

## THE MANUFACTURING ECONOMY

### Inflation Takes its Toll on the Manufacturing Industry

While it impacts companies across all industries, inflation causes deeper levels of complexities in business operations in the manufacturing industry. Inflation occurs when there is an increase in the cost of production, transport, and labor. Several factors can cause inflation. Primarily, inflated prices have been noticeably caused by three main factors: *supply chain disruption, high cost of labor, and rising gas prices.*

Manufacturing companies are reacting by raising prices to match inflation; cutting costs where possible; increasing productivity with a lower head count and productivity bonuses, and; implementing new technology such as automation and AI to provide more control over operations and help to avoid costly human errors.

### ISM: U.S. Manufacturing Sector Tapped the Brakes in September; Price Pressures Ease

U.S. manufacturing grew at its slowest pace in nearly 2-1/2 years in September as new orders contracted amid aggressive interest rate increases from the Federal Reserve to cool demand and tame inflation. The Institute for Supply Management (ISM) survey on Monday also showed a measure of manufacturing employment contracted last month for the fourth time this year. A gauge of inflation at the factory gate decelerated for a sixth straight month.

The ISM survey's forward-looking new orders sub-index fell to 47.1 last month, also the lowest reading since May 2020, from 51.3 in August. It was the third time this year that the index has contracted. And a measure of prices paid by manufacturers dropped to 51.7, the lowest reading since June 2020, from 52.5 in August.

### Empire State Manufacturing Survey: Holding Steady

Manufacturing activity held steady in New York State on the heels of a sharp declines in previous months. The general business conditions index climbed thirty points to -1.5.

- The new orders index climbed thirty-three points to 3.7, indicating a slight increase in orders.
- The shipments index surged forty-four points to 19.6, pointing to a rebound in shipments.
- The unfilled orders index came in at -7.5, falling for a fourth consecutive month.
- The delivery times index hovered near zero for a second consecutive month.
- The inventories index edged up to 9.4, a sign that inventories increased modestly.

- The index for number of employees was little changed at 9.7, pointing to a modest increase in employment levels,
- The average workweek index climbed to around zero, indicating no change in hours worked.
- The prices paid index fell sixteen points to 39.6; falling cumulative thirty-nine points over the past three months.
- The prices received index fell nine points to 23.6, its lowest level since early 2021.

Looking ahead delivery times are expected to shorten. The index for future business conditions rose six points to 8.2, suggesting little optimism about the six-month outlook. The index for future new orders remained depressed, though employment is expected to pick up. Moderate increases in capital and technology spending are planned for the months ahead.

### First Half of 2022 Sees Record U.S. Productivity Slump

Over the last two quarters, U.S. employment in the nonfarm business sector grew at a very strong 4.3 percent annual rate, while output fell at a 2.3 percent annual rate. With average hours per worker decreasing, this means that output per hour, also called labor productivity or simply productivity, fell at a 6.0 percent annual rate.

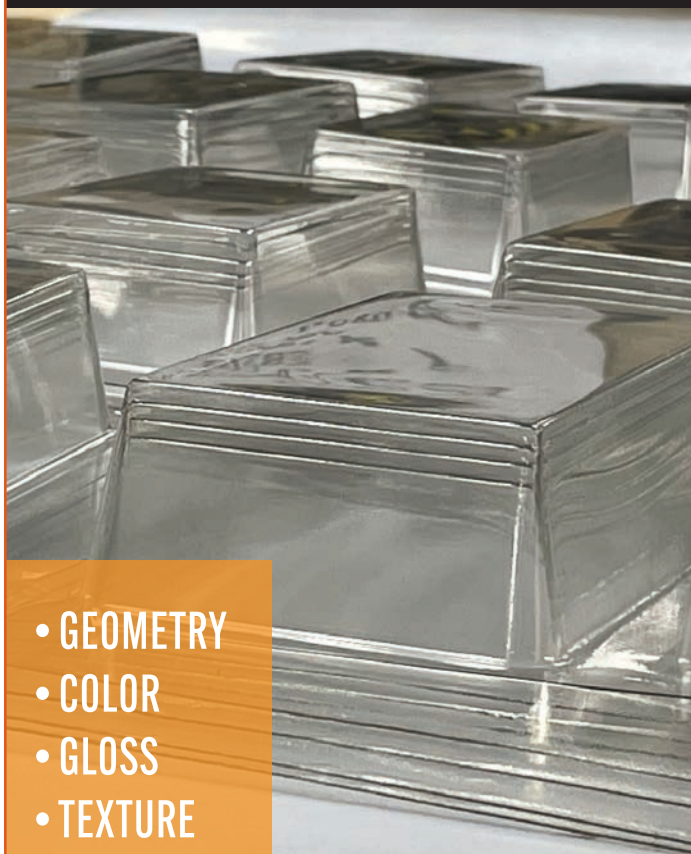
These declines are larger than the largest two-quarter declines since the data began to be collected in 1947. These data suggest the economy will not sustain higher compensation growth without passing it into price growth, perhaps even higher price growth than would usually be associated with this pace of compensation growth.

### Federal Reserve Goes Big to Fight Inflation

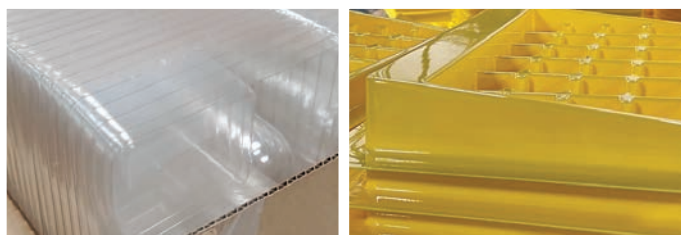
Figures published on September 13th show that the pace of underlying inflation in August was fast and furious. When underlying inflation has been this high for this long the simplest explanation is the most obvious, no matter what happens to individual components: the economy is still overheating. The effects of generous fiscal stimulus, which stoked demand during the pandemic, linger today. According to Goldman Sachs, households in aggregate are still sitting on more than \$2trn in excess savings, accumulated during lockdowns, equivalent to 10% of annual GDP.

The Federal Reserve has enacted three consecutive 0.75 percentage point interest rate increases as it seeks to tamp down runaway inflation, without creating a recession, bringing the key funds rate to between 3.00 and 3.25 %. The Fed's job is to set interest rates so that inflation reaches its target. With the economy still overheating, its work is far from done. Although the central bank has raised interest rates faster than in past tightening cycles, it has been so far behind the curve that every reminder of inflation's stickiness is jolting markets.

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### U.S. Economy Contracts in Second Quarter

The U.S. economy contracted at a more moderate pace than initially thought in the second quarter as consumer spending blunted some of the drag from a sharp slowdown in inventory accumulation, dispelling fears that a recession was underway.

Gross domestic product shrank at a 0.6% annualized rate last quarter, the government said in its second estimate of GDP. That was an upward revision from the previously estimated 0.9% pace of decline. The economy contracted at a 1.6% rate in the first quarter.

### High Energy Prices Ahead

New York's largest utility is warning customers to expect higher heating costs this winter as high gas prices continue. Con Edison forecasts that the average customer in New York City will pay 32 percent more for gas than last year, or about \$460 each month from November 2022 to March 2023. Electricity costs are also expected to be higher.

Con Ed is the latest New York utility to warn of rising utility costs, as public officials and the utilities seek to warn residents earlier than ever amid extreme volatility in the energy markets. Higher utility bills will burden low- and moderate-income consumers, particularly those already struggling with unpaid bills from the pandemic.

## CLIMATE, ENVIRONMENT, SAFETY, AND HEALTH

### Big Jump in OSHA Fines Not Coming

At present, the maximum fine OSHA can assess against an employer per alleged repeat, willful or failure-to-abate violations is \$145,027. Last year, the House of Representatives passed a bill that would have boosted the maximum penalty for willful or repeat violations of OSHA workplace safety rules from that amount to \$700,000 per violation, including imposition of a \$50,000 minimum. Under last year's House proposal, the serious failure-to-abate fine limit also would have increased from \$13,653 to \$70,000.

However, the recent passed reconciliation spending bill does not mention or incorporate any provisions for raising the cap on civil money penalties regarding citations issued by OSHA, notes Raymond Perez II, an attorney with the law firm of Jackson Lewis.

### "Inflation Reduction Act" Biden Signs Bill Aimed at Lowering Drug Costs, Boosting Renewable Energy

The Inflation Reduction Act is a slimmed-down version of the Build Back Better bill, which aimed to make historic investments in the nation's social safety net. The new bill makes the largest investment in combating climate change in U.S. history, lowers the cost of prescription drugs and raises taxes on corporations.

**Here are the major provisions:**

- Creation of a 15% corporate minimum tax rate
- Prescription drug price reform
- IRS tax enforcement
- Affordable Care Act (ACA) subsidy extension
- Energy security and climate change investments

## Energy, Business, and Labor Groups Agree to Seven Principles to Responsibly Advance New York State's Climate and Energy Goals

The Independent Power Producers of New York (IPPNY), The Business Council of New York State, the New York State AFL-CIO, and the New York State Building & Construction Trades Council have jointly developed a set of seven principles to address several shortcomings in the current version of the Scoping Plan drafted by the State's Climate Action Council (CAC).

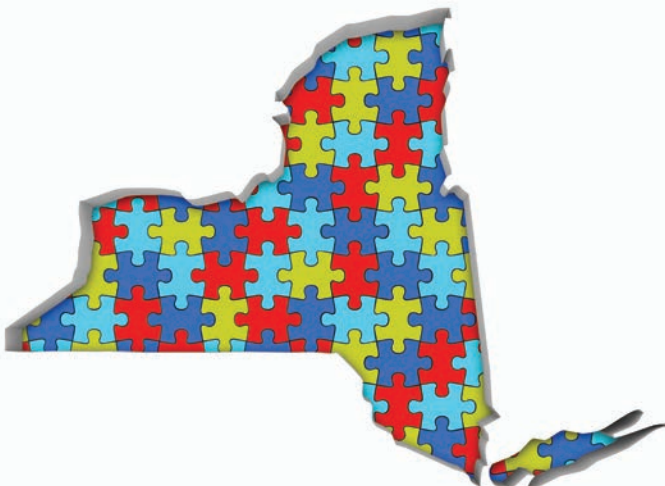
1. Maintain safe, reliable, and resilient energy infrastructure.
2. Communicate impacts on energy consumers and businesses.
3. Create and retain high quality union jobs.
4. Leverage the power of markets to achieve decarbonization.
5. Reduce emissions from all sectors, including transportation and heating.
6. Promote development and maintenance of needed energy infrastructure.
7. Support fuel and technology diversity.

## ADVOCACY

### Control of the House of Representatives Could be Decided in New York

The road for control of the House might just run along the Hudson River. Instead of serving up new Democratic lawmakers for Speaker Nancy Pelosi, a mix of open seats and new ones drawn up in New York's messy redistricting process have turned a deep blue state into a battleground as Democrats are desperate to defend their thin margins in Washington.

By many predictions, New York has as many contested seats as any state in the nation, and POLITICO's Election Forecast puts two as toss-ups; three as leaning Democratic and one leaning Republican. That makes New York — which hasn't elected a Republican statewide in 20 years — one of the most unlikely stages of political theater this election cycle.



## LABOR, EMPLOYMENT AND WORKFORCE DEVELOPMENT

### Job Openings Plunged by More Than 1.1 Million in August to 10.05 Million

The level of job openings plunged by more than a million in August, providing a potential early sign that the massive U.S. labor gap is beginning to close. Available positions totaled 10.05 million for the month, a 10% drop from the 11.17 million reported in July, according to a Bureau of Labor Statistics release Tuesday. The number of hires rose slightly, while total separations jumped by 182,000. Quits, or those who left their jobs voluntarily, rose by 100,000 for the month to 4.16 million.

Openings in manufacturing fell from 910,000 in July to 795,000 in August while the manufacturing quit rate jumped from 2.4% (312,000 people) in July to 2.8% (357,000 people) in August.

### High Inflation Means the Buying Power of Workers' Take-Home Pay Has Been Shrinking

Real (inflation-adjusted) average hourly earnings fell 2.8 percent, seasonally adjusted, from August 2021 to August 2022, the BLS separately reported. The change in real average hourly earnings combined with a decrease of 0.6 percent in the average workweek resulted in a 3.4-percent decrease in real average weekly earnings over this period.

Resilient inflation also means that the Federal Reserve is likely to continue with large interest rate hikes to slow the economy, increasing recession concerns. "The bigger risk is if we have a mild recession and inflation is sticky, the Fed may have to raise rates a lot more and drive us into that deeper recession or just let inflation run," said Anthony Brown, U.S. director of capital markets at consulting firm Mercer.

### Small Businesses are Still Desperate for Workers Even as Other Companies Slow Hiring

Hiring at U.S. small businesses with fewer than 50 employees has slowed for five straight months, according to data from Paychex and IHS Markit, but ADP President Steve Mucci said that has more to do with a lack of applicants than a reflection of small businesses pulling back.

"For small businesses, the toughest thing is they have the demand, and they have the need for workers — they just have a little bit harder time finding it," he said. That is counter to what is happening at some larger companies. In August, private payrolls grew by 132,000, a drop from the 268,000 gain seen in July, according to ADP's monthly payroll report.

### Lawmakers Want to Hike New York's Minimum Wage Rates Next Year - Index to Inflation

A coalition of state lawmakers and advocates will push in next year's legislative session to raise the minimum wage incrementally over the next few years on three separate tiers — New York City, downstate (Long Island and Westchester), and upstate — until likely 2025, then peg the minimum wage to inflation annually.



thereafter. That kind of annual indexing is already done in 16 states and Washington, D.C.

A version of such a bill, introduced in the state Senate by Sen. Jessica Ramos, died in the previous legislative session – due largely, advocates said, to having been introduced late, with little time to promote it properly. The bill called for raising the minimum wage by 2025 to more than \$20 in New York City, to \$17.95 downstate, and to \$15.75 upstate – and then pegging those floors to inflation going forward.

### “Quiet Quitting” Enters Our Lexicon

The first thing you need to know about quiet quitting is that it’s not actually quitting. Instead, the quitter keeps their job and chooses to do only the bare minimum rather than go above and beyond. The second thing you need to know is that the term is brand-new, so everyone is still figuring out the rest. To cite the Oxford English Dictionary of our very online times, Google searches for quiet quitting were basically nonexistent until this past August.

Government data shows an historic drop in productivity over the last two quarters. There could be many reasons for this: the supply chain fiasco, a record rate of job switching, business hiring decisions during a weird time for the economy, scars from the pandemic, growing pains from the mass adoption of remote work, you name it. But some argue that quiet



quitting might have something to do with it. It would certainly play into a sentiment expressed by some of America's biggest corporations: their employees just aren't being productive enough.

### Council of Industry Apprentice Program Turns 4

Officially launched in 2018 the Council of Industry’s apprentice program is helping close the skills gap by giving a formal program to upskill workers and giving workers the opportunity to earn a valuable credential. Our Manufacturing Intermediary Apprenticeship Program (MIAP) is an employer-led program that utilizes the New York State Department of Labor registered manufacturing apprentice trades. This registered apprentice program will typically be three to four years in duration.

Apprenticeship has two basic elements, *On-the-Job Training (OJT)*, consisting of a skilled employed person capable and willing to share their experience with an apprentice, in a hands-on manner; and *Related Instruction (RI)*, the learning of more theoretical or knowledge-based aspects of a craft.

MIAP Registered Trades:

- Machinist (CNC)
- Electro-Mechanical Technician
- Electronics Technician
- Maintenance Mechanic (Automatic Equipment)
- Quality Assurance Auditor
- Toolmaker
- Industrial Manufacturing Technician

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