Economic Landscape

January 2023

MANUFACTURING

- The ISM manufacturing index fell to 48.4% in December, the lowest level since May 2020. New orders and production contracted, signaling slower global growth. The ISM Prices Index dropped 3.6 percentage points in December to 39.4% reflecting the third consecutive month of falling input prices as well as the ninth straight monthly decline in the index suggesting that the Fed's rate hikes are having the intended effect.
- Following a downwardly revised drop of 0.6% in November, industrial production declined by 0.7% in December. Mining production fell by 0.9%, while utilities output increased 3.8% as lower temperatures led to higher heat demand. Factory output decreased by 1.3% in December reflecting broad declines across both durable and nondurable manufacturing. The capacity utilization rate fell 0.6 percentage points to 78.8%, putting the current rate 0.8 percentage points below the long-run average of 79.6%.

LABOR MARKETS

- December payrolls increased by 223,000 with notable job gains in leisure and hospitality (+67,000), health care (+55,000), construction (+28,000), and social assistance (+20,000). The unemployment rate ended the year at 3.5%, and the labor force participation remained ranged bound at 62.3%. The pace of wage growth was slightly cooler in December, with year-over-year earnings up 4.6%.
- In the November JOLTS, the number of job openings was essentially flat at 10.5 million and hires were steady at 6.1 million. The number of separations rose modestly (+114,000) to 5.9 million, as layoffs declined (-95,000) while the quits rose (+126,000) and the quits rate edged up to 2.7%.

PRICES

- The Consumer Price Index declined by 0.1% in December following a 0.1% increase in November. Food prices rose 0.3% as grocery prices advanced by 0.2% while restaurant prices were up 0.4%. Energy prices fell 4.5% in December led by drops in gasoline (-9.4%) and fuel oil (-16.6%). Excluding food and energy, core CPI increased 0.3% in December, led by a 0.8% increase in shelter. New vehicle prices edged 0.1% lower, while used car and truck prices declined by 2.5%. Year over year, headline CPI rose 6.5% for December and core CPI increased 5.7%.
- The Producer Price Index decreased 0.5% primarily due to a 1.6% drop in prices for final demand goods; service prices edged 0.1% higher in December. Prices for U.S. imports rose 0.4% for the month, marking the first increase since June 2022. The index for U.S. export prices decreased 2.6% in December.

SALES

- It was another rough month for retail sales, which followed up a 1.0% decline in November with a 1.1% drop for December. Auto sector sales decreased 1.2% and gas station sales plunged 4.6%, but excluding auto and gas were still down 0.7%. Sales were down across the majority of categories, and gains were muted in the three categories that didn't fall: building materials (+0.3%), grocery stores (+0.1%), and sporting goods (+0.1%). This is the third monthly decline in retail sales in the past four months, and does not bode well for the pace of consumer spending as we move deeper into 2023.

CLASH OF THE TIGHTEN

Futures contracts and the Treasury yield curve suggest that the market has priced in another quarter point rate hike for February with expectations currently high for a like increase in March. The resilience in payroll growth and household employment offer hope that the past year's tightening in monetary policy can still result in a soft landing, reducing inflationary pressures while avoiding an outright recession. However, with other areas of the economy already contracting – like industrial production and retail sales – further rate hikes would seem to increase the odds of recession.

First Commonwealth Advisors