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INSIGHT

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ECONOMIC NEWS
KEY ECONOMIC INDICATORS
INDUSTRY ARTICLES
COVID-19 NEWS

U.S. Employers Added 638,000 Jobs In October—A sign the labor market continues to heal slowly as a resurgence in the coronavirus threatens future growth. The unemployment rate fell sharply to 6.9%, from 7.9% in September, the Labor Department reported. The overall job gain would have been larger without the loss of 147,000 temporary census positions.

The nation has recovered a little over half of the 22 million jobs lost after the pandemic struck in March, but the gains have softened in recent months. The economy added almost 1.8 million jobs in July and 1.5 million in August, but the figure fell to 672,000 in September. Full Story
Source: NYTimes, 11.06.2020

China Wants To Be Less Reliant on U.S.- That's A Tall Order—China wants to counter the U.S. by boosting its technological capabilities and becoming more self-sufficient. That's easier said than done.

Beijing outlined its goal for more economic independence this week as the Chinese Communist Party's Central Committee put together its latest Five-Year Plan. The 14th iteration of the vast policy framework will cover 2021 to 2025, and is key to setting the country's political and economic agenda.

The full scope of the plan might not be known for months, but a statement published Thursday said that China wants to focus on economic self-reliance and technological independence. Doing so would help insulate the country from U.S. attempts to restrict its access to critical technologies.

"[We will] nurture a strong domestic market and establish a new development pattern," the statement said. "Domestic consumption will be a strategic focus." The statement did not yet outline any specific targets. But messages from Beijing are being closely watched right now.

The world's second largest economy is likely to be the only major world power to expand this year as the coronavirus pandemic prevents growth elsewhere. China's future is also closely tied to its unfolding trade and technology war with the United States, and tensions between the two are getting worse. Full Story
Source: CNN, 10.30.2020

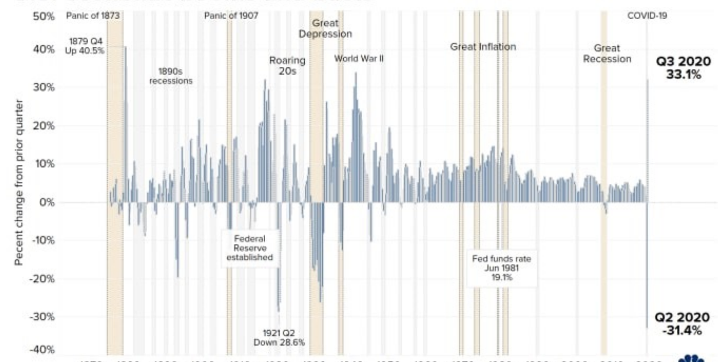
U.S. GDP Booms At 33.1% Rate In Q3, Better Than Expected

Coming off the worst quarter in history, the U.S. economy grew at its fastest pace ever in the third quarter as a nation battered by an unprecedented pandemic started to put itself back together, the Commerce Department reported October 29. Third quarter gross domestic product, a measure of the total goods and services produced in the July-to-September period, expanded at a 33.1% annualized pace, according to the department's initial estimate for the period. The gain came after a 31.4% plunge in the second quarter and was better than the 32% estimate from economists surveyed by Dow Jones. The previous post-World War II record was the 16.7% burst in the first quarter of 1950.

Increased consumption along with solid gains in business and residential investment as well as exports fueled the third quarter rebound. Decreases in government spending following the expiration of the CARES Act rescue funding subtracted from GDP. The powerful growth pace came after states across the country shut down large swaths of activity in an effort to stem the spread of COVID-19, which the World Health Organization declared a pandemic on March 11. Some 228,000 people have died in the U.S. from the virus, which has infected nearly 9 million in the country. The economy has been in a technical recession since February, as first quarter growth declined at a 5% pace.

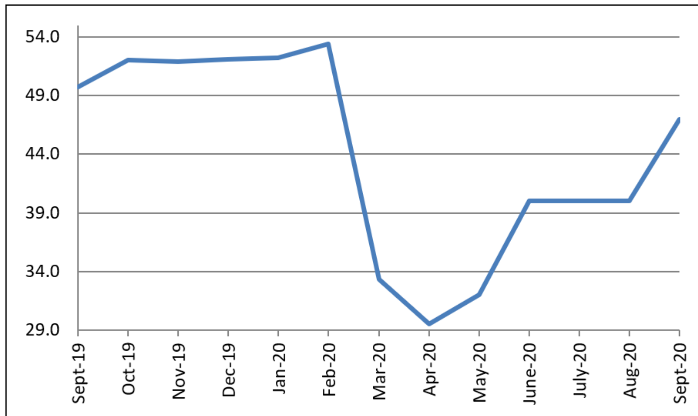
While the news on Q3 was good for the $21.2 trillion economy, the U.S. faces a tougher road ahead as coronavirus cases increase and worries grow over the health and economic impacts. Nearly half the 22 million jobs lost in March and April remain unfilled and the unemployment rate remains at 7.9%, more than double its pre-pandemic level as 12.6 million Americans are still out of work.

Q3 growth came amid a resurgence in consumer activity, which accounts for 68% of GDP. Though most of the country remained in a cautious reopening, shoppers began returning to stores and the bar and restaurant industry entered the first tepid phase of resuming business despite restrictions on capacity. Personal consumption increased 40.7%, while gross private domestic investment surged 83% amid a 59.3% increase on the residential side. Full Story ***Source: CNBC, 10.29.2020***



Key Economic Indicators

Architecture Billings Index (ABI)

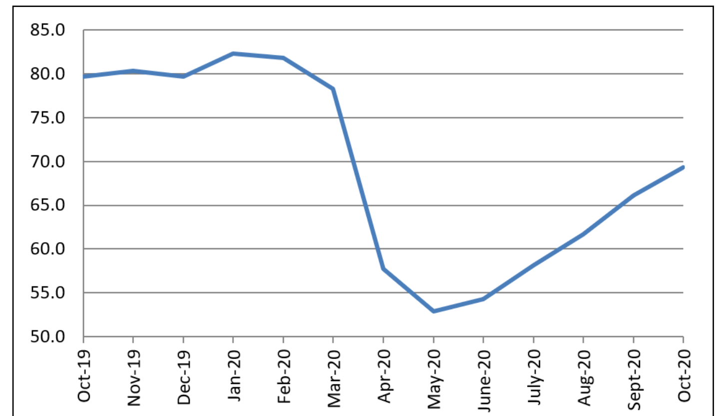


A slight improvement in business conditions has led to fewer architecture firms reporting declining billings, according to a new report today from The American Institute of Architects (AIA).

AIA's ABI score for September was 47.0 compared to 40.0 in August (any score below 50 indicates a decline in firm billings). Last month's score indicates overall revenue at U.S architecture firms continued to decline from August to September, however, the pace of decline slowed significantly. Inquiries into new projects during September grew for the second time since February, with a score of 57.2 compared to 51.6 in August. The value of new design contracts moderated to a score of 48.9 in September from 46.0 the previous month.

The **Architecture Billings Index (ABI)** is a diffusion index derived from the monthly Work-on-the-Boards survey, conducted by the AIA Economics & Market Research Group. The ABI serves as a leading economic indicator that leads nonresidential construction activity by approximately 9-12 months. An index score of 50 represents no change in firm billings from the previous month, a score above 50 indicates an increase in firm billings from the previous month, and a score below 50 indicates a decline in firm billings from the previous month.
Source: American Institute for Architects, 10.21.2020

Steel Capability Utilization



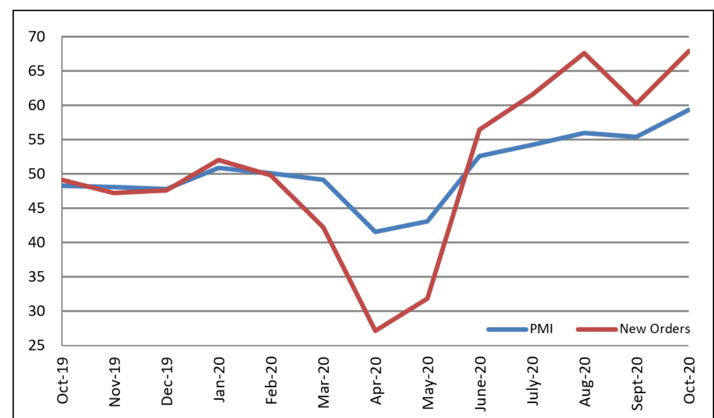
In the week ending on October 31, 2020, domestic raw steel production was 1,557,000 net tons while the capability utilization rate was 70.4%. Production was 1,805,000 net tons in the week ending October 31, 2019 while the capability utilization then was 78.0%. The current week production represents a 13.7% decrease from the same period in the previous year. Production for the week ending October 31, 2020 is up 1.0% from the previous week ending October 24, 2020 when production was 1,542,000 net tons and the rate of capability utilization was 69.7%.

Adjusted year-to-date production through October 31, 2020 was 65,806,000 net tons, at a capability utilization rate of 66.7%. That is down 18.9% from the 81,154,000 net tons during the same period last year, when the capability utilization rate was 80.1%.

Steel Capability Utilization is a domestic report based on estimates from companies representing approximately 90% of the Industry's Raw Steel Capability as compiled by the American Iron and Steel Institute.
Source: AISI, 10.31.2020

Purchasing Managers Index (PMI)®

The October Manufacturing PMI® registered 59.3%, up 3.9 percentage points from the September reading of 55.4% and the highest since September 2018 (59.3%). This figure indicates expansion in the overall economy for the sixth month in a row after a contraction in April, which ended a period of 131 consecutive months of growth. The New Orders Index registered 67.9%, an increase of 7.7 percentage points from the September reading of 60.2%. The Production Index registered 63%, an increase of 2 percentage points compared to the September reading of 61%. The Backlog of Orders Index registered 55.7%, 0.5 percentage point higher compared to the September reading of 55.2%. The Employment Index registered 53.2%, an increase of 3.6 percentage points from the September reading of 49.6%. The Supplier Deliveries Index registered 60.5%, up 1.5 percentage points from the September figure of 59%.



Of the 18 manufacturing industries, 15 reported growth in October, in the following order: Apparel, Leather & Allied Products; Fabricated Metal Products; Nonmetallic Mineral Products; Food, Beverage & Tobacco Products; Plastics & Rubber Products; Machinery; Furniture & Related Products; Paper Products; Wood Products; Chemical Products; Primary Metals; Computer & Electronic Products; Transportation Equipment; Electrical Equipment, Appliances & Components; and Miscellaneous Manufacturing. The two industries reporting contraction in October are: Textile Mills; and Printing & Related Support Activities. *Source: Institute for Supply Management, 11.01.2020*

Industry News

U.S. Business Activity Leaps To Fastest Growth Rate Since February 2019, IHS Markit Says

A popular gauge of economic growth retraced a brief downtrend and swung higher in October, suggesting the economic recovery is faring well despite a lack of renewed fiscal support. IHS Markit's composite output index for the U.S. climbed to 55.5 in October from 54.3, according to a October 23 report. The reading is its highest level since February 2019. The firm's index of service-industry activity gained to 56 from 54.6, and its purchasing managers' index for the manufacturing industry improved to 53.3 from 53.2.

The gauges track month-over-month changes in activity, as opposed to overall output levels. Readings above 50 point to sector expansion, while those below 50 signal contraction.

Markit's indexes are among the few indicators showing a V-shaped rebound, but the trendline is largely fueled by the relative bounce-back in output. Other gauges of business activity show output remains well below pre-pandemic levels. Optimism among service businesses improved to its strongest since April 2018, Markit said. Hiring slowed in the services and manufacturing industries due to softer pressures on capacity and some difficulties in finding suitable workers.

The readings on October 23 suggest the U.S. economy "started the fourth quarter on a strong footing," Chris Williamson, chief business economist at IHS Markit, said in a statement. Services led the expansion by adapting to COVID-19 protocols, and manufacturing was boosted by robust household and business demand.

"A slowdown in hiring and weaker new order inflows were in part attributable to hesitancy in decision making ahead of the presidential election," Williamson added.

The encouraging uptrend still faces hurdles from rising COVID-19 cases throughout the nation. Public health experts expect winter months to drive case counts higher, sparking concerns of renewed lockdowns. The lack of near-term stimulus also threatens to curb hiring and consumer spending. Still, others see the economy as able to continue its rebound without another spending package. New aid would be a "bonus," but the nation's rebound "is less dependent on fiscal stimulus than we originally believed," Seema Shah, chief strategist at Principal Global Investors, said on October 20.
Source: Business Insider, 10.23.2020

U.S. Factory Orders Rise Solidly; Outlook Uncertain

New orders for U.S.-made goods increased solidly in September, but further gains could be limited amid an anticipated slowdown in consumer spending as government money for businesses and workers impacted by the COVID-19 pandemic runs out. The Commerce Department said on November 3 that factory orders rose 1.1% after climbing 0.6% in August. Orders were boosted by increased demand for primary metals, computers and electronic products as well as motor vehicles and fabricated metal products. But orders for machinery, furniture and electrical equipment, appliances and components fell. Economists polled by *Reuters* had forecast factory orders would rise 1.0% in September.

Manufacturing, which accounts for 11.3% of U.S. economic activity, has been boosted by a shift in spending from services toward goods as Americans set up home offices and remote classrooms and avoid public transportation because of the coronavirus.

A survey on November 2 from the Institute for Supply Management on showed its measure of national factory activity raced to its highest level in nearly two years in October, with new orders surging to their highest level in almost 17 years. But the strong manufacturing sentiment likely overstates the health of the sector. A report from the Federal Reserve last month showed production at factories dropped 0.3% in September and remained 6.4% below its pre-pandemic level.

Stocks on Wall Street were trading higher as investors bet Democratic presidential nominee Joe Biden would beat President Donald Trump in the November 3 bitterly contested election. The dollar .DXY fell against a basket of currencies. U.S. Treasury prices were lower. More than $3 trillion in government pandemic relief juiced economic growth last quarter, with nearly all segments rebounding strongly, with the exception of government spending and business investment in intellectual property products and nonresidential structures like gas and oil well drilling.

The economy grew at a historic 33.1% annualized rate in the July-September period. That followed a record 31.4% pace of contraction in the second quarter. Output remains 3.5% below its level at the end of 2019. There is no deal in sight for another round of fiscal stimulus. Unfilled orders at factories fell 0.2% in September after declining 0.6% in August. Inventories at factories were unchanged for a second straight month, while shipments of manufactured goods rose 0.3%.

The government also reported that orders for non-defense capital goods excluding aircraft, which are seen as a measure of business spending plans on equipment, increased 1.0% in September, as reported last month. Shipments of core capital goods, which are used to calculate business equipment spending in the GDP report, rose 0.5%. They were previously reported to have gained 0.3%. Business spending on equipment rebounded at a 70.1% rate in the third quarter, ending five straight quarters of decline. ***Source: Reuters, 11.03.2020***

Special Section: COVID-19

Four Best Practices For Return-To-Work During COVID

Since early 2020, manufacturing has not been the same. COVID-19 has forced many manufacturers to close their offices and operate their factories differently. During the closures, leaders have been preparing for a return when it is safe and considering the best approaches for doing so. Just ordering everyone back to work won't do the trick. It's about creating and maintaining a safe environment for healthy employees—and making sure that the sick recover at home. It's also about appreciation and respect for factory workers: Valuing the work they are doing in those unprecedented times and genuinely making them feel the appreciation for showing up to work.

Here are some of the strategies that have proven successful.

Create a Safe Work Environment and Appreciate On-Site Workers—While the internet is full of employees praising the merits of working from home, it's important for leaders to acknowledge that not all jobs can be done remotely. The psychological effect on workers who show up for work, go through all the safety measures and then walk by empty meeting rooms and offices should not be underestimated. It's a leader's job to make the on-site staff feel safe—both mentally and physically—so they are just as engaged as their colleagues working from their homes.

Several leaders we spoke with did have employees test positive for COVID-19 early on and closed plants for deep cleaning, sometimes more than once. Now, commonplace practices include providing personal protective equipment (PPE) for all associates, using consistent teams per shift for better contact tracing, and striving to eliminate human touch.

Not to be overlooked as motivators for some associates to come onsite: one-time hazard bonuses, a small raise for hourly workers, or gift cards to local businesses.

Communicate and Ensure You Reach Everyone—Transparent and precise communication with frontline workers is crucial when protocols for social distancing, hygiene and navigating through the worksites are constantly changing.

Prior to COVID-19, messages would often be "lost" within organizational hierarchies. Now, organizations must nuance the communication around why they are doing something and what

Source: Adobe Stock

Special Section: COVID-19

Four Best Practices For Return-To-Work During COVID (Continued)

specific actions they are taking, to resonate with both hourly and salaried workforces.

For example, some organizations have partnered with their HR departments and created videos on "what your first day back will look like" to lessen any element of surprise and create psychological safety. It's also a best practice to partner with regulatory bodies that can certify compliance with the changing requirements for workplace safety and communicate the reality of how infection can be prevented and not spread. This will provide clear illustration that you're going above and beyond the basic regulatory requirements.

Collaborate with HR—Speaking of HR, it is the centerpiece of all COVID-19 activities that concern staff. And while in the past, manufacturing leaders' default attitude regarding HR's capabilities and usefulness was negative, things now look very different. Suddenly, HR is being lauded for providing communication strategies and modeling difficult conversations for leadership.

In some instances, manufacturing leaders were simply leaning on HR to help with insurance issues, payment policy for furloughed employees, sick leave policy and communications techniques. But it's becoming more common for companies to embed HR in daily crisis management or war-room meetings. HR is providing valuable inputs for the decisions to reopen sites that span the management of government permits to re-start operations. A partnership between the global HR function and in-country HR teams is also a key focal point, as often the tools and engagement model in one geography are not transferable to another.

Just one more example where HR can help: Not every hourly worker has a company email, the same systems access, or consumes information in the same fashion as salaried associates. Manufacturing leaders must partner with HR to reach these employees differently and to find engagement paths for factory workers.

Prepare to Accelerate Change—Prior to COVID-19, organizations were already aggressively implementing their future digital designs for manufacturing. Not one company that we have spoken with is hitting the pause button on these endeavors. However, with accelerated technology usage and automation, along with removal of some physical supervisory oversight, many leaders said that operators will now have much more direct responsibility for productivity, quality, and safety. What this means: Investments are pivoting towards the people.

There is a big digital divide that needs to close, and operations leaders must rise to the challenge. Workforce flexibility is needed, as are training and upskilling. Sustaining the current engagement models with HR and enlisting its help to catalogue skills and competencies, institutionalize tacit knowledge, and cultivate learning and development plans for this new dynamic is critical. As staffing levels continue to fluctuate and shifts stagger, many leaders' long-term focus will pivot toward organizational design—reassessing job families, team structures and human-machine collaboration models, and determining which roles are essential. This will inevitably change the balance of on-site and offsite staffing, and the overall factory talent profile.

The Path Forward—COVID-19 has put a stop to some manufacturing – but it didn't stop the overall push toward digitization. It's now more important than ever to maintain the right talent on the manufacturing floor by keeping people safe and upskilling them for the next step of the journey.
Source: Gartner; 10.26.2020

Federal Reserve Aims To Entice More Businesses To Use COVID Loan Program

On October 30, the Federal Reserve announced that it had reduced the minimum loan amount for its Main Street Lending Program (MSLP) to $100,000 from $250,000 in an effort to entice more U.S. companies to take advantage of its little-used emergency lending facilities. As a reminder, the MSLP supports lending to small and medium-sized for-profit businesses and nonprofit organizations that were in sound financial condition before the COVID-19 pandemic, but now lack access to credit on reasonable terms. The program offers several five-year loan options, with deferred principal and interest payments for qualified businesses and nonprofits.

The Fed also adjusted fees for the loans and also now will allow borrowers that have taken out as much as $2 million in U.S. Small Business Administration (SBA) Paycheck Protection Program loans to exclude that debt from calculations of their eligibility to apply for MSLP loan.

Business groups have been pleading with the Fed for months to make these changes. In its announcement, the Fed said its changes will "better target support to smaller businesses that employ millions of workers and are facing continued revenue shortfalls due to the pandemic." So far, the Fed has purchased only 400 MSLP loans, or $3.7 billion, which represents just 0.6% of the potential $600 billion it could lend under the program.

The Fed changed the For-Profit Business Frequently Asked Questions (FAQ's) governing the program as well.
Source: MSCI, 11.03.2020