Economic Landscape

December 2019

MANUFACTURING

- Manufacturing activity continued to deteriorate as the ISM PMI registered 48.1% for November, marking the fourth consecutive month of contraction in the manufacturing sector. New orders, new export orders, employment, and inventories all worsened for the month. The accelerated contraction in new orders and new export orders is concerning because these components are forward looking and suggest continued weakness in the next few months. The index for inventories dropped to 45.5% implying that manufacturers are not building up their inventories at the prior pace and may reflect lower inventory investment in fourth quarter GDP numbers. The ISM Prices Index rose to 46.7%, up from 45.5% in October marking the sixth straight month of contraction.
- The ISM also released the December *Semiannual Economic Forecast* of purchasing and supply managers. The manufacturing sector anticipates revenues to rise in the first half of 2020, but forecast a 2.1% drop in capital expenditures. Higher revenues are also expected by the non-manufacturing sector, but capex is forecast to rise modestly (+1.3%) in the first half of 2020.

LABOR MARKETS

- U.S. payrolls gained 266,000 jobs in November, and revisions to employment in September and October reflect 41,000 more jobs than previously reported. Manufacturing payrolls rose by 54,000, with 41,300 of those jobs in motor vehicles and parts reflecting the end of the GM strike. Other notable job gains in November include health care (+45,200); leisure and hospitality (+45,000); professional and business services (+38,000); transportation and warehousing (+15,500); social assistance (+15,000); and financial activities (+13,000). Government payrolls increased by 12,000, almost entirely at the local level.
- The unemployment rate ticked back down to 3.5% in November, while the labor force participation rate declined slightly to 63.2%. Average hourly earnings rose by $0.07 for the month to $28.29; year over year average earnings are up by 3.1%.

PRICES

- The Consumer Price Index (CPI) increased 0.3% in November and is up 2.1% over the past 12 months. Consumer food prices rose 0.1% in November as prices advanced for food at home (+0.1%) and food away from home (+0.2%). The energy index continued to climb (+0.8%) as prices rose for gasoline (+1.1), natural gas (+1.1%), and electricity (+0.3%). The core CPI increased 0.2% for the month reflecting higher prices for shelter, medical care, and used cars and trucks. Over the past twelve months, the headline CPI rose 2.1% and core CPI increased 2.3%.
- The overall Producer price Index was unchanged in November after rising 0.4% in October. The index for final demand goods increased 0.3%, as prices for foods (+1.1%), energy (+0.6%), and core goods (+0.2%) moved higher. The index for final demand service declined 0.3% largely due to lower trade margins. Year over year, PPI increased 1.1% and core PPI rose 1.3%.
- In November, prices for U.S. imports advanced by 0.2% following a 0.5% decrease in October. Import fuel prices rose 2.6% in November driven by higher prices for natural gas and petroleum imports; prices for nonfuel imports ticked 0.1% lower. Export prices also rose 0.2% in November, as prices for agricultural exports increased by 2.2% and nonagricultural export prices were flat.

SALES

- Retail sales rose by a disappointing 0.2% in November following a 0.4% increase in October. Motor vehicle and parts dealers' sales rose 0.5% in November, leaving sales ex-auto up 0.1%. Sales also increased at furniture and furnishings stores (+0.1%); electronics and appliance stores (+0.7%); grocery stores (+0.3%); gas stations (+0.7%); and nonstore retailers (+0.8%). Since November 2018, retail sales have advanced by 3.3%.

THIS IS THE WAY

The Fed unanimously voted to hold rates steady at their December FOMC meeting citing the strong labor market and still-expanding economy. We also received their updated Summary of Economic Projections with no change in the median 2020 and 2021 projections for core inflation or GDP growth, and a slightly lower expectation for unemployment. The updated dot plot suggests increased solidarity among the Fed officials, with the consensus predicting no change to the target federal funds rate in 2020. In the press conference following the meeting, Chair Powell reinforced the group's conviction while again suggesting a slightly dovish bias by noting that they would need to see a "persistent" and "significant" rise in inflation before the Fed would hike rates again.

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