Economic Landscape

August 2023

MANUFACTURING

- The Institute for Supply Management (ISM) bellwether PMI rose from 46.0% for June to 46.4% for July, marking a ninth consecutive month of contraction in the manufacturing economy. New orders and production were similarly "less bad", still contracting but at a slower pace relative to June. The Employment Index worsened (down 3.7 percentage points to 44.4%) with respondents indicating a slowdown in hiring. The index of prices paid suggests prices decreased for a third month in a row.
- Industrial production advanced by 1.0% in July following a downwardly-revised drop (-0.8%) for June. Utilities output, up 5.4%, was the greatest contributor to the overall monthly increase as scorching hot temperatures drove demand for electric utilities. Mining production rose 0.5% for the month. Factory output increased by 0.5% as solid gains for the manufacture of motor vehicle and parts (+5.2%), machinery (+1.3%), and computer and electronics (+1.0%) were mostly offset by declines in production of electrical equipment, appliances, and components (-1.2%), primary metals (-1.2%), and furniture products (-1.2%). The capacity utilization rate rose to 79.3%.

LABOR MARKETS

- U.S. payrolls rose by 187,000 in July with notable gains in health care (+63,000), social assistance (+24,000), financial activities (+19,000), construction (+19,000), wholesale trade (+18,000), and leisure and hospitality (+17,000). Revisions to May and June payrolls account for a combined 49,000 fewer jobs than previously reported. The official unemployment rate declined slightly to 3.5% and the labor force participation rate was unchanged at 62.6% for a fifth consecutive month. Average hourly earnings rose 0.4% in July and have increased by 4.4% over the past twelve months.
- Job openings were little changed at the end of June, down just 34,000 to 9.6 million. Hires were lower by 326,000; separations declined by 288,000. Within separations, most of the drop can be attributed to the decline (-295,000) in quits; layoffs were essentially flat. The quits rate dropped from 2.6% in May to 2.4% for June, signaling continued resilience in labor markets.

PRICES

- The Consumer Price Index (CPI) increased 0.2% in July, in line with expectations. The shelter index, up 0.4%, continues to be the largest driver of the headline CPI gain. Food prices rose 0.2% as grocery prices increased 0.3% while restaurant food rose 0.2%. Energy prices edged 0.1% higher with gasoline, natural gas, and fuel oil all up in price Excluding food and energy, core CPI rose 0.2% in June. In addition to shelter, prices also increased for motor vehicle insurance, education, and recreation. Year over year, headline CPI rose 3.2% and core CPI increased 4.7%. In other indices, the Producer Price Index for final demand gained 0.3% in July with services prices rising 0.5% while goods prices ticked up 0.1%. Prices for U.S. imports increased 0.4% driven by a 3.6% surge in imported fuel prices; the index of nonfuel import prices was unchanged in July. Export prices jumped 0.7% higher in July after falling by 0.7% in June. Agricultural export prices increased 0.9% for the month and nonagricultural prices gained 0.6%.

SALES

- Retail sales rebounded with a 0.7% increase in July on the heels of a June gain that was revised modestly higher to 0.3%. Auto sector sales fell 0.3% while gas station sales rose 0.4%. Excluding auto and gas, retail sales increased 1.0% with solid advances in sales at home improvement stores (+0.7%); grocery stores (+0.8%); clothing stores (+1.0%); sporting goods, hobby, music, and book stores (+1.5%); department stores (+0.9%); online retailers (+1.9%); and restaurants and bars (+1.4%). Sales did slip at furniture stores (-1.8%) and electronics and appliance stores (-1.3%).

PAUSE BUTTON

Labor markets are cooling down yet elevated wage growth persists. Retail sales came in stronger than expected and the worst of the manufacturing sector downturn may be nearly over. Consumer and producer inflationary pressures continue to gradually subside, Following the quarter point rate hike made in July, current conditions suggest the Fed will pause rate action in September. Minutes from the July FOMC meeting reinforced the Fed's "higher for longer" message on rates, so the September dot plot will provide interesting insight about where things go, or don't go, from here.

First Commonwealth Advisors