Economic Landscape

September 2019

MANUFACTURING

- The ISM PMI fell to 49.1%, suggesting that manufacturing activity contracted for the first time since August 2016. The weakness in the PMI was broad based as the component indices for new orders, production, and employment all transitioned from growing to shrinking in August. New export orders contracted for a second consecutive month, while prices shrank for the third month in a row. Respondents noted rising concerns related to tariffs and trade wars.
- After posting a 0.1% decline in July, Industrial Production increased 0.6% in August. Factory output rose 0.5% despite a downturn in motor vehicle and parts production thanks to gains across most other major categories. Mining output increased 1.4% reversing last month's downturn following production disruptions from Hurricane Barry. The output of utilities advanced 0.6% on increased demand for both electricity and natural gas. Capacity utilization rose 0.4 percentage points to 77.9%, but remains below the 1972-2018 average of 79.3%.

LABOR MARKETS

- August payrolls rose by 130,000 with jobs added in professional and business services (+37,000); health care (+23,900); financial activities (+15,000); and social assistance (+12,900); and leisure and hospitality (+12,000). Government employment increased by 34,000 in August, including 25,000 temporary workers hired for the 2020 Census. The unemployment rate held steady at 3.7%, while the labor force participation rate rose to 63.2%. Average hourly earnings were up by $0.11 in August, and year over year have increased by 3.2%.
- In the July Job Openings and Labor Turnover Survey (JOLTS), the number of openings declined slightly (-31,000) to 7.2 million while the number of hires rose (+237,000) to 6 million. Total job separations increased (+246,000) to 5.6 million; within separations, the number of quits (+130,000) accounts for 3.6 million and the quits rate rose to 2.4%.

PRICES

- The headline Consumer Price Index (CPI) registered a modest 0.1% gain in August as rising core prices were tempered by falling energy prices and flat food prices. The energy index decreased 1.0% as declines in gasoline (-3.5%) and electricity (-0.3%) more than offset a 0.1% rise in natural gas prices. There was no change in the food index in August as higher prices for dining out (+0.2%) were counterbalanced by declines in prices for food at home. Core CPI rose 0.3% for the month boosted by higher prices for shelter, health care, used cars and trucks, airfare, auto insurance, and tobacco. For the one year ending in August, CPI increased by 1.7% and core CPI rose 2.4%.
- U.S. producer prices (PPI) increased 0.1% in August. The index for final demand services rose 0.3%, while final demand goods prices fell 0.5%. PPI excluding foods, energy, and trade increased 0.4% for the month. Since August 2018, PPI gained 1.8% and PPI less foods, energy, and trade rose 1.9%.
- Import prices declined 0.5% in August with prices for fuel imports falling 4.3% due to lower petroleum prices. Nonfuel import prices were unchanged in August. Export prices also declined for the month, down 0.6%, as agricultural export prices declined 2.5% and nonagricultural prices slipped by 0.4%.

SALES

- Following a strong 0.8% gain in July, August estimates for retail sales rose 0.4% indicating continued resilience in consumer spending. Auto sector sales advanced 1.8% in August, leaving sales ex-auto flat. Sales dropped at furniture and home furnishings stores (-0.5%); grocery stores (-0.3%); gas stations (-0.9%); clothing retailers (-0.9%); department stores (-1.1%); and food and drink establishments (-1.2%). On the flip side, sales increased at home improvement stores (+1.4%); health and personal care stores (+0.7%); sporting goods, hobby, musical instrument, and book stores (+0.9%); and nonstore retailers (+1.6%). Over the past 12 months, retail sales have increased by 4.1%.

CONNECT THE DOTS

The Fed lowered the target federal funds rate range by a quarter of a percent at their September meeting, but the decision was not unanimous. Two of the three dissenters thought rates should stay unchanged, and the third preferred a half-point cut. While the likelihood of further rate cut action this year has become less certain, a look back at the "Dots" over the last few years suggests Fed policymakers have a more consistent assessment of the longer run neutral rate…an assessment that has been trending lower and lower.

FIRST Commonwealth ADVISORS