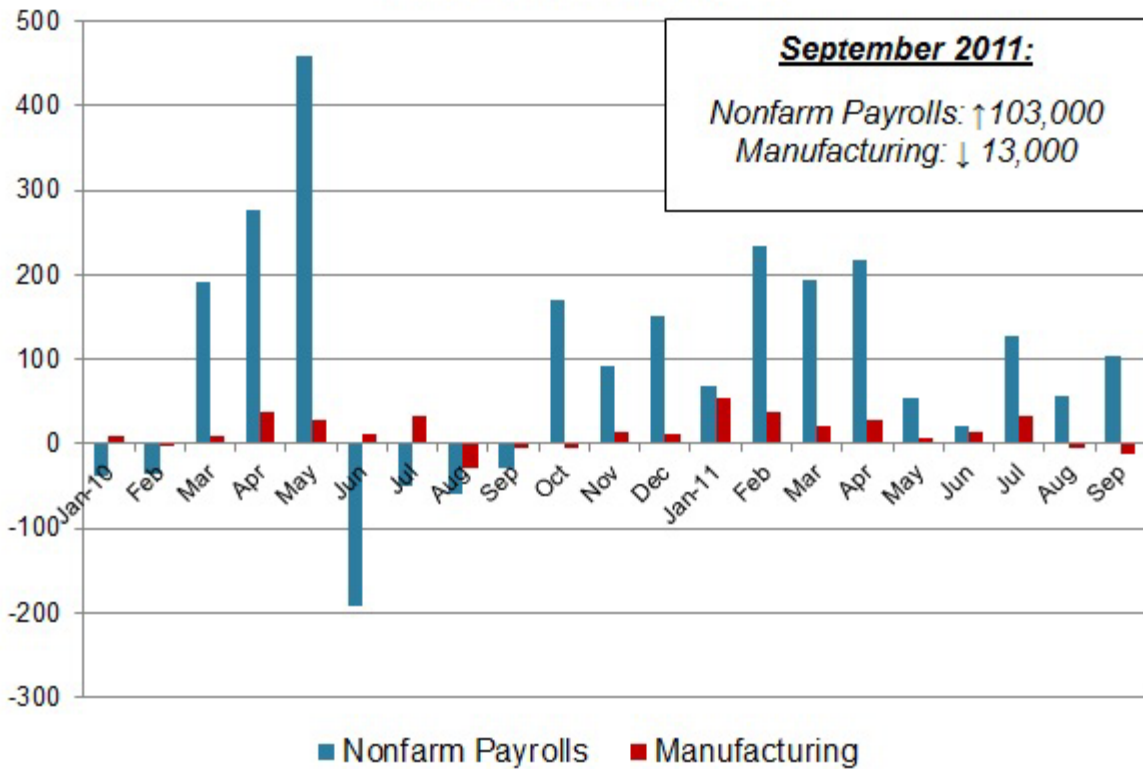




Monthly Changes in Employment, 2010-2011
(Thousands of Employees)



October 11, 2011

Last week was dominated by weak economic news for manufacturers. There were snippets of hope in some of the indicators, but it is also clear that global and domestic macroeconomic challenges continue to weigh down growth for the industry, both in terms of production and employment. Friday's report that manufacturers lost 13,000 jobs in September was further evidence of this, as were other studies showing declining new orders.

Looking at the employment figures, the manufacturing sector appears to be stuck in neutral. It has shed 17,000 workers in the past two months, or half of the gain from July. The Automated Data Processing (ADP) figure released earlier in the week was equally negative for manufacturers. The net job creation that has occurred has stemmed mostly from small and medium-sized enterprises. On the positive side, many of the recent sentiment surveys have indicated an increased intent to hire more workers in the coming months.

These same surveys – including the Institute for Supply Management's (ISM) Purchasing Managers Index – showed modest improvements in production, supplier deliveries and exports in September. While this does not suggest a return to the rapid growth seen earlier in 2011, it does show that manufacturers are more positive about future sales and production. The California Manufacturers Survey noted strength in high-tech and nondurable goods industries in its state, which has been consistent with other studies observing stronger manufacturing activity in the Midwest and West. Nonetheless, contracting new orders in both the ISM and durable goods reports are a worrying sign that some of the positive growth expectations might not be immediately forthcoming.

I spent much of last week meeting with manufacturers and getting a first-hand sense of how they are faring in this economy. Many of them are thriving despite the many economic headwinds that are facing the industry and the larger market. To the extent that there is optimism in the months ahead, there remains a nagging level of anxiety, with one eye on Europe and another on Washington. European policymakers are working feverishly to avert a financial catastrophe, both in terms of proposals to avoid national defaults and in re-addressing the need to "stress test" their banks. Meanwhile, U.S. lawmakers continue to meet to discuss methods of reducing America's fiscal problems, with the November 23 "Super Committee" deadline looming.

Congress will also soon take up the Colombia, Panama and South Korea free trade agreements. As we know, exports continue to be a strength, with many manufacturing companies pursuing new opportunities as an avenue for growth. This week, we will receive new international trade figures, which hopefully show us building off the 11 percent growth in manufactured goods exports seen over the past year. We will also get a sense of consumer and small business sentiment, with new numbers from the University of Michigan and the National Federation of Independent Business. In addition, the Manufacturers Alliance/MAPI will release its survey of national manufacturing activity on Thursday, which will probably mirror those from ISM and others.

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Economic Indicators

Last Week's Indicators: *(Summaries Appear Below)*

Monday
California Manufacturing Survey
Construction Spending
ISM Manufacturing Index

Tuesday
Factory Orders

Wednesday

This Week's Indicators:

Monday
Columbus Day Holiday

Tuesday
NFIB Small Business Survey

Wednesday
Job Openings and Labor Turnover Survey

Thursday
International Trade

ADP Employment Report

Manufacturers Alliance/MAPI Survey

Thursday

None

Friday

Business Inventories

Import and Export Prices

Retail Sales

University of Michigan Consumer Sentiment

Friday

BLS Employment Report

Wholesale Trade



Summaries of Last Week's Economic Indicators

ADP Employment Report (September)

[Automated Data Processing \(ADP\) announced that 91,000 new nonfarm jobs were created in September, building on the 89,000 added in August.](#) This report, which was released two days before the official employment numbers (see the next entry), found that all of the net new employment stemmed from small and medium-sized enterprises.

Manufacturing employment shrank by 5,000 workers in September, according to ADP's estimates. (Note that the BLS report states that 13,000 manufacturing workers were lost in the month, which, while different, is still in the same direction.) Overall, the goods-producing sector gained 1,000 jobs, with these coming from small and medium-sized operations on net.

BLS Employment Report (September)

[The Bureau of Labor Statistics \(BLS\) reported that overall nonfarm payrolls increased by 103,000 in September, and it also upwardly revised data for the past two months.](#) The previous estimate for nonfarm payroll growth in August was zero, but that was changed to an increase of 57,000 jobs for the month.

Overall, over 1 million net new jobs have been created in the economy this year. As the BLS press release clearly states, 45,000 of the jobs in September came from the return of telecommunications workers from their strike.

Manufacturers shed 13,000 workers in September, which added to the loss of 4,000 employees in the sector in August. Overall, the manufacturing industry has increased employment by 176,000 since the beginning of this year and 285,000 since December 2009.

Looking at specific sectors within manufacturing, sources of strength for hiring included chemicals (up by 1,400 workers), machinery (up 2,800), plastics and rubber

products (up 1,400), primary metals (up 1,400) and transportation (up 1,000). Sectors with the largest declines included fabricated metal products (down 2,900), furniture and related products (down 3,600), printing and related support activities (down 4,200), miscellaneous manufacturing (down 3,000) and textile product mills (down 2,200). In total, durable goods sectors lost 8,000 jobs in the month, while nondurable goods declined 5,000.

The average workweek in manufacturing edged slightly lower, from 40.3 hours in August to 40.2 hours in September, but the average amount of overtime was up from 3.1 to 3.2 hours. Essentially, average hours worked in the week were unchanged. Meanwhile, average weekly earnings slid from \$954.71 to \$953.14.

These numbers continue to show that the manufacturing sector is experiencing some significant weaknesses. This contrasts with its robust growth earlier this year. While some segments of the industry and some regions of the country are faring better, sluggish economic growth, worries about the global marketplace and sagging consumer and business confidence are taking a toll. It is imperative that this situation reverse itself so that manufacturers can return to higher levels of production and employment. Policymakers need to implement pro-growth policies now.

California Manufacturing Survey (Fourth Quarter)

[The A. Gary Anderson Center for Economic Research at Chapman University observed slower manufacturing activity in the state of California in its most recent survey.](#) Its composite index fell from 62.2 in April and 58.1 in July to its current 54.8. Similar to other similar studies, values over 50 indicate expansion. As such, manufacturing continues to expand in the state, albeit at a much slower rate. Measures for new orders and employment weakened (while remaining positive), while supplier deliveries grew. Inventories contracted.

This slowdown was observed in the high-tech and other durable goods sectors, but nondurable goods production edged slightly higher. Likewise, manufacturing activity in Orange County was marginally higher and remains strong, with its index currently at 60.6.

Pricing pressures remain an issue, even with a slower rate of growth for commodity prices. The index for these prices moved from 87.7 earlier in the year to 67.2 in this survey, suggesting still rapid growth.

These numbers suggest that manufacturers in California are faring better than many of their peers on the East Coast. Manufacturing output has cooled significantly in the state but remains expansionary. High-tech and nondurable goods industries remain much stronger than durable goods in terms of production growth, yet the slowdown in new orders is a potential warning sign down the road.

Construction Spending (August)

[Construction spending rose 1.4 percent in August, erasing the 1.4 percent decline in July, according to the Census Bureau.](#) The largest gains stemmed from public construction projects, with public spending up 3.1 percent. These mostly came from additional spending on educational, sewer and waste disposal and transportation projects; however, all of these figures are below their levels from last year.

Total private construction was up 0.4 percent, led by strong growth in residential

construction spending (up 0.7 percent). Both single and multi-family housing projects experienced gains. Among the areas with the fastest growth on nonresidential construction spending were power plants, transportation and manufacturing. Manufacturing construction was up 1.8 percent for the month and 3.2 percent over the past year. The largest declines were in lodging, communications and commercial developments.

ISM Manufacturing Index (September)

[The Institute for Supply Management \(ISM\) Purchasing Managers Index \(PMI\) edged slightly higher in September, up from 50.6 in August to 51.6 in September.](#)

Values over 50 indicate an expanding manufacturing sector, yet it is clear that manufacturers are just barely growing.

The various components to this index were mixed. Most troublesome, the measure for new orders was unchanged at 49.6 – the third consecutive month of contraction. That is not a good sign moving forward. Many of the other indicators saw modest improvements. Production, for instance, shifted from contraction to expansion (up from 48.6 to 51.2) for the month. Likewise, employment, supplier deliveries and exports also increased somewhat. Pricing pressures were virtually unchanged from August but continue to grow overall.

Many of the survey responses noted the weak economic environment and continued anxieties regarding global demand. Several of the comments noted how the economy was "a drag on our economic outlook" and the high degree of caution in the marketplace. Some areas continue to grow (e.g., motor vehicles, metals, paper), yet even where sales are "steady," concerns remain about the larger global economy.

This report provides some comfort for those of us who are forecasting slow growth in the remainder of this year. I am predicting 1.4 percent growth in real GDP for 2011. But, it also shows that the numerous headwinds facing manufacturers continue to have an impact on our growth. While modest improvements in production and employment are a positive for the industry, sliding new orders will pose a challenge to this in the coming months.

Factory Orders (August)

[The Census Bureau reported that new orders and shipments of manufactured goods both were down 0.2 percent in August,](#) reversing gains in July. Shipments of manufactured goods, however, were up nearly 12 percent over the past year.

Breaking down the sectors, both durable and nondurable goods sectors experienced declines in August, by 0.1 percent and 0.3 percent, respectively. The sectors with the strongest monthly gains were defense and nondefense aircraft, material handling equipment, ferrous metal foundries and household appliances. The largest declining sectors for the month were mining, oil field and gas field machinery; turbines, generators and other power transmission equipment; ships and boats; and electronic components. In terms of shipments, strong gains in machinery and electrical equipment were offset by losses in transportation and petroleum products. Note that the decrease in transportation shipments followed increases in July and the preceding months, particularly as the sector has recovered from its supply chain issues.

Inventories have been up for 20 consecutive months, and they rose 0.9 percent in August. Unfilled orders were also up 0.9 percent. Transportation led both of these categories with the largest increases.

Overall, this news is not positive for manufacturers. The manufacturing sector continues to suffer from a sluggish economy, hampering growth for the sector. Despite a few areas of growth, fewer new orders and shipments for manufacturers are a sign of trouble for the months ahead. These figures have been highly volatile all year – up one month and then down the next. It will be essential to put together a strong of increases for sustained growth in the manufacturing sector and the larger economy.

Wholesale Trade (August)

The Census Bureau reported that wholesale inventories rose 0.4 percent in August, below the 0.8 percent growth in July. This growth was led by durables, which were up 1.1 percent in August. Nondurable goods inventories fell 0.6 percent. The durable goods increases were primarily in the auto sector, with increased inventories of 4.5 percent for the month.

Sales of durable goods were also stronger, up 2.3 percent in August and building off similar growth in June and July. Much of this increase was due to higher sales volumes of motor vehicles, but other sectors – including computers, electrical equipment, lumber, machinery and miscellaneous durable goods – also did well. Nondurable goods, however, experienced sales declines of 0.1 percent for the month, with chemicals, farm products and petroleum bringing the total volume down.

The current inventory-to-sales ratio remains unchanged at 1.2. This measure shows how many months it would take to sell the current inventory supply. Durable and nondurable ratios were also unchanged at 1.5 and 0.9, respectively.

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Questions or Comments?
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