Economic Landscape

October 2019

MANUFACTURING

- The ISM manufacturing index fell from 49.1% in August to 47.8% in September marking the lowest reading since June 2009. Weakness was most notable in production, order backlogs, employment, and exports. Comments reflect an ongoing decline in business confidence, with many respondents noting negative effects from tariffs and trade disputes. The manufacturing sector was clearly impacted by the ongoing GM strike as well.
- Industrial production decreased by 0.4% in September following a 0.8% gain in August. Factory output dropped by 0.5% in September, led by a 4.2% decline in the production of motor vehicles and parts. Mining output was down 1.3% on reduced well drilling and crude oil extractions. Utilities production increased 1.4% for the month as warmer weather boosted demand for electricity. The capacity utilization rate decreased 0.4 percentage points to 77.5% for September, marking the rate as 2.3 percentage points below the 1972-2018 average of 79.8%.

LABOR MARKETS

- September payrolls rose by 136,000 jobs and net revisions to July and August data account for 45,000 more jobs than previously reported. Industries was notable gains include health care (+38,800); professional and business services (+34,000); and transportation and warehousing (+15,700). The government added 22,000 jobs in September, largely at the state and local levels. Job growth has been slowing, with an average gain of 157,000 over the past three months. The official unemployment rate fell to 3.5% - the lowest level since December 1969. Over the past 12 months, average hourly earnings have increased by 2.9%.
- Job openings fell for a third consecutive month in August. The number of available positions declined by 123,000 in August to 7.05 million, while hires dropped by 199,000 to 5.78 million. The number of quits decreased in August by 142,000 to 3.53 million, and the quits rate ticked down to 2.3%.

PRICES

- The September Producer Price Index (PPI) unexpectedly declined 0.3% as the 0.2% increase in service prices was more than offset by the 0.4% drop in goods prices. PPI less foods, energy, and trade services was unchanged.
- The Consumer Price Index (CPI) was flat for September following seven consecutive months of increases. Food prices ticked higher on increases in prices for food away from home (+0.3%). The energy index decreased by 1.4% for the month on lower prices for gasoline (-2.4%) and natural gas (-0.7%). Core consumer prices rose 0.1%, moderating from the 0.3% monthly increase of June, July, and August. Year over year, the headline CPI increased 1.7% and core CPI rose 2.4%.
- U.S. import prices rose 0.2% in September, the first increase since May of this year. Import fuel prices rose 2.1% in September due to increased petroleum prices. Nonfuel import prices ticked 0.1% lower largely due to weaker foods, feeds, and beverages prices. Prices for U.S. exports decreased 0.2% for the month with agricultural prices falling by 1.8% and nonagricultural export prices slipping by 0.1%.

SALES

- September retail sales came in well under expectations, falling 0.3% after posting a gain of 0.6% in August. Auto sector sales declined by 0.9% for the month, leaving sales ex-auto down by 0.1%. Sales also fell at gas stations (-0.7%); home improvement stores (-1.0%); department stores (-1.4%); grocery stores (-0.1%); sporting goods, hobby, musical instrument, and book stores (-0.1%); and nonstore retailers (-0.3%). Sales did rise at furniture and furnishings stores (+0.6%); health and personal care stores (+0.6%); apparel stores (+1.3%); and food and drink establishments (+0.2%). Over the past 12 months, retail sales are up by 4.4%.

THE BEIGE BOOK BLUES

The Fed's Beige Book is published 8 times a year, and captures current economic conditions across the 12 Fed Districts in a qualitative manner. In the October Beige Book, the Fed somewhat lowered their outlook on the U.S. economy describing the pace of expansion as "slight to modest" noting that most business contacts expect continued economic growth yet many had lowered their forecasts. The continued decline in the manufacturing sector was referenced in a number of Districts, and tariffs and trade wars continue to weigh on business sentiment. On the plus side, employment, household spending, and loan demand appeared solid. Expect the Fed to cut rates again at the October meeting.

First Commonwealth Advisors