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MONDAY ECONOMIC REPORT

S&P Global: Supplier Delivery Times Suggest Bottlenecks Continue to Improve

By Chad Moutray – December 19, 2022

The Weekly Toplines

- The S&P Global Flash U.S. Manufacturing PMI fell from 47.7 in November to 46.2 in December, the sharpest decline since May 2020, with steep decreases in new orders, output and exports. Employment growth stalled in December. Yet, there was stronger (cautious) optimism in the outlook for future production.

- In the S&P survey, raw material costs grew in December at the slowest pace since July 2020, and the index for supplier delivery times expanded for only the second time in the past three years, a sign that bottlenecks continue to improve.

- Regional surveys from the New York and Philadelphia Federal Reserve Banks had similar results, with contracting activity in December, including for new orders and the average employee workweek. There were rebounds in the forward-looking measures, however, even as the sector continues to remain challenged overall.

- After increasing for four straight months, manufacturing production declined 0.6% in November. As such, manufacturers struggled in November amid slowing global growth and ongoing geopolitical and economic uncertainties. On a year-over-year basis, manufacturing production has risen just 1.2%. In addition, manufacturing capacity utilization declined from 79.5% in October to 78.9% in November, the lowest rate since June.

- Texas created the most net new manufacturing jobs in November, adding 3,200 workers, and it also had the most manufacturing growth year-over-year, with 47,100 more employees. At 2.2%, Utah had the lowest unemployment rate nationally.

- Meanwhile, retail sales fell 0.6% in November following the gain of 1.3% in October. Excluding motor vehicles and gasoline sales, retail spending declined 0.2% in

November, the first negative reading in 11 months. Over the past two months, retail sales have risen 0.7%, with 1.8% growth in the past six months.

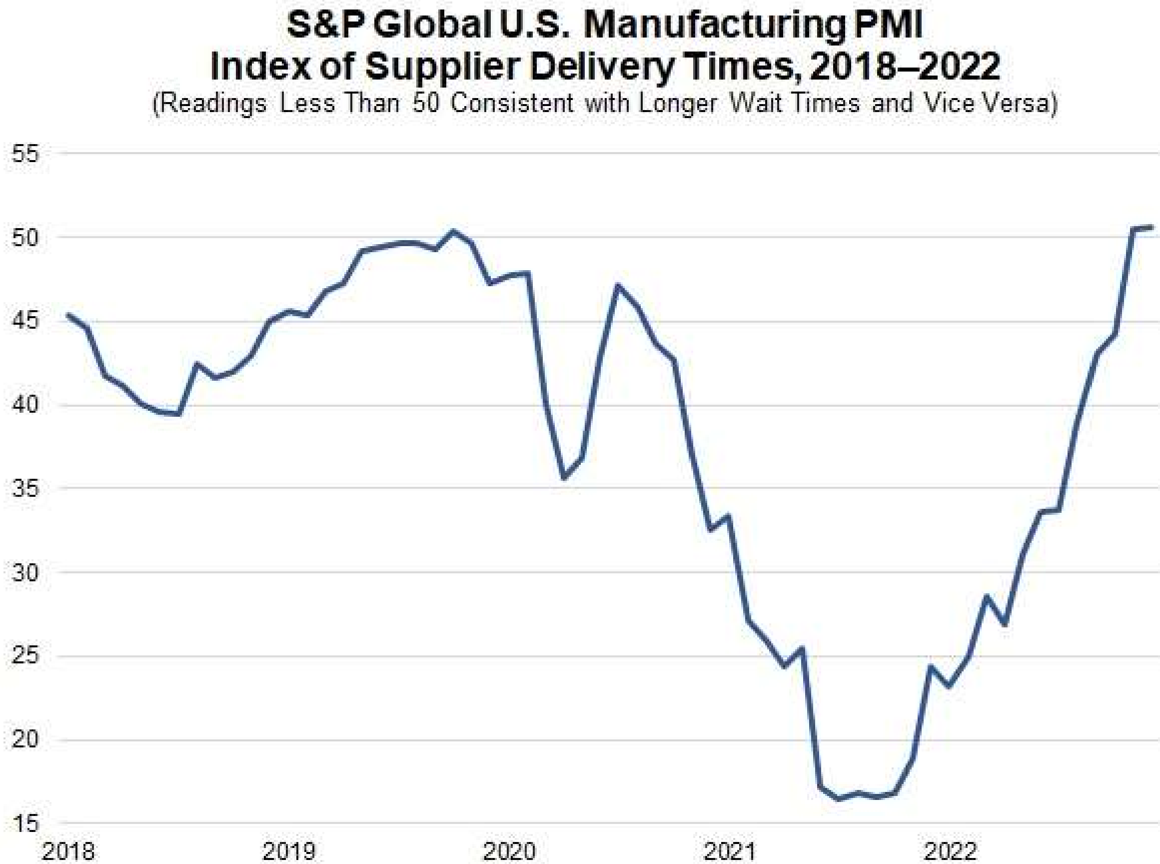
- While the November retail sales data were disappointing, the longer-term trends continue to reflect increased consumer spending, albeit in nominal terms. Indeed, retail sales have increased 6.5% year-over-year, or 6.7% over the past 12 months with motor vehicles and gasoline sales excluded.

- Consumer prices edged up 0.1% in November, slowing from the 0.4% gains in both September and October. Excluding food and energy, core consumer prices rose 0.2% in November, the slowest monthly gain since August 2021.

- The Consumer Price Index has risen 7.1% over the past 12 months, and core inflation (which excludes food and energy) increased 6.0% year-over-year in November. Overall, pricing pressures for consumers remain very elevated, even with continued easing in the latest data. The moderation in inflation is welcome news for the Federal Reserve, manufacturers and consumers, but there is still more work to be done to wring inflation out of the U.S. economy further.

- The Federal Open Market Committee increased the target federal funds rate by 50 basis points, as expected, from 4.25% to 4.50%. The Federal Reserve continues to tighten monetary policy as it seeks to tackle inflationary pressures in the U.S. economy. With that said, this move follows four consecutive 75-basis-point increases at its previous meetings, so this represents some slowing in the pace of rate hikes.

- Moving forward, 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 upcoming inflation and employment data).



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Dec. 12
None

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

Wednesday, Dec. 14

This Week's Indicators:

Monday, Dec. 19
NAHB Housing Market Index

Tuesday, Dec. 20
Housing Starts and Permits

Wednesday, Dec. 21
Existing Home Sales

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
S&P Global Flash U.S. Manufacturing PMI
State Employment Report

Thursday, Dec. 22
Chicago Fed National Activity Index
Conference Board Leading Indicators
Gross Domestic Product (Second Revision)
Kanas City Fed Manufacturing Survey
Personal Consumption Expenditures Deflator
Personal Income and Spending
Real GDP by Industry
Weekly Initial Unemployment Claims

Friday, Dec. 23
Durable Goods Orders and Shipments
New Home Sales
University of Michigan Consumer Sentiment

- The progress companies are making to provide digital customer experiences;
- Why first-party data is more important than ever; and
- The impact of electric vehicle investments on profits.

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Deeper Dive

- **Consumer Price Index**: Consumer prices edged up 0.1% in November, slowing from the 0.4% gains in both September and October. Energy costs declined 1.6% in November, helping to moderate the headline index, even as food prices continued to rise a solid 0.5%. Over the past 12 months, food and energy costs have jumped 10.6% and 13.1%, respectively.

  Excluding food and energy, core consumer prices rose 0.2% in November, the slowest monthly gain since August 2021. The underlying data were mixed. Prices for shelter (up 0.6%), household furnishings and supplies (up 0.4%), apparel (up 0.2%) and medical care commodities (up 0.2%) increased in November, with prices for new vehicles flat. In contrast, prices for used cars and trucks (down 2.9%), medical care services (down 0.7%) and transportation services (down 0.1%) decreased.

  The Consumer Price Index has risen 7.1% over the past 12 months, down from 7.7% in October and decelerating from 9.1% in June, which was the fastest pace since November 1981. At the same time, core inflation (which excludes food and energy) increased 6.0% year-over-year in November, down from 6.3% in October and 6.6% in September, which was the highest since August 1982.

  Overall, pricing pressures for consumers remain very elevated, even with continued easing in the latest data. The moderation in inflation is welcome news for the Federal Reserve, manufacturers and consumers, but there is still more work to be done to wring inflation out of the U.S. economy further.

- **FOMC Monetary Policy Statement**: The Federal Open Market Committee increased the target federal funds rate by 50 basis points, as expected, from 4.25% to 4.50%. The Federal Reserve continues to tighten monetary policy as it seeks to tackle inflationary pressures in the U.S. economy. With that said, this move follows four consecutive 75-basis-point increases at its previous meetings, so this represents some slowing in the pace of rate hikes. Moving forward, 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 upcoming inflation and employment data).

This is consistent with the accompanying projections, which suggest that the median federal funds rate would be 5.00% to 5.25% in 2023. Federal Reserve participants now expect real GDP growth of 0.5% in both 2022 and 2023, with next year's growth down from a previous estimate of 1.2%. The unemployment rate is seen as rising from 3.7% in 2022 to 4.6% in 2023, with the core PCE deflator declining from 4.8% in 2022 to 3.5% in 2023, to 2.5% in 2024. These forecasts also suggest a decline in the federal funds rate by 100 basis points in 2024.

- **Industrial Production:** After increasing for four straight months, manufacturing production declined 0.6% in November. Durable and nondurable goods production fell by the same rates for the month. As such, manufacturers struggled in November amid slowing global growth and ongoing geopolitical and economic uncertainties. On a year-over-year basis, manufacturing production has risen just 1.2%. In addition, manufacturing capacity utilization declined from 79.5% in October to 78.9% in November, the lowest rate since June.

  The manufacturing production data in November were largely negative, led by sizable declines in motor vehicles and parts (down 2.8%), electrical equipment, appliances and components (down 2.4%), furniture and related products (down 2.0%), plastics and rubber products (down 1.8%) and miscellaneous durable goods (down 1.6%), among others. Four manufacturing sectors grew in November: wood products (up 3.6%), printing and support (up 1.6%), aerospace and miscellaneous transportation equipment (up 1.1%) and computer and electronic products (up 0.5%).

  Over the past 12 months, the largest increases in manufacturing production occurred in aerospace and miscellaneous transportation equipment (up 10.2%), motor vehicles and parts (up 5.6%), nonmetallic mineral products (up 5.5%), machinery (up 5.3%) and apparel and leather (up 5.2%). At the other end of the spectrum, textile and product mills (down 9.2%), other manufacturing (down 5.8%), paper (down 5.5%), primary metals (down 3.7%), wood products (down 2.8%) and furniture and related products (down 2.4%) had the biggest declines in production over the past year.

  Meanwhile, total industrial production declined for the second straight month, down 0.2% in November. For the month, mining production fell 0.7%, but output in the utilities sector rose 3.6% (likely on colder temperatures). On a year-over-year basis, industrial production has increased 2.5%, with output for mining and utilities up 6.3%

and 4.6% year-over-year, respectively. Total capacity utilization declined from 79.9% to 79.7%.

- **New York Fed Manufacturing Survey**: Manufacturing activity in the New York Federal Reserve Bank's district contracted for the eighth time in 2022, with the composite index of general business conditions declining from 4.5 in November to -11.2 in December, the weakest reading since August. New orders, unfilled orders and the average employee workweek contracted in December, with shipments and inventories slowing. In contrast, hiring improved, and raw material costs continued to expand very solidly, with more than half of respondents saying that prices paid had increased in the month.

  With that said, manufacturers responding to the Empire State Manufacturing Survey predicted a rebound in activity following two months of decreases, with the forward-looking composite index rising from -6.1 to 6.3. Manufacturers' expectations for new orders, shipments and the average employee workweek were once again slightly positive in their outlook for the next six months. In addition, respondents felt more upbeat about employment, capital expenditures and technology spending for the months ahead and continued to anticipate accelerating (and highly elevated) pricing pressures moving forward.

- **NFIB Small Business Survey**: The Small Business Optimism Index rose from 91.3 in October to 91.9 in November. 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 -43% in November, up slightly from -46% in October.

  Respondents cited inflation as the top "single most important problem," followed by difficulties in obtaining enough qualified labor. Inflationary pressures changed little for the month, remaining very elevated despite slipping from recent highs. The net percentage of respondents reporting higher prices today than three months ago edged up from 50% in October to 51% in November. At the same time, the net percentage planning a price increase over the next three months was unchanged at 34%.

  The labor market remained solid overall. The percentage of respondents suggesting they had job openings they were unable to fill inched down from 46% to 44%. In addition, the percentage of respondents citing few or no qualified applicants for job openings slipped from 55% to a still sizable 54%. Yet, the net percentage of respondents planning to increase hiring over the next three months cooled from 20% to 18%, the lowest since February 2021. Meanwhile, the percentage of respondents suggesting that they made a capital expenditure in the past six months edged up from 54% to 55%.

- **Philadelphia Fed Manufacturing Survey**: The Philadelphia Federal Reserve Bank's composite index of general business conditions contracted for the sixth time in the past seven months, but increased from -19.4 in November, the lowest reading since May 2020, to -13.8 in December. New orders, shipments and the average employee workweek declined, with demand falling to a post-pandemic low. In addition, hiring contracted for the first time since April 2020. Input costs expanded at the slowest pace since September 2020, albeit at still solid rates of growth.

  In special questions, 35.9% of respondents said that their firm's production had increased in the fourth quarter relative to the third quarter, with 41.0% saying that output had decreased. Capacity utilization was 80–90% today relative to 70–80% one year ago. Labor supply and supply chains were the biggest constraints, and 26.3% expect financial conditions will worsen in the next three months.

  Meanwhile, the forward-looking composite index rose from -7.1 in November to 3.8 in December, the first positive reading since May, signaling cautious optimism for growth over the next six months. The outlook for new orders, shipments, employment and capital spending improved, and the average employee workweek declined at a slower rate. Respondents predicted input costs to accelerate once again.

- **Retail Sales**: After jumping by 1.3% in October, retail sales fell 0.6% in November. Excluding motor vehicles and gasoline sales, retail spending declined 0.2% in November, the first negative reading in 11 months. Over the past two months, retail sales have risen 0.7%, with 1.8% growth in the past six months. Therefore, while the November data were disappointing, the longer-term trends continue to reflect increased consumer spending, albeit in nominal terms. Indeed, retail sales have increased 6.5% year-over-year, or 6.7% over the past 12 months with motor vehicles and gasoline sales excluded.

  In November, the data were mixed. Retail sales increased for food services and drinking places (up 0.9%), food and beverage stores (up 0.8%), health and personal care stores (up 0.7%) and miscellaneous store retailers (up 0.5%). In contrast, spending declined at furniture and home furnishings stores (down 2.6%), building material and garden supply stores (down 2.5%), motor vehicles and parts dealers (down 2.3%), electronics and appliance stores (down 1.5%) and nonstore retailers (down 0.9%), among others.

- **[S&P Global Flash U.S. Manufacturing PMI]**: The S&P Global Flash U.S. Manufacturing PMI fell from 47.7 in November to 46.2 in December, the sharpest decline since May 2020, with steep decreases in new orders (down from 45.2 to 43.1), output (down from 47.4 to 46.0) and exports (up from 45.7 to 46.5). Employment growth (down from 51.1 to 50.1) stalled in December, expanding ever so slightly at the weakest rate since July 2020. On the other hand, the index for future output (up from 60.8 to 61.5) strengthened, signaling increased (cautious) optimism about production over the next six months. Raw material costs (down from 63.4 to 54.5) grew in December at the slowest pace since July 2020, increasing modestly. Encouragingly, the index for supplier delivery times (up from 50.5 to 50.6) expanded for only the second time in the past three years, a sign that bottlenecks continue to improve.

  Meanwhile, the S&P Global Flash Eurozone Manufacturing PMI contracted for the sixth straight month, albeit with some improvement, rising 47.1 in November to 47.8 in December. European growth continues to be impacted negatively by the Russian invasion of Ukraine, with soaring costs and a weakening outlook for production. In December, new orders, exports and output declined at slower rates, pulling back from recent post-pandemic lows. Hiring slowed to the weakest growth rate since February 2021. Encouragingly, the index of future output rebounded, signaling the best outlook for production since May. In addition, input prices remained elevated but decelerated to the slowest growth rate since December 2020.

  Similar trends occurred in France and Germany, with the rate of decline in manufacturing activity in both markets easing somewhat in December but remaining negative. With that said, the outlook for future production in France turned positive for the first time since July. Outside the Eurozone, manufacturers in the United Kingdom continued to report sharp contractions in new orders and output activity in December, with the headline index dropping to its worst reading since May 2020.

- **State Employment Report**: Texas created the most net new manufacturing jobs in November, adding 3,200 workers. Other states with notable employment growth for the month included Oklahoma (up 2,200), Minnesota (up 1,800), Missouri (up 1,500), Kansas (up 1,200) and Washington (up 1,200). Over the past 12 months, Texas (up 47,100) also had the most manufacturing employment growth. Other states with significant year-over-year gains included California (up 39,100), Florida (up 26,600), Pennsylvania (up 22,100) and Illinois (up 21,400).

  In November, the U.S. unemployment rate was unchanged at 3.7%. Rates rose in 12 states and declined in 3 states plus the District of Columbia. At 2.2%, Utah had the lowest unemployment rate nationally, followed closely by Minnesota (2.3%), North Dakota (2.3%), South Dakota (2.4%), Nebraska (2.5%) and Vermont (2.5%). At the other end of the spectrum, Nevada had the highest unemployment rate in the country at 4.9%. Others with elevated rates included Illinois (4.7%), the District of Columbia (4.6%), Alaska (4.5%), Delaware (4.4%) and Oregon (4.4%).

- **Weekly Initial Unemployment Claims**: The week ending Dec. 10 saw 211,000 initial unemployment claims, down from 231,000 for the week ending Dec. 3. In addition, the week ending Dec. 3 saw 1,671,000 continuing claims, edging up from 1,670,000 for the week ending Nov. 26 and the highest reading since the beginning of February. The continuing claims data suggest some cooling in the labor market despite employment remaining a bright spot in the economy overall.

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