

Economic Landscape

December 2024

MANUFACTURING

- The ISM PMI hit 48.4% in December and represents another month of contraction in the manufacturing sector (that's 24 out of the past 25 months). The New Orders Index rose to 50.4%, up more than three points from October. The ISM Prices Index fell by 4.5 points to 50.3%, suggesting that input prices are not rising as quickly. Survey respondents noted that interest rates may still be too restrictive and that the anticipation of tariffs may be impacting managers' purchase plans.
- Industrial production moved 0.1% lower in November following a 0.4% drop in October. Factory output increased by 0.2%, constrained by the lingering effects from the Boeing strike (aerospace and misc. transportation equipment manufacturing fell by 2.6%). Mining production decreased 0.9% in November. The output of utilities declined 1.3% reflecting drops for both electric and natural gas. The capacity utilization rate fell to 76.8%, down 2.9 percentage points below the 1972-2023 average.

LABOR MARKETS

- November added 227,000 jobs, better than expected, with job gains in health care (+54,000); leisure & hospitality (+53,000); government (+33,000); and social assistance (+19,000). There were 32,000 jobs added in transportation equipment manufacturing, as striking workers returned. Also noted were positive revisions for the September (+32,000) and October (+24,000) payrolls. The unemployment rate ticked up to 4.2% in October while labor force participation fell marginally to 62.5%. Wage growth remains a key concern, up 4.0% over the past twelve months and well above the 2019 average of 3.3%, which the Fed sees as compatible with its 2.00% inflation target.
- Job openings improved modestly (+372,000) to 7.7 million in October; however, hires slipped by 269,000 to 5.3 million. Total separations were little changed at 5.2 million and within separations, layoffs declined (-169,000) while quits advanced (+228,000) and the quits rate rose to 2.1%.

PRICES

- The Consumer Price Index (CPI) rose 0.3% in November following four consecutive months of 0.2% increases. Food prices were 0.4% higher for the month with grocery prices up 0.5% and prices to dine out up 0.3%. The energy index rose 0.2% for the month with prices up for gasoline (+0.6%), fuel oil (+0.6%), and natural gas (+1.0%); electricity prices fell (-0.4%). Core CPI increased 0.3% in November, led by a 0.3% rise in the shelter index. Additionally, prices moved higher for used cars and trucks, household furnishings, medical care, new vehicles, and recreation. Year over year through November, headline CPI gained 2.7% and core CPI rose 3.3%.
- The Producer Price Index for final demand increased 0.4% in November with more than half of the gain attributable to a 0.7% jump in goods prices; service prices rose 0.2%. The U.S. Import Price Index edged 0.1% higher in November primarily due to a 1.0% increase in imported fuel prices. Export prices were unchanged.

SALES

- Retail sales rose by an estimated 0.7% in November, led by a strong gain (+2.6%) in auto sector sales. Sales also advanced at home furnishings stores (+0.3%); electronics & appliance stores (+0.3%); home improvement stores (+0.4%); gas stations (+0.1%); sports, hobby, music, & book stores (+0.9%); and online retailers (+1.8%).

IN THE YEAR 2025

Labor markets remain resilient, but the pace of job growth has decelerated over the past few months providing a supportive environment for additional rate cuts. However, progress on inflation has also slowed and new challenges may emerge in 2025 to pressure inflation by way of bigger tariffs, lower taxes, and tighter immigration to slow labor force growth. As the Fed eyes the delicate balance between full employment and price stability, they are likely to adopt a slower and more measured path toward rate neutrality in the months ahead.