Economic Landscape

January 2022

MANUFACTURING

- Despite the drop in the ISM manufacturing index from 61.1% in November to 58.7% for December, demand remained robust reflecting continued growth in new orders and new export orders. Supply chain stresses were somewhat lessened as delivery times improved and input price pressures moderated. Hiring improved again in December, but filling positions remains a challenge.
- On the heels of an upwardly-revised 0.7% gain in November, Industrial production ticked 0.1% lower in December. Factory output fell 0.3% reflecting lower production of motor vehicles and parts (-1.3%) as well as other durable and nondurable goods (-0.2%). Mining output rose 2.0% on stronger oil and gas activity. Utilities production declined 1.5% as above average temperatures across much of the U.S. resulted in lower demand for heating.

LABOR MARKETS

- Nonfarm payrolls increased by 199,000 in December, less than expected but employment in the prior two months was revised higher by a net 141,000. Notable job gains occurred in leisure & hospitality, professional & business services, manufacturing, construction, transportation & warehousing, and wholesale trade. The official unemployment rate fell to 3.9%.
- In the November JOLTS, job openings declined to 10.4 million while hires edged up to 6.7 million. Total separations climbed to 6.3 million, and within separations, the number of people voluntarily leaving their jobs rose to a series high 4.5 million in November and the quits rate increased to 3.0%.

PRICES

- Consumer prices rose 0.5% in December following an increase of 0.8% in November. The food index gained 0.5% as grocery prices increased by 0.4% and the cost of dining out rose by 0.6%. Energy prices decreased by 0.4% for the month, led lower by gasoline (-0.5%) and natural gas (-1.2%). Excluding food and energy, the core Consumer Price Index advanced 0.6% in December, reflecting gains in shelter (+0.4%), used cars and trucks (+3.5%), household items (+1.1%), and medical care (+0.3%). Over the twelve-month period of 2021, headline CPI clocked in at 7.0% and core CPI rose 5.5%.
- In December, the Producer Price Index for final demand increased 0.2% after posting a 1.0% gain for November. Higher margins accounted for much of the 0.5% rise in services prices, while declines in wholesale prices for energy and food were largely responsible for the 0.4% drop in goods prices. U.S. import prices decreased 0.2% for the month, as the 6.5% drop in fuel import prices more than offset the 0.5% gain in nonfuel imports. U.S. export prices also declined, down 1.8% in December despite a 0.8% rise in agricultural export prices.

SALES

- Christmas didn't come from a store, at least not in December when retail sales fell by 1.9%. Excluding the declines at auto & auto parts dealers (-0.4%) and gas stations (-0.7%), retail sales dropped 2.5% for the month. Sales were also lower at furniture stores (-5.5%); electronics & appliance stores (-2.9%); grocery stores (-0.7%); clothing stores (-3.1%); sporting goods, hobby, musical instrument, & book stores (-4.3%); department stores (-7.0%); online retailers (-8.7%); and bars & restaurants (-0.8%). Compared to December 2020, retail sales were up 16.9%.

THUNDER AND TIGHTENING

The underlying U.S. economy remains solid, but COVID-19 (and all its variants), supply chain bottlenecks, and extremely tight labor markets present ongoing challenges for 2022. Monthly gains in consumer prices have been decelerating, but inflationary pressures remain elevated. Expectations are that the Fed follows through with the latest policy pivot and begins to raise the target fed funds rate this quarter. Less certain is whether the Fed will achieve a soft landing or go too far and derail growth.

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