

ECONOMIC REPORT

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MANUFACTURING CONTINUES TO RECOVER; ADP SURVEY RAISES CONCERNS ABOUT SOFT AUGUST JOB GROWTH

SUMMARY

- Manufacturing expanded for a third straight month in August, according to the ISM manufacturing index. New orders and production were especially high, indicating further near-term improvement.
- The private sector added 428,000 jobs in August, according to the ADP National Employment Report.
- PNC expects job growth of around 1.5 million when the government's official employment report for August is released on Friday, September 4.

The Institute for Supply Management's manufacturing index rose for a fourth straight month in August, and was above the 50 level that indicates expansion in the industry for a third straight month. Manufacturing is recovering from the Viral Recession, when factories shut down and demand plunged, but activity remains below its pre-recession level. The index rose from 54.2 percent in July to 56.0 percent in August. A reading above 50 indicates expansion in manufacturing; a higher reading means that the pace of improvement has accelerated. The index was below 50 from March to May. The 56.0 reading was the highest level for the ISM index since January 2019.

Of the five components used to calculate the overall index, three were above the 50 level that indicates expansion, and two were above 60. New orders were very strong at 67.6 percent, the best number since 2004; this bodes well for near-term growth (see Chart 1). Production was 63.3 percent, and supplier deliveries was 58.2 percent. All three of these measures improved from July to August. Employment was 46.4 percent, indicating net industry job losses, but was up from July, meaning that job losses were smaller. Inventories fell to 44.4 percent in August.

Of the other subindices, which are not used in calculating the overall index, four both improved in August and were above 50 percent: imports, new export orders, order backlog, and prices paid. Customer inventories fell over the month and were below 50 percent.

Fifteen of the 18 industries covered in the ISM survey reported expansion in August, with the strongest gains in wood manufacturing (tied to a strong rebound in homebuilding); plastics and rubber products; and food, beverages and tobacco, as consumers continue to eat more at home. The three industries reporting contraction in August were printing, petroleum and coal (reduced production because of low energy prices), and furniture and related products. Thirteen industries reported growth in July.

Manufacturing continues to recover from the Viral Recession. Factories that were closed have reopened, consumers are purchasing more as states allow more economic activity, strong residential construction is boosting demand for building materials, and business investment is starting to turn around. Manufacturing will continue to improve through the rest of 2020 and throughout 2021 as the overall economic recovery proceeds, although the pace of manufacturing growth will slow. Downside risks for manufacturing are the expiration of bonus unemployment insurance benefits at the end of July and the continued spread of the coronavirus.

Private-sector employment increased by 428,000 in August, according to a report based on records from payroll-processing firm ADP. Given the enormous job losses during the Viral Recession, job growth of around 400,000 per month means that it would take years for the labor market to recover from the coronavirus pandemic.

However, job growth in the ADP survey for July was just 212,000, while the official government jobs report from the

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Bureau of Labor Statistics, based on a broad survey of employers, showed an increase of 1.462 million private-sector jobs. The ADP report was designed to calibrate to private-sector job growth in the BLS survey, but has missed the mark wildly in recent months. It appears that the ADP jobs measure is having difficulty in capturing labor market dynamics in the current unprecedented environment (see Chart 2). July job growth in the ADP report was revised higher from 167,000.

Small businesses (fewer than 50 employees) added 52,000 jobs in August, according to the ADP report, while medium-

sized businesses (50 to 499 employees) added 79,000 jobs. The largest firms (500 or more employees) added 298,000 jobs over the month.

Goods-producing industries added 40,000 jobs in August, including 28,000 in construction and 9,000 in manufacturing. Private services-providing industries added 389,000 jobs over the month. This included a gain of 129,000 in leisure/hospitality services as restaurants and hotels continued to reopen, as well as increases of 100,000 in education/health services; 66,000 in professional/business services; and 58,000 in trade, transportation and

Chart 1: Manufacturing Improving, Highest New Orders Since 2004

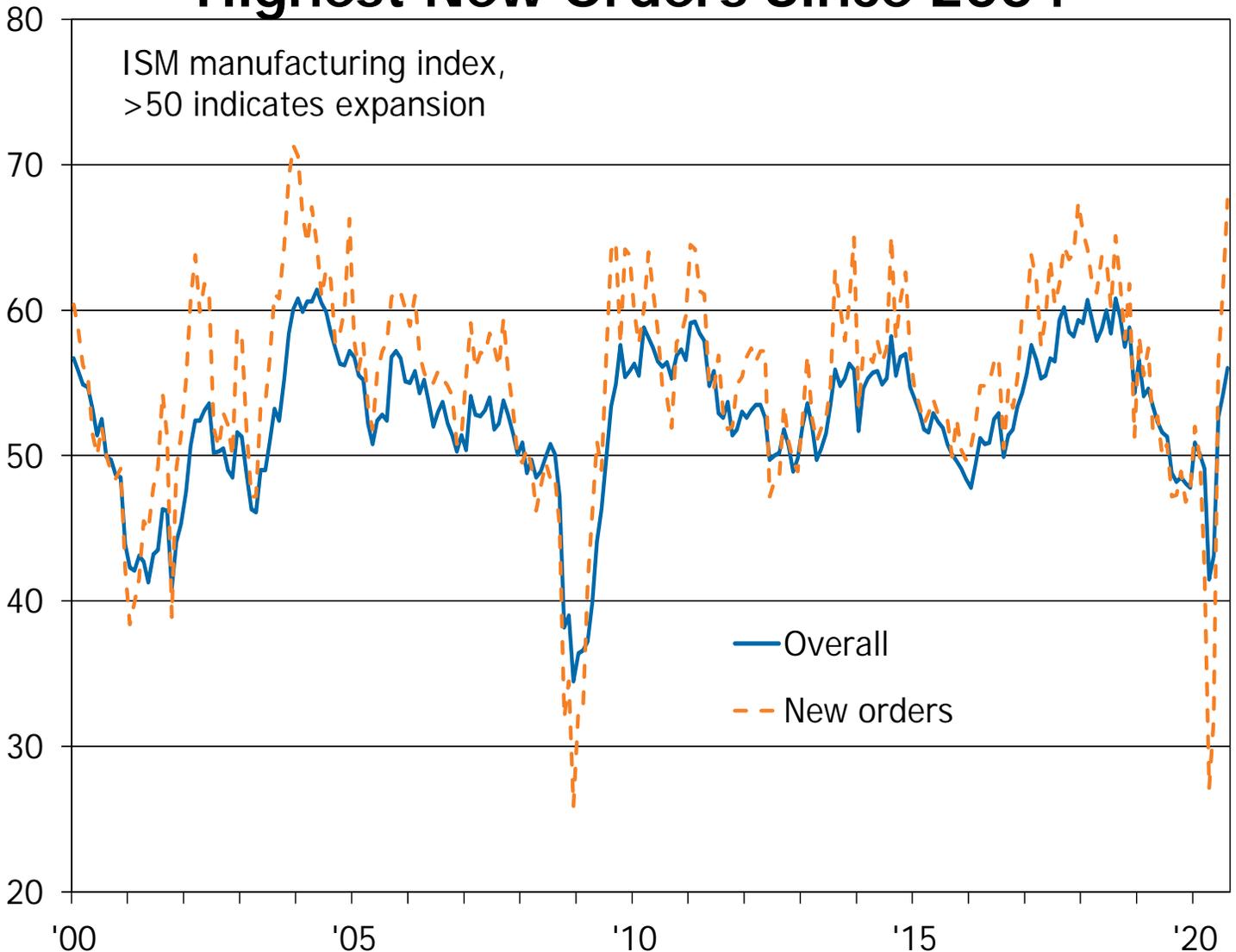


Chart source: Institute for Supply Management

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utilities.

While weak job growth in the ADP survey relative to the huge number of jobs lost during the early stages of the pandemic is concerning, the ADP report has varied greatly from the BLS jobs report since the pandemic started. PNC

is forecasting job growth of 1.5 million when the government releases its official jobs numbers on Friday, September 4. PNC expects that the unemployment rate fell to 9.8 percent in August, down from 10.2 percent in July and a peak of 14.7 percent in April.

Chart 2: High Divergences Between ADP and BLS Job Growth Numbers in 2020

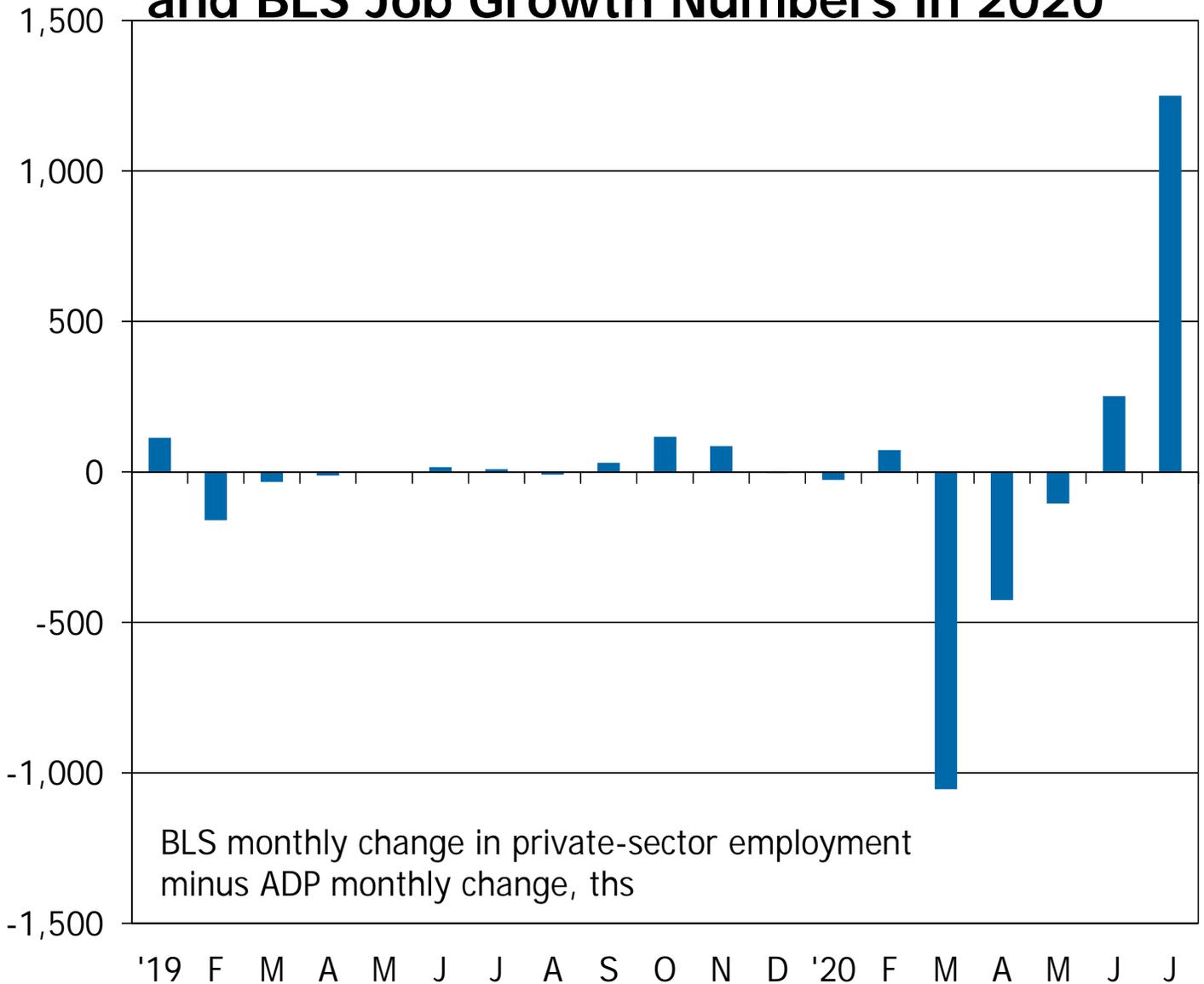


Chart sources: Bureau of Labor Statistics, ADP

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