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MONDAY ECONOMIC REPORT

Core Consumer Inflation Strengthened in August, Pressuring Federal Reserve

By Chad Moutray – September 19, 2022

The Weekly Toplines

- Consumer prices edged up 0.1% in August after being flat in July. Excluding food and energy, core consumer prices rose 0.6% in August, up from 0.3% in July.

- The Consumer Price Index has risen 8.3% over the past 12 months, decelerating for the second straight month from June's pace (9.1%), which was the fastest since November 1981. Core inflation increased 6.3% year-over-year in August, strengthening from the 5.9% growth rate in July and not far from the rate in March (6.5%), which was the highest since August 1982.

- Overall, pricing pressures for consumers remain very elevated, and perhaps more worrisome, core inflation strengthened in August instead of moderating as expected. The current forecast is for year-over-year growth in the CPI to be 7.0% at year's end, with core inflation at 5.5%.

- These data will continue to put pressure on the Federal Reserve to act aggressively and decisively on inflation. Indeed, the Federal Open Market Committee is widely expected to increase the federal funds rate by 75 basis points at its Sept. 20–21 meeting, with additional hikes predicted for the Nov. 1–2 and Dec. 13–14 meetings.

- Producer prices for final demand goods and services edged down 0.1% in August, declining for the second straight month. Over the past 12 months, producer prices for final demand goods and services have risen 8.7%, down from 9.8% in July and the lowest year-over-year rate since August 2021. Core producer prices increased 5.6% year-over-year, continuing to decelerate since hitting a record 7.1% in March but remaining highly elevated.

- Meanwhile, manufacturing production and retail sales data for August provided mixed comfort, with positive but tepid growth for the month amid strong gains over the past year.

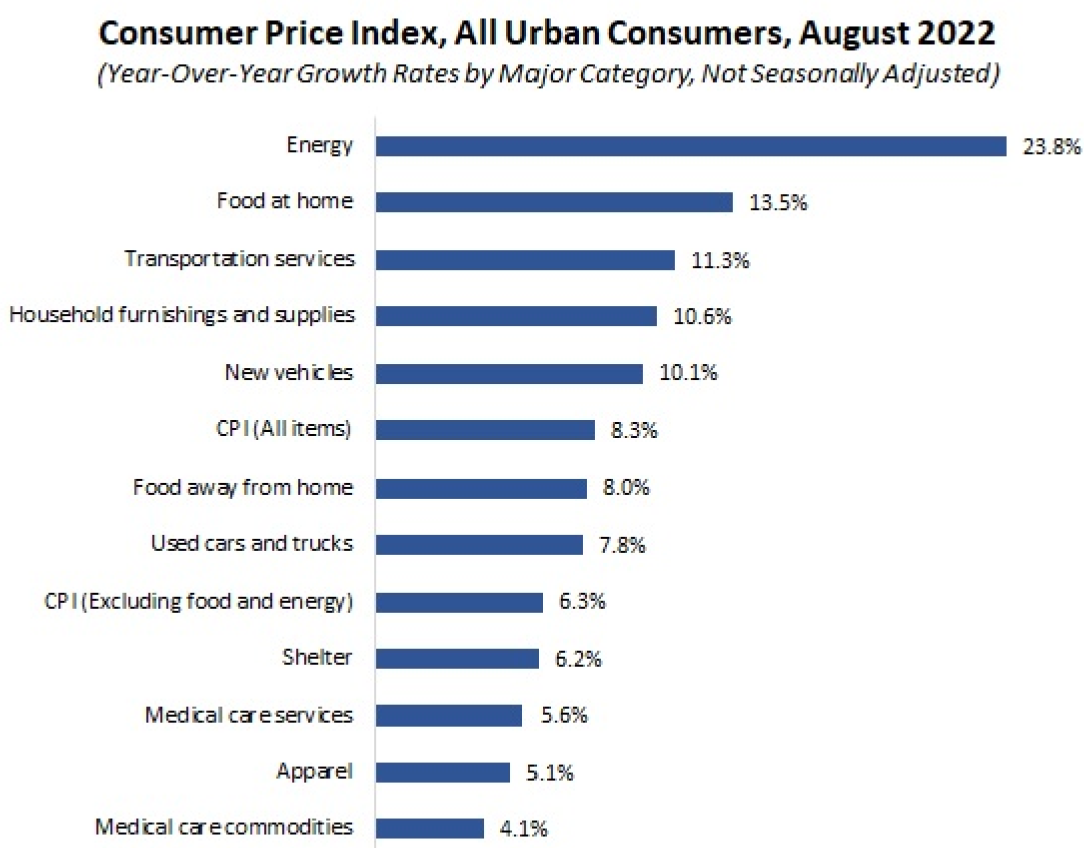
    - Manufacturing production inched up 0.1% in August, expanding for the second straight month. Output in the sector has been essentially unchanged (up 0.2%) since the first quarter, or over the past five months.
    - The sector has continued to grapple with soaring costs, supply chain bottlenecks, workforce shortages and geopolitical and economic uncertainties.
    - Manufacturing production has risen a modest 3.3% year-over-year and 1.9% year-to-date. In addition, manufacturing capacity utilization was unchanged at

    - 79.6% in August. That remains not far from April's reading (80.0%), which was the highest since July 2000.
    - Retail sales rose 0.3% in August, rebounding somewhat after falling 0.4% in July.
    - These data are consistent with a consumer that is more selective and anxious, with Americans slowing or reducing their spending in some areas on concerns about inflation and the economic outlook.
    - At the same time, it is important to note that Americans are still spending, with solid consumer sales growth over the past year. Retail sales have been strong over the past 12 months, rising 9.1% since August 2021, or 7.6% with motor vehicles and gasoline excluded.

- After dropping to a record low in June (50.0), the Index of Consumer Sentiment has risen for three straight months, increasing to 59.5 in September. Still, consumer confidence remains very low, with continued worries about inflation and uncertainties in the economic outlook.

- Manufacturing surveys from the New York and Philadelphia Federal Reserve Banks reflected weaknesses in the sector in September, with varied assessments of growth over the next six months. With that said, both reports noted raw material cost growth at the slowest pace since December 2020.

- Kentucky created the most net new manufacturing jobs in August, adding 7,600 workers, and Texas had the most manufacturing employment growth over the past 12 months, adding 51,000 since August 2021. Minnesota had the lowest unemployment rate in the country at 1.9%.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Sept. 12
None

Tuesday, Sept. 13
Consumer Price Index
NFIB Small Business Survey

Wednesday, Sept. 14
Producer Price Index

Thursday, Sept. 15
Industrial Production
New York Fed Manufacturing Survey
Philadelphia Fed Manufacturing Survey
Retail Sales
Weekly Initial Unemployment Claims

Friday, Sept. 16
State Employment Report
University of Michigan Consumer Sentiment

This Week's Indicators:

Monday, Sept. 19
NAHB Housing Market Index

Tuesday, Sept. 20
Housing Starts and Permits

Wednesday, Sept. 21
Existing Home Sales
FOMC Monetary Policy Statement

Thursday, Sept. 22
Conference Board Leading Indicators
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, Sept. 23
None

Deeper Dive

- **Consumer Price Index**: Consumer prices edged up 0.1% in August after being flat in July. Energy costs fell for the second straight month, down 5.0% in August, with gasoline prices declining 10.6%. At the same time, food prices continued to grow solidly, up 0.8% for the month. Over the past 12 months, food and energy costs have jumped 11.4% and 23.8%, respectively, even with some easing in energy costs in the past two months.

  Excluding food and energy, core consumer prices rose 0.6% in August, up from 0.3% in July. Prices for household furnishings and supplies (up 1.1%), medical care services (up 0.8%), new vehicles (up 0.8%), shelter (up 0.7%) and transportation services (up 0.5%) were notably higher in August. In contrast, prices for used cars and trucks edged down 0.1% in August, decreasing for the second consecutive month.

  The Consumer Price Index has risen 8.3% over the past 12 months, declining from 8.5% in July and 9.1% in June. The June reading was the fastest pace since November 1981. At the same time, core inflation (which excludes food and energy) increased 6.3% year-over-year in August, strengthening from the 5.9% growth rate in July. Moreover, core inflation was not far from the rate in March (6.5%), which was the highest since August 1982.

  Overall, pricing pressures for consumers remain very elevated, and perhaps more worrisome, core inflation strengthened in August instead of moderating as expected.

This suggests that solid price growth has continued unabated (at least for now), particularly for food, housing, new vehicles and transportation services, even with some deceleration in energy costs for the month. The current forecast is for year-over-year growth in the CPI to be 7.0% at year's end, with core inflation at 5.5%.

These data will continue to put pressure on the Federal Reserve to act aggressively and decisively on inflation. Indeed, the Federal Open Market Committee is widely expected to increase the federal funds rate by 75 basis points at its Sept. 20–21 meeting, with additional hikes predicted for the Nov. 1–2 and Dec. 13–14 meetings.

- **Industrial Production:** Manufacturing production inched up 0.1% in August, slowing from the 0.6% gain in July but expanding for the second straight month. Nondurable goods production rose 0.2% in August, with output from durable goods firms flat for the month. Despite the slight uptick in activity in the latest data, manufacturing production growth has been essentially unchanged (up 0.2%) since the first quarter, or over the past five months. The sector has continued to grapple with soaring costs, supply chain bottlenecks, workforce shortages and geopolitical and economic uncertainties.

  Yet, these data also reflect some surprising resilience in the face of those problems, even with some recent softening. Manufacturing production has risen a modest 3.3% year-over-year and 1.9% year-to-date. In addition, manufacturing capacity utilization was unchanged at 79.6% in August. Despite some easing, that remains not far from April's reading (80.0%), which was the highest since July 2000.

  The manufacturing production data in August were mixed. Petroleum and coal products (up 3.5%), aerospace and miscellaneous transportation equipment (up 2.1%), miscellaneous durable goods (up 1.7%), computer and electronic products (up 1.3%) and machinery (up 1.0%) experienced the largest gains in manufacturing production in August. In contrast, notable declines in production for the month included furniture and related products (down 2.1%), wood products (down 1.7%), motor vehicles and parts (down 1.4%), textiles and product mills (down 1.2%) and electrical equipment, appliances and components (down 1.0%), among others.

  Speaking to the strength noted above over the past 12 months, all but three of the major manufacturing sectors had year-over-year growth in production in August. The biggest year-over-year increases in output in the sector since August 2021 occurred in motor vehicles and parts (up 10.2%), aerospace and miscellaneous transportation equipment (up 8.6%), miscellaneous durable goods (up 7.9%), nonmetallic mineral products (up 6.9%) and plastics and rubber products (up 5.8%). At the other end of the spectrum, textile and product mills (down 3.3%), primary metals (down 0.7%) and furniture and related products (down 0.5%) had declining production over the past year.

  Meanwhile, total industrial production decreased 0.2% in August, pulling back after rising 0.5% in July, largely on falling utilities output, which was down 2.3%. Mining production was flat for the month. On a year-over-year basis, industrial production has increased 3.7%. Over the past 12 months, mining production jumped 8.4%, but output from utilities fell 1.6% year-over-year. Total capacity utilization dipped from 80.2% in July to 80.0% in August.

- **New York Fed Manufacturing Survey:** Manufacturing activity fell for the second straight month in the New York Federal Reserve Bank's district, but with the composite index of general business conditions improving from -31.3 in August to -1.5 in

September. New orders and shipments rebounded in September, with hiring and inventories strengthening somewhat. The average employee workweek remained ever-so-slightly negative. Input prices continued to decelerate in September, with the index for that measure rising at the slowest pace since December 2020.

Meanwhile, manufacturers responding to the Empire State Survey felt somewhat positive in their outlook for the next six months, with the forward-looking composite index rising from 2.1 in August to 8.2 in September. Expectations for activity were mixed. Respondents predicted shipments, capital expenditures and technology spending to improve, but they anticipated some softening in growth for new orders and employment. The average employee workweek is seen continuing to decline.

- **NFIB Small Business Survey:** The Small Business Optimism Index rose from 89.9 in July to 91.8 in August, rebounding somewhat for the second straight month from June's reading (89.5), which was the lowest since March 2013. These data continue to reflect a weak small business sector, which remains challenged by inflation, supply chain issues, workforce shortages and economic uncertainties. The net percentage of respondents saying general business conditions would be better six months from now was -42% in August, up from -52% in July and -61% in June, which was a record low. In a similar manner, the net percentage of firms expecting sales to rise over the next three months improved from -29% in July, the worst reading since April 2020, to -19% in August.

  Respondents cited inflation as the top "single most important problem," followed by difficulties in obtaining enough qualified labor. Inflationary pressures have decelerated but remain elevated. In August, the net percentage of respondents reporting higher prices today than three months ago pulled back from 56% in July to 53% in August. At the same time, the net percentage planning a price increase over the next three months eased from 37% to 32%.

  The labor market remained tight. The percentage of respondents suggesting they had job openings they were unable to fill was unchanged at 49%, remaining near a record pace (51%). In addition, the percentage of respondents citing few or no qualified applicants for job openings was unchanged at 57%. Finally, the net percentage of respondents planning to increase hiring over the next three months ticked up from 20% to 21%.

- **Philadelphia Fed Manufacturing Survey:** The Philadelphia Federal Reserve Bank's composite index of general business conditions contracted for the third time in the past four months, falling from 6.2 in August to -9.9 in September. New orders deteriorated further in the latest data, and the average employee workweek also declined. Shipments and hiring softened in September. Raw material costs have decelerated notably over the past five months after notching a new record in April. In fact, the index for prices paid was the weakest growth rate since December 2020.

  In special questions, 56.1% of those completing the survey said that production at their company was higher in the third quarter than in the second quarter, with 21.9% suggesting that output was lower. The median capacity utilization rate was 70–80%, the same pace as the same quarter last year.

  Meanwhile, the forward-looking composite index improved from -10.6 in August to -3.9 in September, but with negative expectations for the fourth consecutive month. Respondents predicted improved growth in new orders, shipments and the average employee workweek, but their assessments of employment and capital spending expansions lessened somewhat. As such, these data suggest that manufacturers in the region feel mixed in their views of the economic outlook.

- **Producer Price Index:** Producer prices for final demand goods and services edged down 0.1% in August, declining for the second straight month. At the same time, producer prices for final demand goods dropped 1.2% in August, extending the decrease of 1.7% in July. Energy prices fell 9.0% and 6.0% in July and August, respectively, helping to pull the headline number lower. Food costs were flat for the month. With that said, food and energy costs have soared 13.0% and 26.0% year-over-year, respectively. Excluding food and energy, producer prices for final demand goods increased 0.2% for the second consecutive month in August. Meanwhile, producer prices for final demand services rose 0.4% in August, boosted by solid growth in trade costs (up 0.8%).

  Over the past 12 months, producer prices for final demand goods and services have risen 8.7%, down from 9.8% in July and the lowest year-over-year rate since August 2021. Core producer prices increased 5.6% year-over-year, continuing to decelerate since hitting a record 7.1% in March but remaining highly elevated.

  These data will likely provide mixed comfort. On the one hand, it is encouraging to see some deceleration in these measures, but even with some easing, raw material costs continue to rise at very elevated levels. Indeed, manufacturers cite rising raw material costs as their top challenge, followed closely by supply chain and workforce challenges, with the very significant pace of price growth in this data over the past year helping to explain why.

- **Retail Sales:** Retail sales rose 0.3% in August, rebounding somewhat after falling 0.4% in July. Spending for motor vehicles and parts bounced back, increasing 2.8% in August following the 2.0% decline in July. At the same time, spending at gasoline stations decreased, down 4.2%, with prices continuing to ease. Retail spending excluding automobiles and gasoline increased 0.3% in August. These data are consistent with a consumer that is more selective and anxious, with Americans slowing or reducing their spending in some areas on concerns about inflation and the economic outlook. At the same time, it is important to note that Americans are still spending—a sign of surprising resilience perhaps—with solid consumer sales growth over the past year.

  In addition to motor vehicles and parts, retail spending increased in August at miscellaneous store retailers (up 1.6%), building material and garden supply stores (up 1.1%), food services and drinking places (up 1.1%), department stores (up 0.9%), food and beverage stores (up 0.5%), sporting goods and hobby stores (up 0.5%) and clothing and accessories stores (up 0.4%). Beyond reduced gasoline station spending, sales weakened for furniture and home furnishings stores (down 1.3%), nonstore retailers (down 0.7%), health and personal care stores (down 0.6%) and electronics and appliance stores (down 0.1%).

  Despite the softer data in the past two months, retail sales have been strong over the past 12 months, buoyed by pent-up demand as the economy reopened from COVID-19 restrictions. On a year-over-year basis, retail spending has risen 9.1% since August 2021, or 7.6% with motor vehicles and gasoline excluded.

- **State Employment Report:** Kentucky created the most net new manufacturing jobs in August, adding 7,600 workers. Other states with notable employment growth for the month included Tennessee (up 2,500), Florida (up 2,400), North Carolina (up 2,100), Colorado (up 1,900) and Texas (up 1,900). Over the past 12 months, Texas (up 51,000) had the most manufacturing employment growth. Other states with significant year-over-year gains included California (up 36,500), Michigan (up 31,400), Florida (up 27,800) and Illinois (up 20,700).

In August, the U.S. unemployment rate ticked up from 3.5% to 3.7%, and rates rose in 16 states. At 1.9%, Minnesota had the lowest unemployment rate nationally, followed closely by New Hampshire (2.0%), Utah (2.0%), Nebraska (2.1%) and Vermont (2.1%). At the other end of the spectrum, the District of Columbia had the highest unemployment rate in the country at 5.1%. Other states with elevated rates included New York (4.7%), Alaska (4.6%), Illinois (4.5%) and Delaware (4.5%).

- **University of Michigan Consumer Sentiment (Preliminary):** After dropping to a record low in June (50.0), the Index of Consumer Sentiment has risen for three straight months, increasing from 58.2 in August to 59.5 in September, according to preliminary data from the University of Michigan and Thomson Reuters. Americans felt slightly more upbeat in their assessments of current and future conditions, but these data suggest that consumer confidence remains very low. Consumers continued to worry about inflation and uncertainties in the economic outlook.

- **Weekly Initial Unemployment Claims:** The week ending Sept. 10 saw 213,000 initial unemployment claims, down from 218,000 for the week ending Sept. 3 and the lowest since the end of May. In contrast, the week ending Sept. 3 saw 1,403,000 continuing claims, edging up from 1,401,000 for the week ending Aug. 27, which was a six-week low. Overall, continuing claims have trended higher since the spring, up from 1,306,000 for the week ending May 21.

Take Action

- **Quarterly Economic Update for Manufacturers**
  Join me for an update on the current state of the manufacturing sector, including a discussion of the current challenges and the U.S. and global outlook for 2023. The Q3 NAM Manufacturers' Outlook Survey results will be highlighted. In addition, Matt Wood, national industry leader, commercial products at FORVIS, will discuss what he is hearing from his clients, including the global slowdown in activity and ongoing supply chain and workforce challenges. To participate in the quarterly webinar, click here.

- **MFG Day Kickoff Event at SAS Headquarters**
  The NAM and The Manufacturing Institute—the workforce development and education partner of the NAM—are planning to celebrate MFG Day at a kickoff event at SAS headquarters in Cary, North Carolina, on Wednesday, Oct. 5, from 9:30 a.m. to 1:30 p.m. EDT. This live, in-person event will include an executive panel on how technology and analytics are transforming the industry and its workforce, a creators' panel spotlighting the many paths students can take into exciting, high-tech manufacturing careers and interactive exhibits of the latest analytics-driven innovations in manufacturing. If you are interested in attending, click here.

- **Be Part of Manufacturing's Premier Workforce Event**
  The MI invites you to its inaugural Workforce Summit on Oct. 18–20 at the Hyatt Regency in Cincinnati, Ohio, where manufacturers, thought leaders, educators, business association leaders and human resource and workforce development professionals will convene to discuss innovations in workforce development and the future of manufacturing. Click here for more information and to register.

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