Economic Landscape

August 2019

MANUFACTURING

- The ISM manufacturing index declined to 51.2% in July suggesting that the pace of growth is grinding down to standstill levels thus providing further evidence of a weakening factory sector. While new orders improved slightly following no change in June, growth slowed in production and employment, prices declined for the second month in a row, and new export orders contracted.
- Industrial production decreased 0.2% in July following a 0.2% increase in the prior month. Factory output dropped by 0.4% for the month posting broad declines in the production of durables, nondurables, and other manufacturing. Mining output fell 1.8% as Hurricane Barry temporarily disrupted Gulf of Mexico oil extraction. Utilities production increased 3.1% as heatwave conditions increased demand for electricity in July. The capacity utilization rate declined 0.4 percentage points to 77.5%, which is 2.9 percentage points lower than the 1972-2018 average.

LABOR MARKETS

- The U.S. economy added 164,000 jobs in July, with noteworthy increases in professional & business services (+38,000); health care (+30,400); social assistance (+20,000); financial activities (+18,000); manufacturing (+16,000); and educational services (+15,700). Government employment rose by 16,000 jobs primarily at the local level. The unemployment rate was unchanged at 3.7% and the labor force participation rate ticked up to 63.0%. Average hourly earnings rose $0.08 in July, and over the past 12 months have increased by 3.2%.
- The number of job openings in June was little changed at 7.3 million according to the most recent Job Openings and Labor Turnover Survey (JOLTS). The hires level was also steady at 5.7 million. Total separations fell slightly (-76,000) to 5.5 million, and within separations the number of quits edged lower (-45,000) to 3.4 million and the quits rate remained 2.3%.

PRICES

- Consumer prices (CPI) increased 0.3% in July after registering a 0.1% advance in June. The index of consumer energy prices rose 1.3% in July as climbing prices for gasoline (+2.5%) and electricity (+0.6%) more than offset the drop in natural gas (-1.8%). The consumer food index was flat for the month as a net decline in food-at-home prices (-0.1%) canceled out the increased prices for food away from home (+0.2%). Excluding food and energy, core CPI rose by 0.3% in July matching the increase for June. Core prices rose broadly in July including gains for shelter, medical care, used cars and trucks, apparel, tobacco, and alcohol. For the 12 months ended July 2019, CPI increased 1.8% and core CPI rose 2.2%.
- Producer prices (PPI) rose 0.2% in July. The index for final demand goods increased 0.4% due mainly to a 2.3% rise in energy prices. The index for final demand services ticked 0.1% lower.
- Prices for U.S. imports posted a 0.2% increase in July following a 1.1% decrease in the prior month. Imported fuel prices rose 1.8% in July as petroleum prices gained (+1.9%) while natural gas prices dropped (-1.4%). The index for nonfuel import prices ticked 0.1% lower as prices slipped for autos; foods, feeds, and beverages; and capital goods. Export prices rose 0.2% for the month with gains for both agricultural prices (+0.4%) and nonagricultural export prices (+0.2%). Year over year, import prices are down 1.8% and export prices have decreased by 0.9%.

SALES

- Retail sales estimates for July show a better-than-expected gain of 0.7% to kick off the third quarter. Auto sector sales fell (-0.6%) for the month, leaving sales ex-auto up 1.0% as sales rose in nine of the other twelve major categories. Some of the more notable gains include sales at gas stations (+1.8%); electronics & appliance stores (+0.9%); clothing & accessories (+0.8%); grocery stores (+0.7%); food & drink establishments (+1.1%); and nonstore retailers (+2.8%). Retail sales have increased 3.4% over the past 12 months.

WHEN DOVES CRY

In his address at the Jackson Hole Symposium, Federal Reserve Chair Jerome Powell reiterated the Fed's commitment to sustaining the economic expansion and judged the U.S. economy to be "in a favorable place". Powell kept the door open to lower rates in September citing "further evidence of a global slowdown" since the July rate cut, noting that the FOMC will "act as appropriate". The dovish tone of the speech was swiftly overcome by the day's escalation in trade tensions between China and the United States.

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