Economic Landscape

September 2022

MANUFACTURING

• The ISM manufacturing index was unchanged in August at 52.8%. The production component fell 3.1 points to 50.4%, just barely remaining in expansion. New orders improved from contraction to expansion at 51.3%. Order backlogs improved too, rising to 53.0 in August while employment rose by 4.3 points to 54.2%. The ISM Price Index shed 7.5 points dropping to 52.5%, the lowest print for this component since June 2020.

• Industrial production declined by 0.2% in August. Factory output edged 0.1% higher, led by a 0.2% rise in nondurable manufacturing while durable production was unchanged. Utilities output declined by 2.3% on softer demand for electric utilities, and mining production was flat in August. The capacity utilization rate fell by 0.2 percentage points to 80.0%, remaining above the 1972-2021 average of 79.6%.

LABOR MARKETS

• U.S. nonfarm payrolls rose by 315,000 in August with notable job gains in professional and business services (+68,000); health care (+48,000); retail trade (+44,000); manufacturing (+22,000); and financial activities (+17,000). The unemployment rate rose to a six-month high of 3.7%, as labor force growth outpaced the rise in the number of employed persons. The labor force participation rate increased by three tenths to 62.4% thanks to gains in prime-age workers ages 25-54, as well as a little help from 16–19-year-olds.

• Job openings rose modestly in July, to 11.2 million in the Job Openings and Labor Turnover Survey (JOLTS). The number of hires (6.4 million), total separations (5.9 million), and quits (4.2 million) were little changed from June, and the quits rate edged down to 2.7%.

PRICES

• The Consumer Price Index rose 0.1% in August, two tenths above the consensus expectation for a 0.1% decline. The energy index fell 5%, driven by a 10.6% fall in gasoline prices. Food prices moderated slightly, increasing 0.8% in August and marking the slowest monthly pace of price growth for food this year. The index for food at home (grocery prices) rose 0.7% in August as all six major grocery store food categories increased. Prices for dining out (food away from home) rose 0.9% in August after rising 0.7% in July. Core consumer prices increased by 0.6% reflecting broad-based price gains across goods and services. Year over year, headline CPI declined from 8.5% in July to 8.3% in August while core CPI rose four tenths to 6.3%.

• Producer prices for final demand declined 0.1% in August following a 0.4% drop in July. The index for goods fell 1.2% led by an outsized decline in energy goods. The services index advanced 0.4% for the month reflecting an increase in margins. U.S. import prices also declined for a second consecutive month, down 1.0% in August led by a 6.8% plunge in fuel import prices. U.S. export prices decreased 1.6% with prices falling for both agricultural (-0.4%) and nonagricultural (-1.8%) exports.

SALES

• Retail sales rose 0.3% in August following a downwardly-revised drop (-0.4%) in July sales. Auto sector sales bounced back in August, rising 2.8%. Gas station sales declined by 4.2% for the month. Excluding the auto sector, August sales fell by 0.3%, but sales excluding auto and gas stations posted a gain of 0.8%. Monthly sales fell at furniture stores (-1.3%); electronics & appliance stores (-0.1%); health & personal care stores (-0.6%); and online retailers (-0.7%). Grocery store sales rose 0.2%, while bar & restaurant sales gained 1.1%. Sales were also up at home improvement stores (+1.1%); clothing stores (+0.4%); sporting goods, hobby, musical instrument, & book stores (+0.5%); and department stores (+0.9%).

THE GLOVES ARE OFF

As expected, the Federal Open Market Committee (FOMC) delivered another large increase in the target federal funds rate in September, hiking it by three quarters of a percent to 3.00-3.25%. The median fed funds projection by FOMC members now points to further increases over the next two meetings that could put the range between 4.25-4.50%. The Fed's message has become increasingly hawkish as they signal that they will do what it takes to combat inflation and restore price stability. It looks as though rates may be higher for longer, raising the likelihood of a recession next year.

First Commonwealth Advisors