Economic Landscape

July 2022

MANUFACTURING

- The ISM manufacturing index dropped by 3.1 points to 53.0% in June, signaling continued expansion but also a notable slowing in the pace of activity. The report reflected some modest improvement in the supply chain with better deliver times and lighter backlogs as inventories are rebuilt. Hiring remains challenging, and prices are still high. New orders contracted slightly, marking the first dip in 24 months.
- Industrial production contracted by 0.2% in June following no change in May. Factory output fell 0.5% for the second straight month with decreases for both durable (-0.3%) and nondurable (-0.8%) manufacturing. Mining production posted a strong 1.7% gain in June boosted by strong oil and gas well drilling. Utilities production dropped 1.4% for the month. The capacity utilization rate slipped 0.3 percentage points lower, and at 80.0% is slightly above the 1972-2021 average of 79.6%.

LABOR MARKETS

- U.S. payrolls rose by 372,000 jobs in June with notable gains in professional and business services; leisure and hospitality; health care; transportation and warehousing; manufacturing; information; social assistance; and wholesale trade. Revisions to the April and May reports indicate that payrolls are 74,000 lower than previously reported, so job growth averaged about 374,000 per month over the last three months. Average hourly earnings rose 5.1% over the past twelve months, and the official unemployment rate held steady at 3.6%.
- After peaking in March at 11.9 million, the May JOLTS shows job openings have fallen to 11.3 million – which is still 5.3 million more jobs than there were unemployed workers. Despite the gap, hiring trended somewhat lower suggesting ongoing challenges in finding qualified workers. The number of employees quitting their jobs also declined slightly, though the quits rate at 2.8% still points to a high level of worker confidence that they can secure better paying or more flexible employment.

PRICES

- Once again, consumer prices increased more than expected as the Consumer Price Index rose by 1.3% in June. The food index went up by 1.0% with grocery prices 1.0% higher in June and prices for dining out costing 0.9% more. Energy prices jumped 7.5% for the month with gains in gasoline (+11.2%), natural gas (+8.2%), and electricity (+1.7%). Excluding food and energy, core CPI was up 0.7% in June as prices increased broadly including gains for shelter, airfare, new vehicles, used cars and trucks, apparel, and medical goods and services. Year over year, headline CPI has gained 9.1% and core CPI increased by 5.9%.
- The Producer Price Index for final demand rose by 1.1% in June, with roughly three-fourths of the gain attributable to rising in goods prices. Within goods, the biggest driver a 10.0% jump in prices for final demand energy. The U.S. Import Price Index rose 0.2% in June as the 5.7% gain in fuel import prices more than offset the 0.5% decline in prices for nonfuel imports including unfinished metals and selected building materials. Export prices increased 0.7% for the month, with much of the rise due to higher prices for nonagricultural industrial supplies and materials (+1.8%); agricultural export prices fell 0.3% in June.

SALES

- Sales to U.S. retailer grew by 1.0% in June, better than consensus. Gas station sales rose 3.6% for the month, while sales at motor vehicle and parts dealers increased 0.8%; excluding gas and auto sector, sales advanced 0.7% in June. Sales were also higher at furniture stores (+1.4%); grocery stores (+0.6%); sporting goods, hobby, musical instrument, and book stores (+0.8%); online retailers (+2.2%); and bars and restaurants (+1.0%). Sales declined in June for home improvement stores (-0.9%); clothing stores (-0.4%); and department stores (-2.6%). Sales are up 8.4% year over year.

DISTANT THUNDER

While payroll growth and job openings remain quite sunny, economic data over the last few weeks reflect a gathering storm of waning consumer and business confidence, weaker spending, declining housing market activity, and a possible stall in industrial production. The Fed's top goal now is to bring inflation under control, so we expect additional rate hikes this year as well as an increased risk of recession heading into 2023.

First Commonwealth Advisors