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# MONDAY ECONOMIC REPORT



## Losing Momentum: Manufacturing Production Falls in May and June

July 18, 2022

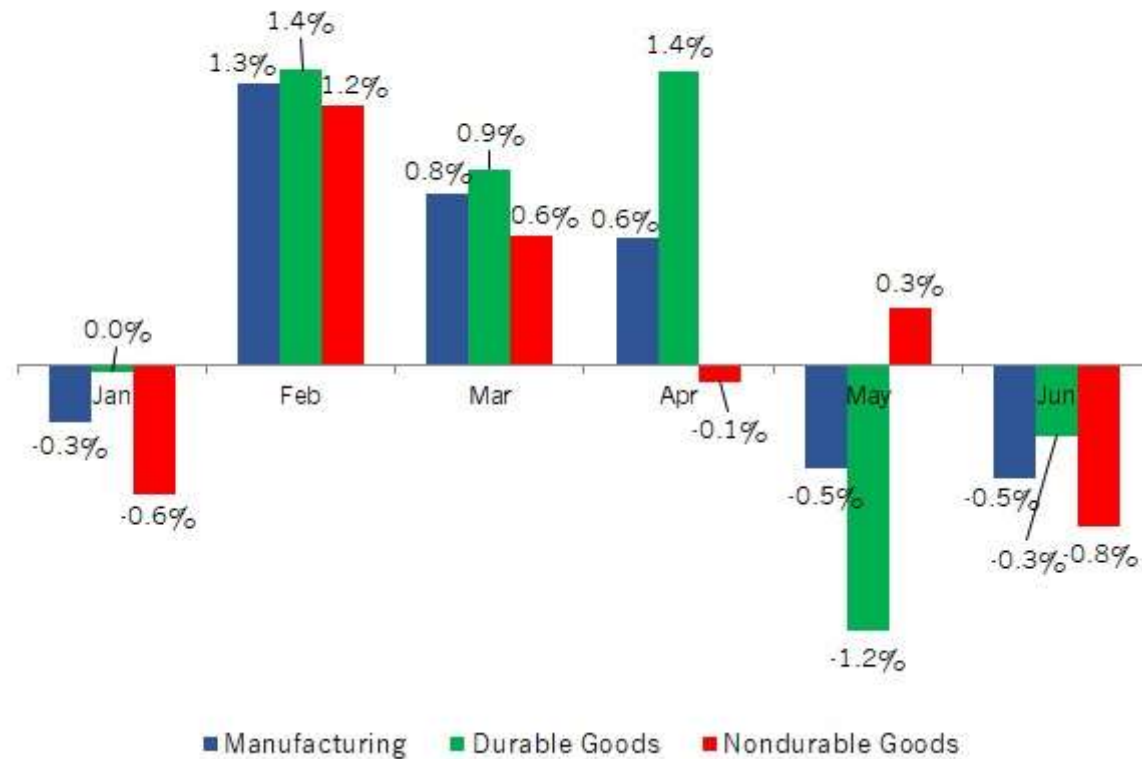
### The Weekly Toplines

- [Manufacturing production](#) contracted for the second straight month, declining 0.5% in both May and June. As such, the solid gains in output seen in the spring have waned, with growth stalling in the summer. Manufacturers continue to be challenged by supply chain bottlenecks, workforce shortages and soaring production costs.
- With that said, manufacturing activity has proven to be quite resilient over the course of the past year, and while manufacturing production has pulled back for two consecutive months, it has risen 3.6% over the past 12 months. In addition, manufacturing capacity utilization has slipped from 80.3% in April, the highest since April 2007, to 79.8% in May to 79.3% in June, but it remains elevated.
- Manufacturing activity [expanded](#) for just the third time this year in the Empire State survey. Input prices decelerated, remaining elevated but at the slowest pace since February 2021. Yet, manufacturers in the region felt pessimistic in their outlook for the next six months, with the forward-looking composite index notching the first negative reading since February 2009.
- Meanwhile, [retail sales](#) increased 1.0% in June. Gasoline station spending rose 3.6%, pushed higher by increased prices, with 49.1% growth over the past 12 months. Excluding gasoline station sales, retail spending increased 0.7%.
- The data were largely positive across the board, suggesting that consumer spending remains somewhat resilient despite numerous challenges. The real issue is whether that strength will continue moving forward, or if Americans will be spooked by inflation and an uncertain economic outlook.

- Along those lines, the [Index of Consumer Sentiment](#) edged up from a record low 50.0 in June to 51.1 in July in preliminary data. Despite marginal progress in the headline number, consumers remain very anxious, with sentiment near the lowest readings in the survey's history, particularly as higher prices dampen their purchasing power and overall household finances.
- [Consumer prices](#) soared 1.3% in June, the fastest monthly increase since September 2005. Growth in food and energy costs remained very solid, up 1.0% and 7.5% in June, respectively, with gasoline prices up 11.2%. Excluding food and energy, core consumer prices rose 0.7% in June.
- The Consumer Price Index has risen 9.1% over the past 12 months, the fastest year-over-year pace since November 1981. At the same time, core inflation (which excludes food and energy) increased 5.9% year-over-year in June. The current forecast is for year-over-year growth in the CPI to be 6.4% at year's end, with core inflation at 5.2%.
- [Producer prices](#) for final demand goods and services rose 1.1% in June. At the same time, producer prices for final demand goods increased 2.4% in June, the strongest rise since March. For the month, energy prices jumped 10.0%, but with food costs edging up just 0.1%. Excluding food and energy, producer prices for final demand goods increased 0.5% in June.
- Over the past 12 months, producer prices for final demand goods and services jumped 11.3%, the highest rate since March's 11.6% pace, which was the largest increase on record. Core producer prices increased 6.4% year-over-year, decelerating for the third straight month from the record 7.1% in March but remaining highly elevated.
- Manufacturers [cite](#) rising raw materials 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.
- These data will continue to put pressure on the Federal Reserve to act aggressively and decisively on inflation. The Federal Open Market Committee increased the federal funds rate by 75 basis points at its June 14–15 meeting, and it will make a similar move at its July 26–27 meeting.

## Monthly Percentage Changes in Manufacturing Production

(January – June 2022)



### Economic Indicators

**Last Week's Indicators:**  
(Summaries Appear Below)

**Monday, July 11**  
None

**Tuesday, July 12**  
NFIB Small Business Survey

**Wednesday, July 13**  
Consumer Price Index

**This Week's Indicators:**

**Monday, July 18**  
NAHB Housing Market Index

**Tuesday, July 19**  
Housing Starts and Permits

**Wednesday, July 20**  
Existing Home Sales  
Job Openings and Labor Turnover Survey

**Thursday, July 14**  
*Producer Price Index*  
*Weekly Initial Unemployment Claims*

**Friday, July 15**  
*Industrial Production*  
*New York Fed Manufacturing Survey*  
*Retail Sales*  
*University of Michigan Consumer Sentiment*

**Thursday, July 21**  
*Conference Board Leading Indicators*  
*Philadelphia Fed Manufacturing Survey*  
*Weekly Initial Unemployment Claims*

**Friday, July 22**  
*State Employment Report*

### Deeper Dive

- **Consumer Price Index**: Consumer prices soared 1.3% in June, extending the 1.0% gain in May and the fastest monthly increase since September 2005. Growth in food and energy costs remained very solid, up 1.0% and 7.5% in June, respectively, with gasoline prices up 11.2%. Excluding food and energy, core consumer prices rose 0.7% in June, up from 0.6% in May. Prices for transportation services (up 2.1%), used cars and trucks (up 1.6%), apparel (up 0.8%), new vehicles (up 0.7%) and medical care services (up 0.7%) had the largest gains in June, elevating core inflation for the month.

The Consumer Price Index has risen 9.1% over the past 12 months, up from 8.6% in May and the fastest year-over-year pace since November 1981. At the same time, core inflation (which excludes food and energy) increased 5.9% year-over-year in June, down from 6.0% in May. Core inflation has decelerated slightly since March (6.5%), which was the highest since August 1982, but continues to rise at a very strong pace.

Overall, price pressures for consumers are likely to remain extremely elevated over the coming months, with strong growth for food and energy costs and lingering supply chain headwinds. The easing of year-over-year growth rates in the latest core inflation data offered some comfort, and with more favorable comparison months moving forward, core price growth on a year-over-year basis should continue to moderate somewhat, while remaining very elevated. The current forecast is for year-over-year growth in the CPI to be 6.4% at year's end, with core inflation at 5.2%.

These data will continue to put pressure on the Federal Reserve to act aggressively

and decisively on inflation. The Federal Open Market Committee increased the federal funds rate by 75 basis points at its June 14–15 meeting, and it will make a similar move at its July 26–27 meeting.

- **Industrial Production:** Manufacturing production contracted for the second straight month, declining 0.5% in both May and June. Durable and nondurable goods production fell 0.3% and 0.8%, respectively, in June. As such, the solid gains in output seen in the spring have waned, with growth stalling in the summer. Manufacturers continue to be challenged by supply chain bottlenecks, workforce shortages and soaring production costs.

With that said, manufacturing activity has proven to be quite resilient over the course of the past year, and while manufacturing production has pulled back for two consecutive months, it has risen 3.6% over the past 12 months. In addition, manufacturing capacity utilization has slipped from 80.3% in April, the highest since April 2007, to 79.8% in May to 79.3% in June, but it remains elevated.

The manufacturing production data in June provided mixed results. Apparel and leather goods (up 2.5%), miscellaneous durable goods (up 2.2%), electrical equipment, appliances and components (up 1.3%) and wood products (up 0.7%) experienced the largest gains in manufacturing production in June. In contrast, notable declines in production in June included printing and related support activities (down 2.2%), petroleum and coal products (down 1.9%), textile and product mills (down 1.8%), primary metals (down 1.6%), motor vehicles and parts (down 1.5%), plastics and rubber products (down 1.2%) and machinery (down 1.1%).

Speaking to the strength noted above over the past 12 months, all but two of the major manufacturing sectors had year-over-year growth in production in June. The biggest year-over-year increases in output in the sector since June 2021 occurred in motor vehicles and parts (up 12.5%), miscellaneous durable goods (up 9.9%), nonmetallic mineral products (up 7.3%), furniture and related products (up 6.9%) and plastics and rubber products (up 6.2%). At the other end of the spectrum, textile and product mills (down 2.2%) and primary metals (down 1.0%) had declining production over the past year.

Meanwhile, total industrial production declined 0.2% in June, edging down after being flat in May and declining for the first time since December. Still, the index for industrial production remained just shy of May's reading. In addition to manufacturing, utilities production also fell, down 1.4%, but output in the mining sector rose 1.7%. On a year-over-year basis, industrial production has increased 4.2%, and over the past 12 months, mining and utilities output rose 8.2% and 1.4%, respectively. Total capacity

utilization eased for the second straight month from 80.4% in April, which was the best reading since March 2008, but was a still impressive 80.0% in June.

- **New York Fed Manufacturing Survey:** Manufacturing activity expanded for just the third time this year in the Empire State survey, with the composite index rebounding from -1.2 in June to 11.1 in July. New orders, shipments and delivery times improved, but employment and the average employee workweek softened somewhat. Input prices decelerated in June, remaining elevated but at the slowest pace since February 2021.

Meanwhile, manufacturers in the region felt pessimistic in their outlook for the next six months, with the forward-looking composite index decreasing from 14.0 in June to -6.2 in July, the first negative reading since February 2009. Respondents expected new orders to stagnate, with shipments, employment, the average employee workweek, capital expenditures and technology spending to soften in the outlook. Interestingly, respondents also anticipated lower raw material prices.

- **NFIB Small Business Survey:** The National Federation of Independent Business reported that the Small Business Optimism Index fell from 93.1 in May to 89.5 in June, the lowest level since March 2013. Supply chain disruptions, workforce shortages and inflation continued to challenge small business owners. Indeed, the net percentage of respondents saying that general business conditions would be better six months from now declined from -54% to -61%, a record low in the 48-year history of the survey.

Respondents cited inflation as the top “single most important problem,” followed by difficulties in obtaining enough qualified labor. In June, the net percentage of respondents reporting higher prices today than three months ago pulled back from a record 72% to 69% but remained very elevated. At the same time, the net percentage planning a price increase over the next three months eased from 47% to 44%.

The labor market remained tight. The percentage of respondents suggesting they had job openings they were unable to fill edged down from 51% to 50%, remaining near a record pace. In addition, the percentage of respondents citing few or no qualified applicants for job openings inched down from 61% to 60%, just shy of the record 62% in September. With that said, the net percentage of respondents planning to increase hiring over the next three months slipped from 26% to 19%.

- **Producer Price Index:** Producer prices for final demand goods and services rose 1.1% in June, continuing to increase solidly and building on the 0.9% gain in May. At the same time, producer prices for final demand goods increased 2.4% in June, the strongest rise since March. For the month, energy prices jumped 10.0%, but with food

costs edging up just 0.1%. On a year-over-year basis, food and energy costs have soared 13.0% and 54.1%, respectively. Excluding food and energy, producer prices for final demand goods increased 0.5% in June, easing from 0.6% growth in May.

Over the past 12 months, producer prices for final demand goods and services jumped 11.3%, up from 10.9% in May and the highest rate since March's 11.6% pace, which was the largest increase on record. At the same time, core producer prices increased 6.4% year-over-year, decelerating for the third straight month from the record 7.1% in March but remaining highly elevated.

Manufacturers [cite](#) rising raw materials 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 1.0% in June, rebounding after edging down 0.1% in May and the strongest monthly gain in three months. Gasoline station spending rose 3.6%, pushed higher by increased prices, with 49.1% growth over the past 12 months. Excluding gasoline station sales, retail spending increased 0.7%. At the same time, it is important to note that retail spending has soared 8.4% year-over-year, consistent with the reopening of the economy and with pent-up demand over that time.

Overall, these data were largely positive across the board, suggesting that consumer spending remains somewhat resilient despite numerous challenges. The real issue is whether that strength will continue moving forward, or if Americans will be spooked by inflation and an uncertain economic outlook.

Looking at the underlying data, the largest increases in retail spending in June in addition to gasoline station sales occurred for nonstore retailers (up 2.2%), furniture and home furnishings stores (up 1.4%), miscellaneous store retailers (up 1.4%), food services and drinking places (up 1.0%), motor vehicle and parts dealers (up 0.8%) and sporting goods and hobby stores (up 0.8%), among others.

At the same time, sales fell for department stores (down 2.6%), building material and garden supply stores (down 0.9%), clothing and accessories stores (down 0.4%) and health and personal care stores (down 0.1%).

- **[University of Michigan Consumer Sentiment \(Preliminary\)](#):** The Index of Consumer Sentiment edged up from a record low 50.0 in June to 51.1 in July, according to preliminary data from the University of Michigan and Thomson Reuters. The improvement stemmed from stronger assessments of the current economic environment outweighing a slight further deterioration in expectations. Despite



marginal progress in the headline number, consumers remain very anxious, with sentiment near the lowest readings in the survey's history. Americans continued to worry about inflation, particularly as higher prices dampen their purchasing power and overall household finances. A final reading will be released on July 29.

- **[Weekly Initial Unemployment Claims](#):** The week ending July 9 saw 244,000 initial unemployment claims, up from 235,000 for the week ending July 2 and the highest reading since the week ending Nov. 20, 2021. These data have trended gradually higher since reaching 166,000 claims for the week ending March 19, which was the second-lowest reading in the history of the series and the lowest since Nov. 30, 1968. Yet, even with recent increases, initial claims data remain historically low.

At the same time, the week ending July 2 saw 1,331,000 continuing claims, down from 1,372,000 for the week ending June 25. These data remain not far from 53-year lows.

Take Action

Join me on Thursday, July 28, at 2:00 p.m. EDT for a quarterly economic update for manufacturers. I will discuss the results from the [Q2 Manufacturers' Outlook Survey](#) and provide a forecast for the U.S. and global economies. Click [here](#) for more information and to register.

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