Economic Landscape

July 2023

MANUFACTURING

- The manufacturing economy continues to struggle, and the ISM PMI manufacturing index has reflected contraction for eight consecutive months through the June reading of 46.0%. Delivery times have greatly improved since last year, and backlogs fell to their lowest level in over a decade. New orders are weak, but the employment index suggests that manufacturers are still trying to maintain current payrolls, for now.
- Industrial production contracted (-0.5%) in June for a second month in a row. Utilities output fell by 2.6% in June, while mining production declined 0.2% reflecting a downturn in oil and gas well drilling. Factory output decreased 0.3% for the month on lower production in the auto sector as well as across nondurable manufacturing. The capacity utilization rate fell to 78.9%, a level 0.8 percentage points below the 1972-2022 average.

LABOR MARKETS

- U.S. job growth slowed to 209,000 in June, the lowest reading so far this year, and April and May payrolls were revised down by a combined 110,000. In June, there were notable job additions in: government (+27,000 state and +32,000 local); health care (+41,000); social assistance (+24,000); construction (+23,000); professional and business services (+21,000); and leisure and hospitality (+21,000). The official unemployment rate registered 3.6% for June and has remained in a tightly bound range of 3.4% to 3.7% since March 2022. Despite the gradual slowing in job growth, wage growth remains stubbornly high at 4.4% year over year
- Job openings slipped to 9.8 million in May (-496,000) after rising in April. The number of hires edged slightly higher (+107,000) for the month, with a pickup (+41,000) in durable goods manufacturing. Total separations increased by 211,000 in May with a small decline in layoffs (-35,000) and an upturn in quits (+250,000). The quits rate rose from 2.4% in April to 2.6% for May.

PRICES

- The headline Consumer Price Index rose by 0.2% in June, led by a 0.4% increase in the shelter index. The food index rose 0.1% as prices for dining out increased 0.4% while grocery prices were flat. The energy index advanced 0.6% in June as higher prices for gasoline (+1.0%) and electricity (+0.9%) more than offset declines in fuel oil (-0.4%) and natural gas (-2.6%). Core CPI rose 0.2% for the month, boosted by shelter as well as higher prices for motor vehicle insurance, apparel, recreation, and personal care. The CPI annual measure of inflation fell to 3.0% and core CPI is up 5.3% from a year ago.
- The Producer Price Index for final demand increased 0.1% in June driven by a 0.2% rise in prices for services; prices for final demand goods were unchanged. Prices for U.S. imports decreased 0.2% for the month as the 0.4% decline in nonfuel import prices overpowered the 0.8% increase in imported fuel prices. U.S. export prices fell 0.9% in June with agricultural export prices down by 1.6% and nonagricultural prices down by 0.9%.

SALES

- Retail sales posted a weaker than expected gain of 0.2% in June. Auto sector sales rose 0.3% and gas station sales fell 1.4%. Excluding gas and auto, retail sales advanced 0.3% across a real mixed (shopping) bag. Monthly sales decreased at home improvement stores (-1.2%0; grocery stores (-0.7%); health and personal care stores (-0.1%); sporting goods, hobby, music, and book stores (-1.0%); and department stores (-2.4%). Yet sales were higher at furniture stores (+1.4%); electronics and appliance stores (+1.1%); clothing stores (+0.6%); bars and restaurants (+0.1%); and online retailers (+1.9%).

EXTRA INNINGS

Despite the weakness in the manufacturing sector, the Fed is widely expected to raise rates again at the July meeting. Whether there are additional hikes after that, as implied in the June dot plot, will depend on the data. Job growth has been slowing, but is still positive, and wage growth remains stubbornly high at 4.4% year over year. If the contraction in the factory sector becomes deeper or more pronounced across the broader economy, the Fed may signal the long pause. However, if inflation stays sticky while labor and spending remain resilient, then the Fed is more likely to see a greenlight rather than a stop sign in September.

First Commonwealth Advisors