Economic Landscape

September 2023

MANUFACTURING

- For the tenth consecutive month, the Institute for Supply Management (ISM) PMI registered under 50% indicating contraction in the U.S. manufacturing economy. The PMI increased by 1.2 percentage points in August to 47.6%. Demand continues to soften with contraction in the indices for New Orders and New Export Orders, and backlogs remain at low levels. Employment in manufacturing dropped for a third straight month, but the pace of job contraction has slowed. Production was stable from July to August, while prices continue to trend moderately lower.
- Industrial production rose 0.4% in August. Factory output edged 0.1% higher, and the output of utilities advanced by 0.9%. The bigger boost came from the 1.4% gain in mining production, led by stronger oil and gas extraction. The capacity utilization rate rose to 79.7% in August, in line with the 1972-2022 average.

LABOR MARKETS

- U.S. payrolls continued to grow at a decent pace, adding 187,000 jobs in August. Industries leading the job gains were health care (+71,000); leisure and hospitality (+40,000); social assistance (+26,000); and construction (+22,000). Notable job losses occurred in transportation and warehousing (-34,000) largely due to the closure of Yellow Trucking, and information (-15,000) attributable to entertainment industry strikes. The official unemployment rate rose by 0.3 percentage points to 3.8% and the labor force participation rate rose by 0.2 percentage points to 62.8% after being unchanged since March. Average hourly earnings rose 0.2% in August, and year over year are up 4.3%.
- Job openings declined to 8.8 million at the end of July, while hires edged down to 5.8 million. Separations fell to 5.5 million with the decline in quits more than offsetting the small uptick in other separations; the quits rate ticked down to 2.3%.

PRICES

- The Consumer Price Index (CPI) rose 0.6% in August following a 0.2% gain in July. The energy index rose 5.6% in August, as the surge in gasoline prices (+10.6%) accounted for over half the gain in headline CPI. Food prices increased 0.2% as grocery prices rose 0.2% and the cost of food away from home was up 0.3%. Core CPI increased 0.3% for the month reflecting rising prices for shelter, vehicle insurance, airfare, and new vehicles. Over the past twelve months, headline CPI has increased 3.7% and core CPI rose 4.3%.
- Looking at other price index data, the Producer Price Index increased by 0.7% in August reflecting a 2.0% gain in goods prices and a 0.2% increase for services. U.S. import prices advanced 0.5% for the month with fuel import prices rising 6.7% and nonfuel prices edging 0.1% lower. Prices for U.S. exports increased 1.3% in August as the 2.2% drop in agricultural prices was more than offset by the 1.7% gain in prices of nonagricultural exports.

SALES

- After rising 0.5% in July, estimated retail sales climbed another 0.6% in August. Auto sector sales were up a solid 0.3% and sales at gas station ripped 5.2% higher on price gains. Excluding auto and gas, sales rose 0.2% with gains at electronics and appliance stores (0.7%); home improvement stores (+0.1%); grocery stores (+0.4%); health and personal care stores (+0.5%); clothing stores (+0.9%); department stores (+0.3%); and bars and restaurants (+0.3%).

HEADING TO HIGHER (FOR LONGER) GROUND

As widely expected, the Federal Open Market Committee (FOMC) left the target rate range unchanged in their policy meeting earlier this month. The Fed maintains a hawkish bias, and the updated dot plot suggests not only that there could be additional tightening in this cycle, but also that the Fed median projection for the target range at the end of next year is 50 basis points higher than projected a few months ago implying fewer rate cuts. While we know the Fed will remain data dependent as they assess future policy decisions, the current arrangement of dots does suggest higher rates in 2024 and 2025.

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