



Market Insights - August 26, 2020

Manufacturing continues to improve as do expectations going forward

In 1970, manufacturing was over 24% of our GDP, double what it is today. In 1970, China was the world's fifth-largest manufacturer, but it took the top spot in 2010, replacing the United States. Japan is third at about 10%, followed by Germany at 7%, South Korea at 4%, and India at 3%. China produces 20% of the world's goods, and the U.S. produces about 18%.

But did you know that manufacturers in the United States still account for 11.4% of the total output in our economy, employing 8.5% of the total workforce? Further, did you know that there are approximately 250,000 manufacturing firms in the U.S. employing about 15 million employees, with an average annual compensation of close to \$88,000. (Source: National Association of Manufacturers).

Richmond Fed Manufacturing Survey

The Federal Reserve Bank of Richmond surveys manufacturing firms in order to compile the Fifth District Manufacturing Activity report, which encompasses the District of Columbia, Maryland, North Carolina, South Carolina, Virginia, and most of West Virginia.

Manufacturing firms report on various aspects of their business, such as shipments, new orders, order backlogs, capacity utilization (usage of equipment), supplier lead times, number of employees, average work week, wages, inventories of finished goods, and capital expenditures.

On Tuesday, August 25th, the Richmond Fed reported that manufacturing activity in the Fifth District continued to strengthen in August as:

“The composite index rose from 10 in July to 18 in August, as all three components — shipments, new orders, and employment — increased. The index for local business conditions also rose, and many firms reported increased capital expenditures. Manufacturers were optimistic that conditions would continue to improve.

Survey results suggested many Fifth District manufacturers saw increases in employment, wages, and the average workweek in August. However, firms struggled to find workers with the necessary skills, as this index fell from 3 in July to -21 in August, its largest one-month drop on record. Survey respondents expected employment and wages to rise and continued difficulty finding skills in the coming months.”

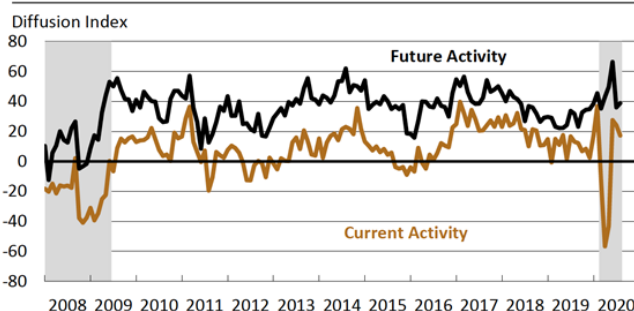
Philadelphia Fed Manufacturing Survey

The Federal Reserve Bank of Philadelphia compiles the Philadelphia Manufacturing Business Outlook Survey which tracks manufacturing activity in the Philadelphia region and is similar to the Richmond Manufacturing Survey.

On August 20th, the Philadelphia Fed reported that manufacturing activity in the region continued to expand as:

“The survey’s current indicators for general activity, new orders, and shipments remained positive for the third consecutive month but fell from their readings in July. The employment index also fell from its reading in July but remained in positive territory for the second consecutive month. Most of the future indicators remained elevated, suggesting that the firms expect growth over the next six months.”

Chart. Current and Future General Activity Indexes
January 2008 to August 2020



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

More Data Later in the Week

More economic data will be released later this week, including GDP and Jobless Claims on Thursday and Consumer Sentiment and Farm Prices on Friday.

Sources: richmondfed.org; philadelphiafed.org