from July at 39.8 weekly hours and 3.2 overtime hours. Meanwhile, average weekly earnings were lower for manufacturing workers, down from \$958.33 in July to \$956.32 in August. The unemployment rate for manufacturers is currently 8.9 percent -- 9.1 percent within the durable goods sectors and 8.6 percent for nondurables.

In summary, this report is not good news, but it is not inconsistent with other recent indicators. Surveys have suggested for much of the past months that manufacturing and overall business activity in the United States has stalled, and these numbers confirm that view.

### Conference Board Consumer Confidence Index (August)

Reflecting the economic anxieties many Americans felt over the past few weeks, consumers grew increasingly more pessimistic, according to the Conference Board. The Consumer Confidence Index fell from 59.2 in July to 44.5 in August. It was 72.0 in February. The largest decline came from the expectations component, which plunged from 74.9 to 51.9. The index for the current economic environment -- which was already low -- moved from 35.7 to 33.3.

In a press release, director of The Conference Board Consumer Research Center Lynn Franco wrote:

*"Consumer confidence deteriorated sharply in August, as consumers grew significantly more pessimistic about the short-term outlook. The index is now at its lowest level in more than two years (April 2009, 40.8). A contributing factor may have been the debt ceiling discussions since the decline in confidence was well underway before the S&P downgrade. Consumers' assessment of current conditions, on the other hand, posted only a modest decline as employment conditions continue to suppress confidence."*

An increasing number of respondents said that jobs were hard to find, with the index rising from 44.8 to 49.1. Along those lines, more people also cited income concerns. In terms of buying plans, there was a modest improvement in those individuals who intended to purchase an automobile or appliance, but a slight decrease in those looking for a home.

Interestingly, this survey was released the day after the Bureau of Economic Analysis reported a sharp rebound in consumer spending in July. With that said, it mirrors similar statistics from the University of Michigan survey on consumer sentiment. Clearly, consumers grew more anxious in the past few months as they faced a number of headwinds, with the deficit discussion, U.S. debt downgrade and European challenges the latest events to sap overall confidence.

Assuming we can move past these challenges and economic growth recovers in the second half of this year, consumer optimism should grow. But these numbers suggest that many of these

factors have taken a huge toll. Manufacturers will be following these sentiments -- as well as overall spending tendencies -- very closely.

#### Construction Spending (July)

The Census Bureau reported that construction spending fell 1.3 percent in July, reversing three consecutive months of gains. Both residential and nonresidential construction fell, with larger losses in the residential sector (down 1.4 percent). Year-over-year residential construction numbers, though, were up 4.1 percent; overall construction figures have been essentially flat (up 0.1 percent) since July 2010. Public spending decreased by 2.1 percent for the month and was down 8.8 percent for the year.

Breaking these numbers down, multi-family housing construction rose 1.4 percent for the month, serving as a counterbalance for the drop in residential improvements (down 2.9 percent). In the nonresidential sector, healthy increases in religious (up 2.1 percent), commercial (up 1.9 percent) and health care construction (up 1.3 percent) were offset by declines in manufacturing (down 6 percent), amusement and recreation (down 3.3 percent) and lodging (down 2.9 percent).

#### Institute for Supply Management (ISM)- Chicago Business Barometer (August)

The ISM-Chicago Business Barometer declined from 58.8 in July to 56.5 in August. While this figure represents growth in the sector -- particularly with the barometer in positive territory for the 23rd consecutive month -- it also reflects a slowdown in overall manufacturing activity in the Chicago region. The index was 74.2 in March, for instance. Measures of production, new orders and inventories declined. Employment intentions edged slightly higher but remain much lower than earlier this year.

Production activity has been slowing of late, and this has impacted manufacturing employment. While many manufacturers anticipate activity picking up in the coming months (and hence needing additional workers), if this materializes, subsequent reports will bear this out.

#### Institute for Supply Management ISM Purchasing Managers Index (August)

Given all of the poor regional studies of late, many economists had expected the ISM Purchasing Managers Index (PMI) to contract in August, falling below the threshold of 50 for the first time in two years. While the PMI did slow down, moving from 50.9 in July to 50.6 in August, overall manufacturing activity continues to grow, albeit barely. Just four months ago, the PMI was over 60, indicating strong growth and illustrating how much the sector has weakened in such a short period of time.

Many of the measures of activity were mixed. Respondents stated that new orders and production contracted in August, while employment, inventories and trade volume grew. Note that even the measures indicating growth did so at a slower rate. This includes the indices for employment and exports. Pricing pressures also slowed down, with the index for prices down from 59.0 in July to 55.5 in August. Yet, this still suggests higher raw material prices -- a serious challenge for many manufacturers.

Some of the sample responses were instructive, ranging from talk of softening economic conditions domestically to stronger product demand overseas. An individual from the transportation and equipment sector wrote, "Current headwinds in the national and international economic environment have increased uncertainty, and are affecting our customers' willingness to commit to high-dollar equipment purchases." Another respondent noted that, while their company is doing well, "the situation seems tenuous."

At the end of the day, it is important to keep in mind that the ISM survey -- like many of the other regional studies that have come out in recent weeks -- are measures of sentiment on the part of businesses. The comments in the preceding paragraph seem to bear this out.

While official statistics on production from the Federal Reserve and others seem to show slow growth in overall manufacturing activity, the surveys tend to reflect a degree of pessimism not unlike their counterparts exploring the mood of consumers. This has provoked a lot of attention of late, particularly on how reliable a measure these surveys are for predicting industrial production.

While it is true that there seems to be some disconnect, the reality is that manufacturing activity has slowed considerably since the spring. The differences between the indicators are really over the scale of this slowdown (whether we are contracting or simply slowing down our growth).

What is troubling in all of these measures is the weakness of new orders, which does not bode well for future production. Again, this is simply the current sentiment, which could change, but it will be important for the health of the overall economy for us to have a more robust increase in new orders and production, which will in turn lift manufacturing employment. Many of the regional surveys suggest higher optimism for the coming year, and we can hope that this comes to fruition.

### Personal Income and Outlays (July)

The Bureau of Economic Analysis reported that consumer spending grew 0.8 percent in July, rebounding from the 0.1 percent decline in June. It was the strongest increase in consumption since February, led by durable goods spending (up 1.9 percent). Spending on durables had been down for four straight months prior to July. Nondurable goods spending was up 0.7 percent, reversing a two-month decline.

Meanwhile, personal income was up 0.3 percent. Manufacturing wages and salaries rose from \$712.3 billion (at annual rates) in June to \$715.9 billion in July. Manufacturing compensation had fallen by \$0.9 billion in June, but the larger trend has been a positive one, with wages and salaries up \$28.8 billion since December 2010.

The current savings rate is 5 percent, down from 5.5 percent in June. In terms of prices, consumer goods are 4.7 percent more expensive than one year ago, led mostly by nondurables (up 7.2 percent). Durable goods prices are actually down 0.2 percent year-over-year. For all consumer items, prices are up 2.8 percent, or 1.6 percent if food and energy costs are excluded.

[{Back to top}](#)

Questions or Comments?  
Please contact Chad Moutray at [cmoutray@nam.org](mailto:cmoutray@nam.org)



Copyright &copy; 2011 National Association of Manufacturers



## Archive

August 29, 2011
August 23, 2011
August 15, 2011
August 8, 2011
August 1, 2011
July 25, 2011
July 18, 2011
July 11, 2011
July 5, 2011
June 27, 2011
June 20, 2011
June 13, 2011
June 6, 2011
May 31, 2011
May 23, 2011
May 16, 2011
May 9, 2011

May 2, 2011

April 25, 2011

April 18, 2011