

# Manufacturing Economic Predictions for 2023

Chad Moutray, Chief Economist, National Association of Manufacturers  
Rob Sinfield, Global Head of Product Sage X3 and Sage Intacct Manufacturing, Distribution, and SCM, Sage Software

## KEY TAKEAWAYS

- America's employment situation carries positive signs for the economy and challenges for manufacturers.
- Persistent inflation and aggressive monetary policies will limit America's GDP growth in the short term but keep the prospect of a soft landing in play.
- Positive economic developments from key international trading partners promise to bolster America's manufacturing sector.
- Though experts anticipate a manufacturing industry recession, recent encouraging data and a historical perspective suggest a strong recovery may follow.
- Technology solutions can empower manufacturers to navigate today's unique economic challenges better while remaining agile to meet tomorrow's demands.

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# Manufacturing Economic Predictions for 2023

## OVERVIEW

Manufacturing experts Chad Moutray of the National Association of Manufacturers and Rob Sinfield of Sage Enterprise shared their economic outlooks for 2023. They explored the current state of the economy, made predictions for the manufacturing sector, and explained how technology could help manufacturers manage more effectively during these turbulent times.

## CONTEXT

American manufacturers have been wrestling with extensive challenges. Fear of another recession and concern about the debt ceiling cast a shadow on the economy, complicating facility planning. In the meantime, attracting and retaining a quality workforce continues challenging the industry due to the tight labor market. Technology solutions such as Sage X3 can help manufacturers with inventory management, procurement, cloud computing, and cybersecurity. Sage X3 is an example of a platform designed to help manufacturers operate more efficiently and effectively in these unique times via several distinct strengths.

## KEY TAKEAWAYS

**America's employment situation carries positive signs for the economy and challenges for manufacturers.**

The American labor market shows growth along with complications for manufacturers. Historically low unemployment makes a recession less likely but the tight labor market can leave factories shorthanded.

Robust job growth has steadily continued, with 500,000 non-farm payroll jobs added in January alone. This drove unemployment down to 3.4%. February's number may be slightly lower, making it the best employment report in seven decades.

Yet strong labor data is not necessarily good news for manufacturers that are struggling to hire. Attracting and retaining a quality workforce was recently identified as the foremost challenge confronting NAM members.

Many workers who lost jobs during COVID have remained on the sidelines. Childcare costs often prevent parents from joining the workforce, and young men, in particular, are rejecting the traditional labor market—opting for the greater work/life balance of the gig economy.

Retention has proven nearly as burdensome as hiring. More than four million Americans quit their jobs in December—a level of churn that makes training difficult.

Nonetheless, the nation currently boasts almost 13 million manufacturing workers and nearly 400,000 jobs were added in the last year, marking the best hiring year since 1994. With solid wage growth in the sector and the labor markets expected to loosen, staffing and production will grow.

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**"A large part of the challenge is finding workers. Everyone I talk to across manufacturing sectors is having trouble hiring, with many really scrambling for talent and raising wages several times in the last couple of years."**

*Chad Moutray, NAM*

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## Persistent inflation and aggressive monetary policies will limit America's GDP growth in the short term but keep the prospect of a soft landing in play.

Increasing wages in the manufacturing sector have been weakened by relentless inflation. Consumer prices continue to grow at 6% annually, even though the Federal Reserve has set a target of 2%.

In pursuit of this 2% goal, the Fed has enacted aggressive monetary policies and swiftly increased its federal funds rate. This time last year, the rate was effectively 0%. Today, it stands at 4.75% and is likely to climb even higher.

More costly borrowing drags on the economy but the need for higher interest rates will not relent until inflation is harnessed and the labor market cools. Despite some progress on inflation, consumer levels remain high—especially in housing, transportation, and food.

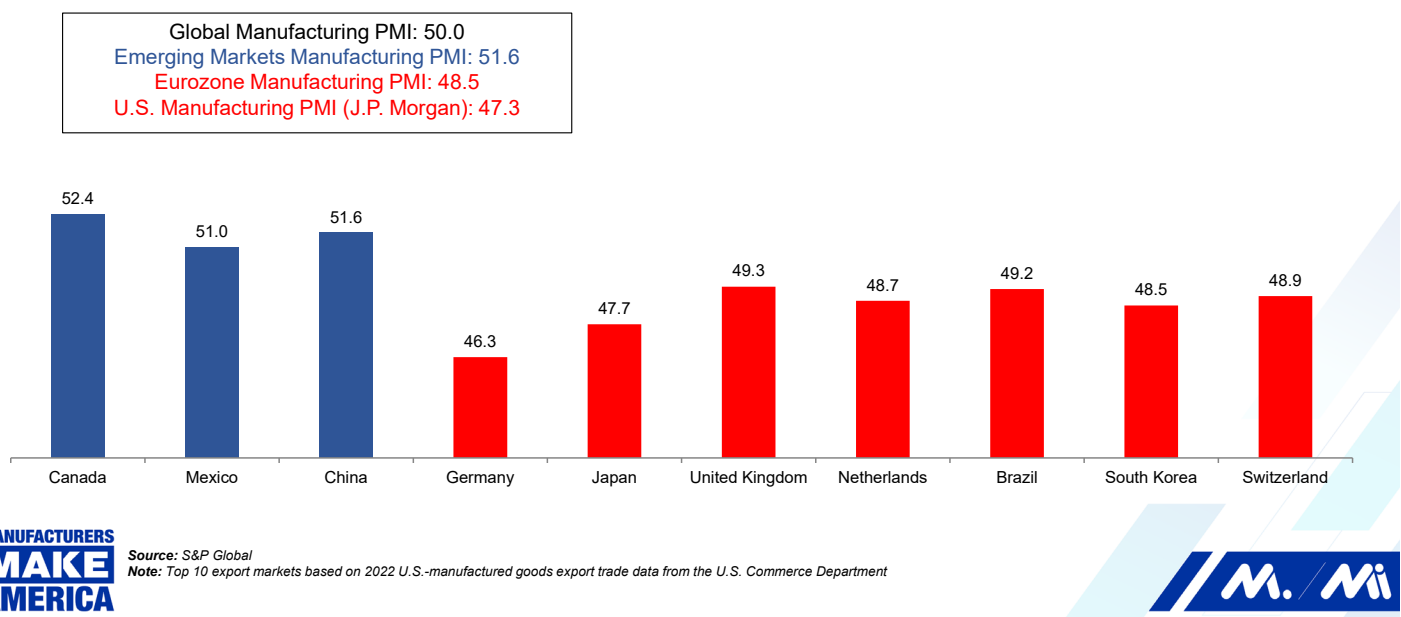
As a result, Fed rates likely will not drop until sometime in 2024 and GDP growth will continue to dwindle. However, even minimal GDP growth is still far preferable to economic contraction and keeps the nation out of recession.

## Positive economic developments from key international trading partners promise to bolster America's manufacturing sector.

Of America's top 10 trading partners, only Canada's economy was growing at the start of 2023. February updates showed that Mexico and China have also boosted their PMI over 50. That still leaves seven contracting markets posting mixed numbers, but still, positive signs can be gleaned.

China's awaited rebound will prove particularly impactful. Emerging from several years of strict "Zero COVID" protocols that severely restricted productivity, the world's second-largest economy is reengaging the global marketplace.

Figure 1: S&P Global Purchasing Managers' Indices for the Top 10 Export Markets (Feb 2023)



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Europe is home to four of America's top 10 export markets, and the region is demonstrating similar signs of progress. A warm winter helped the EU avoid a predicted recession and the EU is showing limited growth, with better-than-expected economic data. Continued and sustained European recovery remains uncertain while the war continues in Ukraine, but there's reason for cautious optimism.

## **Though experts anticipate a manufacturing industry recession, recent encouraging data and a historical perspective suggest a strong recovery may follow.**

Sentiment surveys among America's manufacturers reveal concerns about a looming recession. Though 69% of members in the National Association of Manufacturers maintain a positive outlook for their businesses, this marks a 20-point reduction from one year ago and represents the weakest confidence level since early 2021.

These more pessimistic trends primarily stem from supply chain issues, inflation fears, and the war in Ukraine. Luckily, the impact of these issues has diminished. Delivery times and freight costs are dropping, inflation has cooled, and energy prices have stabilized, despite continuation of the war.

Data reflects these turnarounds. Manufacturing activity ended 2022 on a weak note, but January 2023 saw stronger data. Similarly, the Purchasing Managers Index (PMI) rebounded slightly in February after contracting for four consecutive months, with new orders jumping for the first time since September.

After witnessing slower growth over the past eight months, it may be tempting to assume a manufacturing recession. However, in context, that deceleration was a pull-back from the strongest manufacturing position since 2008. The indicators have never gone negative, suggesting a soft landing is still within grasp.

Additionally, spending on core capital goods and manufacturing construction are currently at all-time highs. This infrastructure investment, including semiconductor capabilities, brightens the long-term picture and will generate tailwinds on the other side of the downturn.

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**"Uncertainty and slowdowns have had manufacturers on edge for some time, anticipating what the Wall Street Journal creatively calls a 'Godot recession'—we keep waiting and waiting, but it doesn't materialize."**

*Chad Moutray, NAM*

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## **Technology solutions can empower manufacturers to navigate today's unique economic challenges better while remaining agile to meet tomorrow's demands.**

Many of the same market factors impacting the global economy affect manufacturing and distribution operations. This is especially true of supply chain issues and modern workforce demands.

Optimal technology enables manufacturers to thrive through a downturn by supplying flexible, intuitive solutions.

Sage X3 is an example of a platform designed to help manufacturers operate more efficiently and effectively in these unique times via several distinct strengths:

- **Inventory management.** Companies lacking confidence in supplies and deliveries are holding more inventory and keeping more cash on hand. Accurately tracking these assets helps control costs, drives informed decisions, and can automate purchasing to match market conditions.

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- **Intelligent procurement.** Software is evolving by incorporating AI and algorithmic automation. By analyzing inventory data and buying trends, platforms are learning to generate purchasing proposals. They will soon consider more than price and delivery, expanding to include quality, carbon impacts, and other variables to generate a four-dimensional procurement model rather than a two-dimensional matrix.
- **Cloud computing.** Enterprise resources like Sage X3 employ cloud computing and are cost-effective, integrating with remote manufacturing operations. This convenience helps with recruitment and retention.
- **Cybersecurity/data protection.** Like all modern businesses, manufacturers must guard against cybersecurity threats. As custodians, they also must safeguard customer data. As various jurisdictions enact local data privacy protections, a platform compatible with all regulations will be crucial to compliance.

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**“The right technology can help manufacturers knock down internal barriers and thrive through the delivery of intuitive solutions tailored to their unique requirements.”**

*Rob Sinfield, Sage*

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## ADDITIONAL INFORMATION

To learn more about Sage X3, visit [www.sage.com](http://www.sage.com)

## BIOGRAPHIES

### Chad Moutray

**Chief Economist, National Association of Manufacturers**

Experienced chief economist with a demonstrated history of working in the government relations industry, Chad provides regular updates on the economy pertaining to the U.S. manufacturing sector, including regular briefings with senior NAM management, written analysis, and professional speeches.

### Rob Sinfield

**Global Head of Product, Sage X3 and Sage Intacct Manufacturing, Distribution and SCM, Sage Software**

As VP, Rob brings more than 20 years of experience in the Enterprise space as he leads the global business unit at Sage for the Sage X3 Product Portfolio and the Sage Intacct Manufacturing, Distribution, and Supply Chain Domains. He also manages global product management, engineering, operations, and ISV recruitment, enablement, and success teams.