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MONDAY ECONOMIC REPORT

Consumer Inflation at a 40-Year High in December

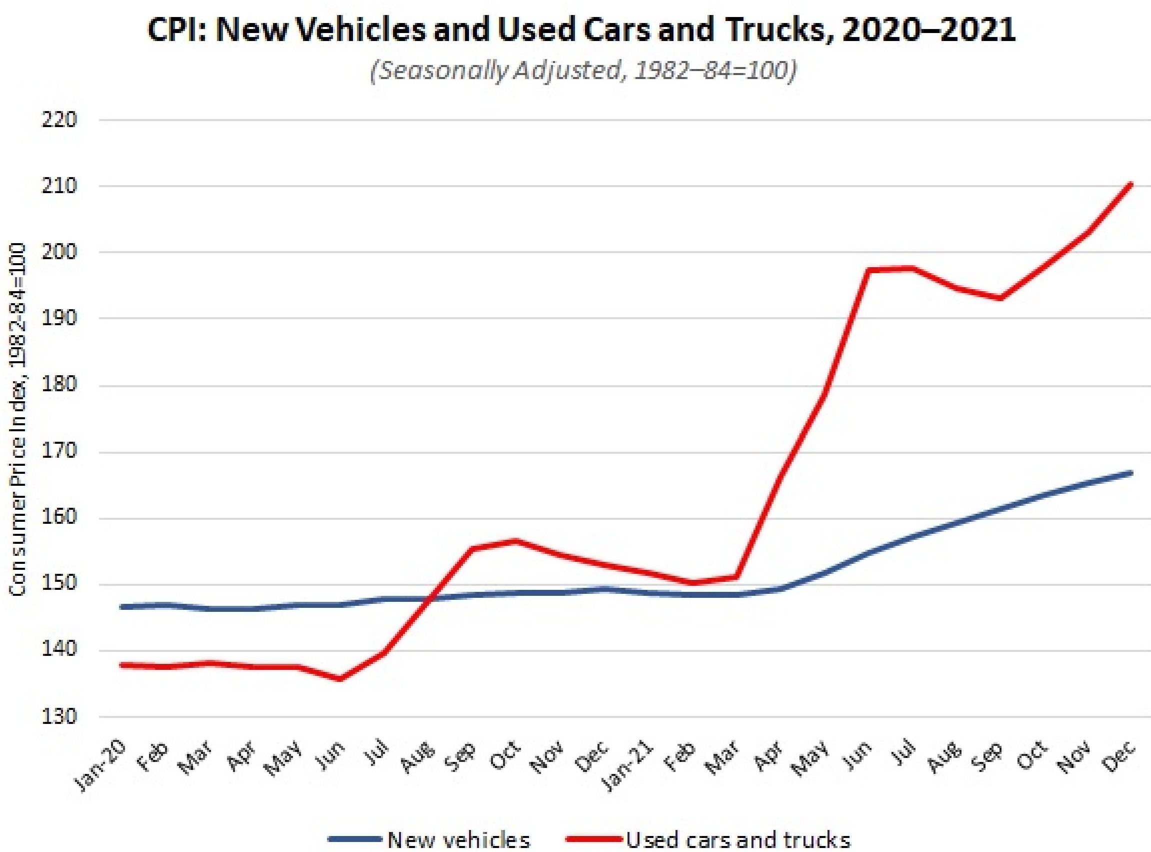
By Chad Moutray – Jan. 17, 2022

The Weekly Toplines

- Consumer prices rose 0.5% in December. The consumer price index has risen 7.1% over the past 12 months (seasonally adjusted), the fastest year-over-year pace since June 1982. At the same time, core inflation (which excludes food and energy) increased 5.5% year-over-year in December, the most since February 1991.
- The cost of used cars and trucks jumped 3.5% in December, with prices for new vehicles up 1.0%. The automotive sector continues to be challenged by supply chain disruptions and the chip shortage. New vehicles and used cars and trucks have seen price growth of 11.8% and 37.3% year-over-year.
- Producer prices for final demand goods and services rose 0.2% in December, the slowest monthly gain since November 2020. Over the past 12 months, producer prices for final demand goods and services jumped 9.8% (seasonally adjusted), just shy of November's record 9.9%. Core producer prices increased 6.9% year-over-year in December, the same pace as in November and remaining an all-time high.
- The Index of Consumer Sentiment declined to 68.8 in January, according to preliminary data from the University of Michigan and Thomson Reuters. This was not far from November's reading (67.4), which was a 10-year low. Consumer sentiment has declined largely on worries about inflation and the continued spread of COVID-19.
- Retail sales fell 1.9% in December, the first decline since July and well below the consensus estimate, which was for spending to have edged down just 0.1%. Indeed, the data declined for the most part across the board. This could be the result of a multitude of factors, including the purchase of holiday gifts earlier than normal (as encouraged because of supply chain issues), the spread of the omicron variant and consumer worries about inflation.
- Despite the disappointing figures in the latest data, retail spending has soared 16.9% over the past 12 months, or 16.5% with gasoline stations and motor vehicles and parts sales excluded.
- Manufacturing production declined 0.3% in December, pulling back from November's 0.6% increase, which was the best level since December 2018. Manufacturers have been challenged by supply chain bottlenecks, workforce shortages, rising production costs and, more recently, the spread of the omicron variant.
- Manufacturing capacity utilization edged down from 77.2% in November, also the strongest since December 2018, to 77.0% in December. Overall, manufacturing

production has risen 3.5% year-over-year, with 1.5% growth relative to February 2020's pre-pandemic pace.

- Total industrial production edged down 0.1% in December, easing marginally after rebounds of 1.2% and 0.7% in October and November, respectively. The level of industrial production in November was the highest since September 2019, and the current reading is just shy of that threshold.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Jan. 10
None

Tuesday, Jan. 11
NFIB Small Business Survey

Wednesday, Jan. 12
Consumer Price Index

Thursday, Jan. 13
Producer Price Index
Weekly Initial Unemployment Claims

This Week's Indicators:

Monday, Jan. 17
None

Tuesday, Jan. 18
NAHB Housing Market Index
New York Fed Manufacturing Survey

Wednesday, Jan. 19
Housing Starts and Permits
New Home Sales

Thursday, Jan. 20
Existing Home Sales
Philadelphia Fed Manufacturing Survey

Friday, Jan. 14
Industrial Production
Retail Sales
University of Michigan Consumer Sentiment
Weekly Initial Unemployment Claims

Friday, Jan. 21
Conference Board Leading Indicators

Deeper Dive

- **Consumer Price Index:** Consumer prices rose 0.5% in December, slowing from the 0.8% gain in November but continuing to increase solidly. Food prices increased 0.5%, but energy costs declined 0.4% for the month. Excluding food and energy, core consumer prices increased 0.6% in December.

  The cost of used cars and trucks jumped 3.5% in December, with prices for new vehicles up 1.0%. To put the growth of those figures in perspective, with the automotive sector continuing to be challenged by supply chain disruptions and the chip shortage, new vehicles and used cars and trucks have seen price growth of 11.8% and 37.3% year-over-year. Consumers also paid more for apparel, household furnishings and supplies, medical care services and shelter, but prices for transportation services decreased.

  The consumer price index has risen 7.1% over the past 12 months (seasonally adjusted), up from 6.9% in November and the fastest year-over-year pace since June 1982. (The non-seasonally adjusted figure was 7.0%.) At the same time, core inflation (which excludes food and energy) increased 5.5% year-over-year in December, up from 5.0% in the prior release and the biggest increase since February 1991.

  Overall, price pressures for consumers remain very elevated. Automobiles exerted an outsized impact in this report, as noted above. The data are expected to stabilize over the course of this year, especially once bottlenecks start to abate. A more favorable base comparison in 2022 will also help. Yet, consumer prices are predicted to continue growing by more than consumers have become accustomed to in recent years, with core consumer inflation rising around 3.1% year-over-year by the end of 2022.

- **Industrial Production:** Manufacturing production declined 0.3% in December, pulling back from November's 0.6% increase, which was the best level since December 2018. In the latest data, durable and nondurable goods decreased 0.4% and 0.2%, respectively, ending the year on a slightly negative note. Manufacturers have been challenged by supply chain bottlenecks, workforce shortages, rising production costs and, more recently, the spread of the omicron variant. Manufacturing capacity utilization edged down from 77.2% in November, also the strongest since December 2018, to 77.0% in December. Overall, manufacturing production has risen 3.5% year-over-year, with 1.5% growth relative to February 2020's pre-pandemic pace.

  The underlying manufacturing data provided mixed results. Sectors with the largest increases in December included nonmetallic mineral products (up 1.5%), wood products (up 1.2%), chemicals (up 0.7%), computer and electronic products (up 0.7%) and machinery (up 0.7%), among others. At the same time, the biggest declines in output for the month occurred in miscellaneous durable goods (down 2.7%), plastics and rubber products (down 1.8%), printing and related support activities (down 1.8%), petroleum and coal products (down 1.6%), apparel and leather goods (down 1.5%) and motor vehicles and parts (down 1.3%).

The chip shortage has challenged the motor vehicles and parts sector significantly year to date. Output had rebounded by 10.8% and 1.7% in October and November, respectively, before pulling back by 1.3% in December. Since January 2021, motor vehicles and parts production has declined 6.5%. Excluding motor vehicles and parts, industrial production inched down 0.1% in December.

Ten (or half) of the major manufacturing sectors have experienced increased production since February 2020. This included sizable gains in output post-pandemic in aerospace and miscellaneous transportation equipment (up 10.8%), computer and electronic products (up 9.0%), chemicals (up 7.9%) and machinery (up 5.3%), among others.

Meanwhile, total industrial production edged down 0.1% in December, easing marginally after rebounds of 1.2% and 0.7% in October and November, respectively. The level of industrial production in November was the highest since September 2019, and the current reading is just shy of that threshold. Mining production rose 2.0% in December, but utilities output fell 1.5%. On a year-over-year basis, industrial production has increased 3.7%. Total capacity utilization eased from 76.6% in November, the best since November 2019, to 76.5% in December.

- **NFIB Small Business Survey:** The National Federation of Independent Business reported that the Small Business Optimism Index rose from 98.4 in November to 98.9 in December. Yet, the headline index has drifted lower for the most part since June (102.5). The NFIB Small Business Optimism Index averaged 98.8 in 2021, down from 103.0 in 2019 and 99.6 in 2020, respectively. Supply chain disruptions, workforce shortages, inflation and COVID-19 continue to challenge small business owners. Small businesses remain doubtful about business conditions improving over the next six months despite that measure increasing slightly in December from November's reading, which was the lowest in nine years.

  With that said, the net percentage of respondents saying they had increased compensation in the past three months rose from 44% to 48%, a new record, with the net percentage planning to raise compensation in the next three months continuing to be 32%, also an all-time high.

  Along those lines, hiring continued to be a challenge. Respondents once again cited difficulties in obtaining qualified labor as the top "single most important problem," followed closely by concerns about inflation. The percentage of respondents suggesting they had job openings they were unable to fill inched up from 48% to 49% just shy of September's record (51%). The percentage of respondents citing few or no qualified applicants for job openings edged up from 56% to 57%. The net percentage of respondents planning to increase hiring over the next three months rose from 25% to 28%.

  Meanwhile, 57% of small firms made a capital investment over the past six months, up from 55% in November and a seven-month high. The percentage of respondents planning to make a capital investment over the next three to six months increased from 27% to 29%.

- **Producer Price Index:** Producer prices for final demand goods and services rose 0.2% in December, pulling back from the 1.0% increase in November and the slowest monthly gain since November 2020. At the same time, producer prices for final demand goods fell 0.4% in December, the first decline since April 2020, with costs for food and energy down 0.6% and 3.3%, respectively. Energy prices decreased for the first time since April following sharp gains in the intervening months. Even with the pullbacks in December, food and energy costs have jumped 12.9% and 31.9% year-over-year, respectively.

Excluding food and energy, producer prices for final demand goods increased 0.5% in December, easing from the 0.8% gain in November. Meanwhile, producer prices for final demand services rose 0.5% in December, with transportation and warehousing costs up 1.7%.

Over the past 12 months, producer prices for final demand goods and services jumped 9.8% (seasonally adjusted), down from 9.9% in November, which was the largest increase on record for a series dating to November 2009. (The non-seasonally adjusted figure was 9.7%.) At the same time, core producer prices increased 6.9% year-over-year in December, the same pace as in November and remaining an all-time high. Manufacturers continue to cite soaring raw material costs and supply chain disruptions as their top challenges, with the rapid acceleration in prices in this data over the past year helping to explain why.

- **Retail Sales:** Retail sales fell 1.9% in December, the first decline since July and well below the consensus estimate, which was for spending to have edged down just 0.1%. Indeed, the data declined for the most part across the board, suggesting that Americans pulled back in their spending at year’s end. Excluding motor vehicles and parts and gasoline stations, retail sales fell 2.5% in December. This could be the result of a multitude of factors, including the purchase of holiday gifts earlier than normal (as encouraged because of supply chain issues), the spread of the omicron variant and consumer worries about inflation. The latter has weighed heavily, for instance, on consumer confidence measures of late (see below).

  Despite the disappointing figures in the latest data, the longer-term trends were more encouraging. Indeed, retail spending has soared 16.9% over the past 12 months, or 16.5% with gasoline stations and motor vehicles and parts sales excluded.

  In December, the largest declines in retail spending occurred at nonstore retailers (down 8.7%), department stores (down 7.0%), furniture and home furnishings stores (down 5.5%), sporting goods and hobby stores (down 4.3%), clothing and accessories stores (down 3.1%) and electronics and appliance stores (down 2.9%). Renewed omicron worries were the likely cause of sales at food services and drinking places to decrease 0.8%, the largest monthly decline since February. In contrast, retail sales increased at miscellaneous store retailers (up 1.8%), building material and garden supply stores (up 0.9%) and health and personal care stores (up 0.5%).

- **University of Michigan Consumer Sentiment:** The Index of Consumer Sentiment declined from 70.6 in December to 68.8 in January, according to preliminary data from the University of Michigan and Thomson Reuters. This was not far from November’s reading (67.4), which was a 10-year low. At the start of the new year, Americans felt less positive about both current and future economic conditions. Indeed, consumer confidence has trended lower since April (88.3). In 2020 and 2021, the headline index averaged 81.5 and 77.6, respectively, down from 98.4 and 96.0 in 2018 and 2019.

  Consumer sentiment has declined largely on worries about inflation and the continued spread of COVID-19. According to the release, “Three-quarters of consumers in early January ranked inflation, compared with unemployment, as the more serious problem facing the nation." Households with income less than $100,000 were more likely to be concerned with higher prices. One-third of those completing the survey felt that they were worse off today versus one year ago, the highest percentage since 2014. Along those lines, the authors write, "Nearly half of all consumers (48%) anticipated that the inflation rate would outdistance income increases to produce real income declines. Just 17% anticipated real income gains in 2022."

- **Weekly Initial Unemployment Claims:** There were 230,000 initial unemployment claims for the week ending Jan. 8, rising for the second straight report and up from 207,000 for the week ending Jan. 1. Initial claims fell sharply over the course of last year, down from 781,000 for the week ending Jan. 2, 2021. Meanwhile, continuing claims dropped from 1,753,000 for the week ending Dec. 25 to 1,559,000 for the week ending Jan. 1. That was the lowest level since the week ending June 2, 1973, and to put that in perspective, there were 5,240,000 continuing claims for the week ending Jan. 2, 2021, representing a very significant improvement for the year.

Take Action

- Please join me for a webinar on "Successfully Navigating Current Supply Chain Disruptions" on Thursday, Jan. 27, at 2:00 p.m. EST. This webinar will discuss the action industry leaders can take to improve their supply chain visibility, resilience and a sufficient workforce to secure supply and successfully navigate the risk of future disruptions. Panelists include Debjit Banerjee (PwC), Dennis Hoeg (Nexteer Automotive) and Ernest Nicolas, Jr. (Rockwell Automation). To register, click here.

Correction

- The graph accompanying last week's Monday Economic Report had an error in the labels for the right and left vertical axes. The corrected graphic can be found here. Sorry for any inconvenience.

Interested in becoming a presenter of the *Monday Economic Report*? Email us.

Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.