MONDAY ECONOMIC REPORT

Producer Prices: Easing Overall but with Rising Costs in Some Categories

By Chad Moutray – December 12, 2022

The Weekly Toplines

- Producer prices for final demand goods and services rose 0.3% for the third straight month in November. Over the past 12 months, producer prices for final demand goods and services have risen 7.4%, the lowest since May 2021. Core producer prices increased 4.9% year-over-year, continuing to decelerate since hitting a record 7.1% in March and the slowest since April 2021.

- On the one hand, there are signs that raw material costs continue to decelerate, which is encouraging, while remaining at highly elevated levels. Yet, on the other hand, prices continue to accelerate or exceed expectations in some categories, such as for food and for core inflation. That will continue to put pressure on the Federal Reserve in its fight against pricing pressures.

- Following the fourth consecutive 75-basis-point rate hike at its Nov. 1–2 meeting, the Federal Open Market Committee is likely to step down to a 50-basis-point rate increase at the conclusion of its Dec. 13–14 meeting this week.

- The Fed will likely further increase the federal funds rate by 50 or 75 basis points in total at its Jan. 31–Feb. 1 and March 21–22 meetings before hitting the pause button, assuming it is ready to do so at that time (which would hinge on incoming inflation and employment data).

- New orders for manufactured goods rose 1.0% to a record $556.65 billion in October. Excluding transportation equipment, new factory orders increased 0.8% to $458.90 billion, also an all-time high. In addition, new orders for core capital goods—a proxy for capital spending in the U.S. economy—rose 0.6% to $75.28 billion, which was shy of August's record ($75.38 billion).

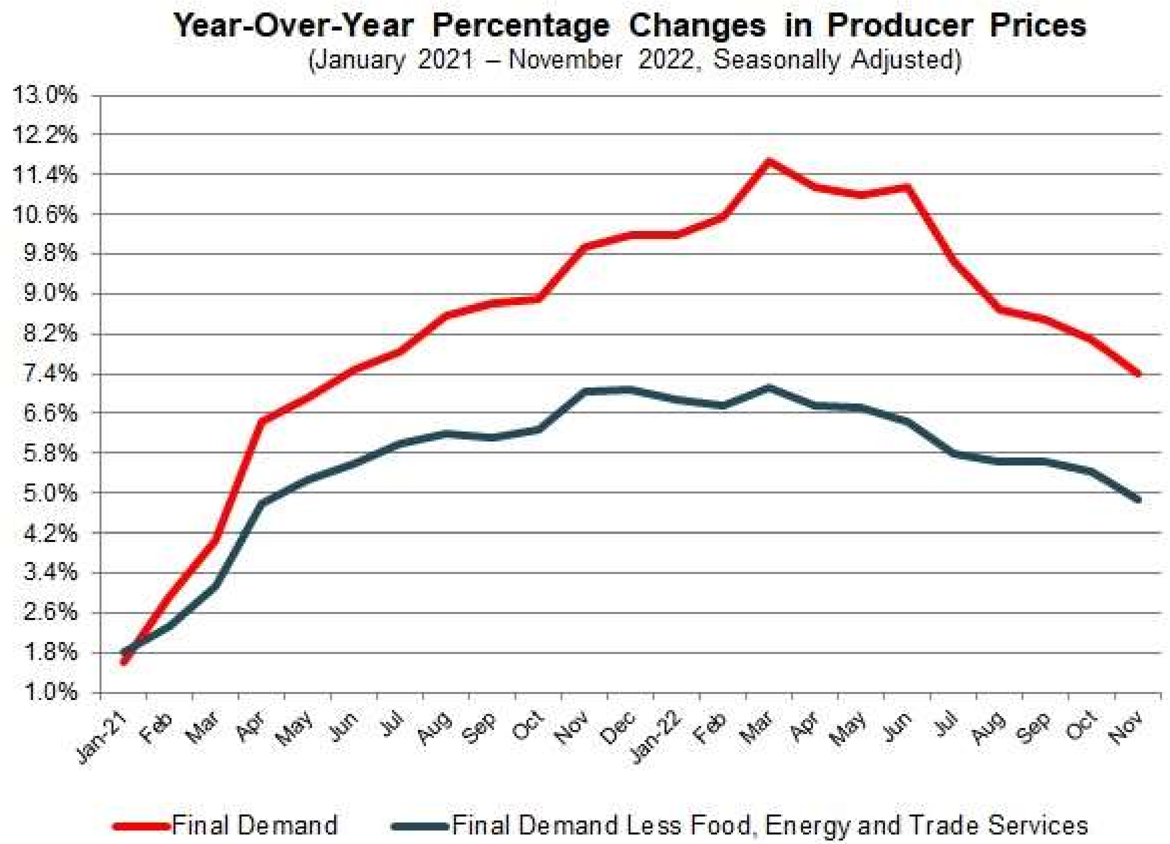
- Factory orders data are consistent with a manufacturing sector that has remained resilient despite numerous challenges and an uncertain economic and geopolitical outlook, with activity continuing to hit new record levels following sizable gains over the past year, albeit in nominal terms. New orders for manufactured goods have soared 11.1% over the past 12 months.

- The U.S. trade deficit rose from $74.13 billion in September to $78.16 billion in October, increasing for the second straight month following five months of declines. The increased trade deficit stemmed from reduced goods exports that corresponded with higher goods imports.

- U.S.-manufactured goods exports totaled $1,081.09 billion through the first 10 months of 2022, soaring 15.55% from the same period in 2021. Manufactured goods imports grew 16.89% year to date relative to the same period last year.

- The Index of Consumer Sentiment rose from 56.8 in November to 59.1 in December. Americans felt more upbeat about both current and future economic conditions in December, with notable improvements for higher-income individuals, who have benefited from stronger stock market performance. Yet, consumers remain anxious about inflation and economic uncertainties.

- U.S. consumer credit outstanding rose 6.9% at the annual rate in October, continuing to expand solidly. Overall, Americans have continued to be willing to take on new debt, helping to buoy increased consumer spending.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Dec. 5
Factory Orders and Shipments

Tuesday, Dec. 6
International Trade Report

Wednesday, Dec. 7

This Week's Indicators:

Monday, Dec. 12
None

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

Consumer Credit
Productivity and Costs

Thursday, Dec. 8
Weekly Initial Unemployment Claims

Friday, Dec. 9
Producer Price Index
University of Michigan Consumer Sentiment

Wednesday, Dec. 14
FOMC Monetary Policy Statement

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

Friday, Dec. 16
State Employment Report

By unifying customer, pricing and inventory data, manufacturers are able to:

- Bring teams together to view orders from all channels;
- Optimize costs and fulfillment rates;
- Boost sales team productivity;
- More accurately forecast; and
- Improve the customer experience.

Read the full guide to learn more.

Deeper Dive

- **Consumer Credit**: U.S. consumer credit outstanding rose 6.9% at the annual rate in October, up from 6.6% in September and continuing to expand solidly. Revolving credit, which includes credit cards and other credit lines, increased 10.4% in October, up from 8.2% in September. Overall, Americans have continued to be willing to take on new debt, helping to buoy increased consumer spending. Indeed, revolving credit has jumped 15.0% over the past 12 months.

  Meanwhile, nonrevolving credit, which includes auto and student loans, increased 5.8% in October, easing from 6.1% in September. On a year-over-year basis, nonrevolving credit has increased 6.0%. Overall, U.S. consumer credit outstanding has risen 8.1% over the past 12 months, the same rate as in August and continuing to be the strongest year-over-year reading since November 2011.

- **Factory Orders and Shipments**: New orders for manufactured goods rose 1.0% from $550.90 billion in September to a record $556.65 billion in October. Durable and nondurable goods orders increased 1.1% and 1.0%, respectively. October's report included sizable increases in aircraft and parts as well as ships and boats orders, which can be highly volatile from month to month. Overall, new factory orders excluding transportation rose 0.8% from $455.22 billion to $458.90 billion, a new all-time high.

  In addition, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—rose 0.6% from $74.82 billion to $75.28 billion, which was shy of August's record ($75.38 billion).

  These data are consistent with a manufacturing sector that has remained resilient despite numerous challenges and an uncertain economic and geopolitical outlook, with activity continuing to hit new record levels, albeit in nominal terms. New orders for manufactured goods have soared 11.1% over the past 12 months, or 8.9% year-over-year with transportation equipment excluded. Core capital goods orders have risen 6.6% year-over-year.

Meanwhile, factory shipments increased 0.7% from $550.84 billion to a record $554.79 billion. At the same time, core capital goods shipments jumped 1.5% from $74.08 billion to $75.20 billion, a new high. On a year-to-date basis, factory shipments have risen 10.7%, a very strong figure. Shipments of core capital goods have increased 10.8% over the past 12 months.

- **International Trade Report**: The U.S. trade deficit rose from $74.13 billion in September to $78.16 billion in October, increasing for the second straight month following five months of declines. These data have been skewed year to date by supply chain disruptions, the strong dollar, petroleum prices and slowing global growth. The increased trade deficit stemmed from reduced goods exports (down from $179.69 billion to $175.98 billion) that corresponded with higher goods imports (up from $273.19 billion to $275.57 billion). At the same time, the service-sector trade surplus increased from $19.37 billion to $21.43 billion, a 12-month high.

  Reduced activity for industrial supplies and materials (down $2.42 billion) and consumer goods (down $1.98 billion) pulled goods exports lower in October, including decreased activity for energy products and pharmaceuticals. Those were enough to offset higher goods exports for foods, feeds and beverages (up $538 million) and automotive vehicles, parts and engines (up $371 million), including a sharp rebound in soybeans exports (up $1.55 billion).

  Meanwhile, goods imports were buoyed by strength in industrial supplies and materials (up $1.06 billion), automotive vehicles, parts and engines (up $669 million) and foods, feeds and beverages (up $503 million). In addition, goods exports fell for consumer goods (down $606 million) and non-automotive capital goods (down $427 million), including reduced activity for cell phones and computers, among other items.

  U.S.-manufactured goods exports totaled $1,081.09 billion through the first 10 months of 2022, using non-seasonally adjusted data, soaring 15.55% from $935.64 billion year to date in 2021. Likewise, manufactured goods imports grew 16.89% year to date from $2,015.17 billion in 2021 to $2,355.55 billion for the same period in 2022.

- **Producer Price Index**: Producer prices for final demand goods and services rose 0.3% for the third straight month in November. At the same time, producer prices for final demand goods edged up just 0.1% in November, slowing from 0.6% growth in October. Energy costs declined 3.3% for the month, but food prices soared by the same percentage. Over the past 12 months, food and energy costs have jumped 15.4% and 16.0%, respectively. Excluding food and energy, producer prices for final demand goods rose 0.3%, up from being flat in the prior two months and the strongest since June. Meanwhile, producer prices for final demand services increased 0.4% in November, up from 0.1% in October.

Over the past 12 months, producer prices for final demand goods and services have risen 7.4%, down from 8.1% in October and the lowest since May 2021. Core producer prices increased 4.9% year-over-year, down from 5.4% in October and continuing to decelerate since hitting a record 7.1% in March. It was the lowest since April 2021.

These data provide mixed degrees of comfort. On the one hand, there are signs that raw material costs continue to decelerate, which is encouraging, while remaining at highly elevated levels. Yet, on the other hand, prices continue to accelerate or exceed expectations in some categories, such as for food and for core inflation. That will continue to put pressure on the Federal Reserve to continue its fight against pricing pressures in the economy.

Following the fourth consecutive 75-basis-point rate hike at its Nov. 1–2 meeting, the Federal Open Market Committee is likely to step down to a 50-basis-point rate increase at the conclusion of its Dec. 13–14 meeting this week. The Fed will likely further increase the federal funds rate by 50 or 75 basis points in total at its Jan. 31–Feb. 1 and March 21–22 meetings before hitting the pause button, assuming it is ready to do so at that time (which would hinge on incoming inflation and employment data).

- **Productivity and Costs:** Manufacturing labor productivity fell 2.9% at the annual rate in the third quarter, pulling back after rising 2.8% in the second quarter. Output in the sector rose 0.6% in the third quarter, slowing from the 3.5% gain in the second quarter. At the same time, the number of hours worked increased 3.6% in the third quarter, with hourly compensation up 2.7%. Unit labor costs among manufacturers jumped 5.8%.

  Labor productivity for durable goods decreased 5.0% in the third quarter, with output rising 1.7%. The number of hours worked soared 7.1%, with hourly compensation increasing 2.2% and unit labor costs rising 7.5% in the third quarter. In contrast, labor productivity for nondurable goods rose 1.3% in the third quarter, with output down 0.7%. The number of hours worked fell 1.9%, with hourly compensation up 2.8%. Unit labor costs for nondurable goods manufacturers increased 1.5%.

  Meanwhile, nonfarm business labor productivity increased 0.8% at the annual rate in the third quarter, rising somewhat after steep declines in the first two quarters of 2022. This mirrored output, which rose for the first time this year, up 3.3% in the third quarter. The number of hours worked increased 2.5%, with hourly compensation up 3.2%. As a result, unit labor costs rose 2.4%.

- **University of Michigan Consumer Sentiment (Preliminary):** The Index of Consumer Sentiment rose from 56.8 in November to 59.1 in December, according to preliminary data from the University of Michigan and Thomson Reuters. The headline index has averaged 58.5 over the past five months, up from the record low of 50.0 in June but remaining historically low. In December, Americans felt more upbeat about both current and future economic conditions, with notable improvements for higher-income individuals, who have benefited from stronger stock market performance. With that said, consumers remain anxious about inflation and economic uncertainties. Final data will be released on Dec. 23.

- **Weekly Initial Unemployment Claims**: The week ending Dec. 3 saw 230,000 initial unemployment claims, up from 226,000 for the week ending Nov. 26. In addition, the week ending Nov. 26 saw 1,671,000 continuing claims, up from 1,609,000 for the week ending Nov. 19 and the highest reading since the beginning of February. These figures suggest some cooling in the labor market despite employment remaining a bright spot in the economy overall.

Take Action

Your Response Needed: NAM Q4 Manufacturers' Outlook Survey
If you have not already done so, please take a moment to complete the latest NAM Manufacturers' Outlook Survey, which includes special questions on the supply chain and recession outlook, political priorities and health care issues. This survey—which celebrates its 25th anniversary with this edition—will help the NAM gauge how manufacturing sentiment has changed since the third quarter survey. Responses are due by Tuesday, Dec. 13, at 5:00 p.m. EST. As always, all responses are anonymous.

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