Economic Landscape

August 2022

MANUFACTURING

- The manufacturing economy has grown for 26 consecutive months, but the pace of that growth slowed in July when the ISM manufacturing index decelerated to 52.8%. New orders contracted for the second month in a row, but inventories continue to pick up as the restocking cycle remains robust.
- Industrial production increased by 0.6% in July and June output was revised up to be flat with May. Factory output led the rebound in June, up 0.7%, as the production of motor vehicles and parts advanced by 6.6%. Mining production rose 0.7% for the month reflecting gains in coal mining and oil and gas well drilling. Utilities output fell by 0.8% in July. The capacity utilization rate rose 0.4 percentage points to 80.3% and is currently 0.7 points above the long run (1972-2021) average.

LABOR MARKETS

- U.S. payrolls grew well above expectations in July, adding 528,000 jobs, while net revisions to May and June account for an additional 28,000 jobs above what was previously reported. The U.S. labor market has recouped the 22 million jobs lost in the pandemic, with some areas faring better than others. Government employment rose by 57,000 in July but remained 597,000 jobs below the February 2020 level. Leisure and hospitality added 96,000 jobs in July but are 1.2 million jobs short of February 2020; health care payrolls rose by 70,000 in July but are still down 78,000 to prepandemic; and social assistance added 27,000 jobs in July yet 53,000 below February 2020. Overall, private-sector payrolls are now 629,000 above the prepandemic level. The official unemployment rate edged down to 3.5 percent for the month, and the labor force participation rate fell a tick to 62.1%. Average hourly earnings rose by 15 cents in July, and over the past 12 months, average hourly earnings have increased by 5.2%.
- In the June JOLTS, the number of job openings dropped by 605,000 in June, to 10.7 million with the biggest declines in retail trade, wholesale trade, and state and local government education. The number of hires was down slightly (-133,000) in June, as were total separations (-86,000). The details within separations suggests that the "Great Resignation" carries on, as layoffs fell by 89,000 to 1.4 million in June while quits were little changed at 4.2 million (down just 53,000) for the month, and the quits rate held steady at 2.8%.

PRICES

- The headline Consumer Price Index was unchanged from June to July thanks to a big decline in the energy index (-4.6%). Gasoline prices plunged by 7.7%, fuel oil by 11.0%, and natural gas fell by 3.6%. Food prices continued to rise in July with grocery prices up 1.3% while restaurant food prices rose by 0.7%. Core consumer prices increased 0.3% in July as prices rose for new vehicles, medical care, and shelter while prices declined for used cars and trucks, apparel, and transportation services. Year over year, headline CPI increased 8.5% and core CPI gained 5.9%.
- Producer prices declined 0.5% in July. The 1.8% drop in goods prices was the largest decrease since April 2020, and is largely attributable to the 16.7% plunge in gasoline prices. U.S. import prices fell 1.4% for the month, while export prices declined 3.3%.

SALES

- Retail sales were flat from June to July. Auto sector sales declined 1.6%, likely due more to the ongoing shortage of available inventory than to a decline in demand. Excluding auto, retail sales were up a better-than-expected 0.4%. Sales were also lower at gas stations (-1.8%); clothing stores (-0.6%); and department stores (-0.5%). Online sales increased by 2.7% with an apparent boost from Prime Day, and electronics and appliance store sales grew by 0.4%. Grocery store sales rose 0.2%, and bar & restaurant sales were 0.1% higher than in the prior month. Over the past twelve month, retail sales have advanced by 10.3%.

STICKING TO THE PLAN

The pause in headline consumer prices and the drop in job openings were undoubtedly welcome news for Fed members looking for early signs that policy is working. However, we don't expect any monetary policy pivot in the short run. Fed policymakers have clearly signaled the need to see sustained evidence that prices are stabilizing before making such a change, so expect them to stick to their plan for now.

First Commonwealth Advisors