

# MONDAY ECONOMIC REPORT



## Consumer Sentiment Jumped in January on Labor Market, Inflation Data

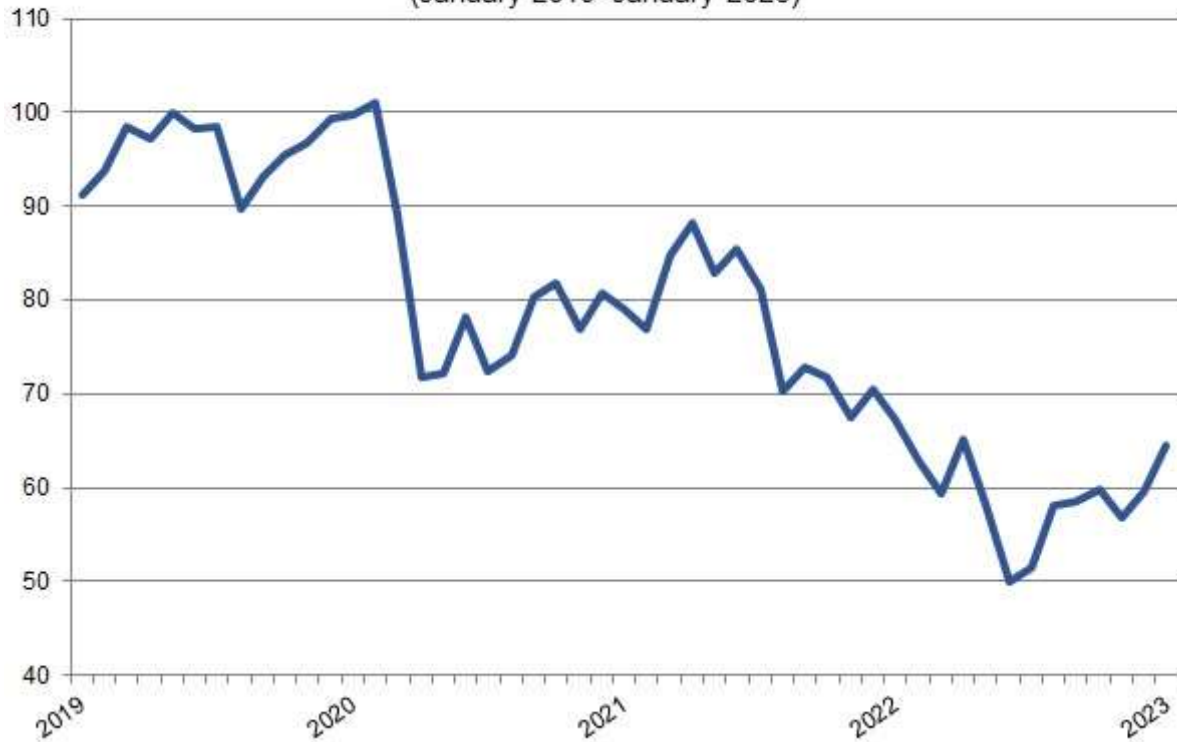
By Chad Moutray – January 17, 2023

### The Weekly Toplines

- The [Index of Consumer Sentiment](#) rose from 59.7 in December to 64.6 in January, a nine-month high, according to preliminary data from the University of Michigan and Thomson Reuters. Assessments of current conditions improved strongly, buoyed by labor market strength and slowing inflation data. Expectations of future conditions were also better in January.
- While Americans remain uncertain about geopolitical events, the economy and inflation, it is encouraging to see consumer confidence trend in the right direction, even as sentiment remains lower than preferred.
- [U.S. consumer credit outstanding](#) rose 7.1% at the annual rate in November, continuing to expand solidly, with 7.9% growth over the past 12 months. Revolving credit, which includes credit cards and other credit lines, jumped 16.9% in November. Overall, Americans have continued to be willing to take on new debt, helping to buoy increased consumer spending.
- [Consumer prices](#) edged down 0.1% in December, declining for the first time since May 2020. Excluding food and energy, core consumer prices rose 0.3% in December. The Consumer Price Index has risen 6.5% over the past 12 months, the slowest rate since October 2021, albeit at a still elevated pace.
- At the same time, core consumer inflation (which excludes food and energy) increased 5.7% year-over-year in December, the weakest reading in 12 months. 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.
- For its part, the Federal Open Market Committee is likely to continue increasing the federal funds rate at the conclusion of its Jan. 31 – Feb. 1 meeting, but that increase is more likely to be 25 basis points than the previous thinking, which was for a 50-basis-point hike.
- The [Small Business Optimism Index](#) declined to 89.8 in December, a six-month low. The headline index averaged 92.4 in 2022, down from 99.6 and 98.8 in 2020 and 2021, respectively. Small business owners continued to be anxious about the economic outlook, with ongoing inflation and workforce issues.
- There will be a lot of key data released this week, including updates on manufacturing production and sentiment, the housing market and retail sales. Producer price index figures for December will also be released, likely reflecting similar trends as consumer prices.

## University of Michigan and Thomson Reuters Consumer Sentiment Index

(January 2019–January 2023)



### Economic Indicators

#### This Week's Indicators: (Summaries Appear Below)

**Monday, Jan. 9**  
*Consumer Credit*

**Tuesday, Jan. 10**  
*NFIB Small Business Survey*

**Wednesday, Jan. 11**  
*None*

**Thursday, Jan. 12**  
*Consumer Price Index*  
*Weekly Initial Unemployment Claims*

**Friday, Jan. 13**  
*University of Michigan Consumer Sentiment*

#### This Week's Indicators:

**Monday, Jan. 16**  
*MARTIN LUTHER KING JR. DAY HOLIDAY*

**Tuesday, Jan. 17**  
*New York Fed Manufacturing Survey*

**Wednesday, Jan. 18**  
*Industrial Production*  
*NAHB Housing Market Index*  
*Producer Price Index*  
*Retail Sales*

**Thursday, Jan. 19**  
*Housing Starts and Permits*  
*New Home Sales*  
*Philadelphia Fed Manufacturing Survey*  
*Weekly Initial Unemployment Claims*

**Friday, Jan. 20**  
*Existing Home Sales*

## A Message from Salesforce



### Want a 25% Increase in Manufacturing Productivity?

Manufacturers know that margin erosion, revenue leakage and lost profits chip away at bottom-line performance. That's why industry leaders are using digital tools to integrate sales and revenue management processes in order to boost efficiency, reduce revenue leaks and stand out through improved customer experiences.

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 7.1% at the annual rate in November, down from 7.4% in October and continuing to expand solidly. Revolving credit, which includes credit cards and other credit lines, jumped 16.9% in November, up from 10.3% in October. Overall, Americans have continued to be willing to take on new debt, helping to buoy increased consumer spending. Indeed, revolving credit has soared 14.9% over the past 12 months.

Meanwhile, nonrevolving credit, which includes auto and student loans, increased 3.9% in November, easing from 6.5% in October. On a year-over-year basis, nonrevolving credit has risen 5.8%. Overall, U.S. consumer credit outstanding has increased 7.9% over the past 12 months, a robust pace.

- **Consumer Price Index**: Consumer prices edged down 0.1% in December, declining for the first time since May 2020. Energy costs decreased 4.5% in December, helping to pull back the headline index, even as food prices rose 0.3%. Over the past 12 months, food and energy costs have increased 10.4% and 7.3%, respectively.

Excluding food and energy, core consumer prices rose 0.3% in December. Prices for shelter (up 0.8%), apparel (up 0.5%), household furnishings and supplies (up 0.2%), transportation services (up 0.2%) and medical care commodities and services (both up 0.1%) increased for the month. In contrast, prices for used cars and trucks (down 2.5%) and new vehicles (down 0.1%) declined.

The Consumer Price Index has risen 6.5% over the past 12 months, down from 7.1% in November and the slowest rate since October 2021, albeit at a still elevated pace. At the same time, core inflation (which excludes food and energy) increased 5.7% year-over-year in December, down from 6.0% in November and the weakest reading in 12 months.

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. For its part, the Federal Open Market Committee is likely to continue increasing the federal funds rate at the conclusion of its Jan. 31 – Feb. 1 meeting, but that increase is more likely to be 25 basis points than the previous thinking, which was for a 50-basis-point hike.

- **NFIB Small Business Survey**: The Small Business Optimism Index declined from 91.9 in November to 89.8 in December, a six-month low. The headline index averaged 92.4 in 2022, down from 99.6 and 98.8 in 2020 and 2021, respectively. Small business owners continued to be anxious about the economic outlook, with ongoing inflation and workforce issues. The net percentage of respondents saying general business conditions would be better six months from now fell from -43% in November to -51% in December, with just 5% suggesting that the next three months were a “good time to expand.”

Respondents cited inflation as the top “single most important problem,” followed by difficulties in obtaining enough qualified labor. With that said, pricing pressures—while elevated—have moderated somewhat. The net percentage of respondents reporting higher prices today than three months ago declined from 51% in November to 43% in December. At the same time, the net percentage planning a price increase over the next three months fell from 34% to 24%, a two-year low.

The labor market remained solid overall. The percentage of respondents suggesting they had job openings they were unable to fill declined from 44% to 41%. In addition, the percentage of respondents citing few or no qualified applicants for job openings slipped from 54% to 51%. Yet, the net percentage of respondents planning to increase hiring over the next three months edged down from 18% to 17%, the lowest since January 2021.

Meanwhile, the percentage of respondents suggesting they made a capital expenditure in the past six months was unchanged at 55%, and the net percentage saying they planned to make a capital expenditure in the next three to six months inched down from 24% to 23%.

- **University of Michigan Consumer Sentiment (Preliminary)**: The Index of Consumer Sentiment rose from 59.7 in December to 64.6 in January, a nine-month high, according to preliminary data from the University of Michigan and Thomson Reuters. Assessments of current conditions improved strongly, buoyed by labor market strength and slowing inflation data. Expectations of future conditions were also better in January. Overall, while Americans remain uncertain about geopolitical events,

the economy and inflation, it is encouraging to see consumer confidence trend in the right direction, even as sentiment remains lower than preferred.

- **[Weekly Initial Unemployment Claims](#)**: The week ending Jan. 7 saw 205,000 initial unemployment claims, edging down from 206,000 for the week ending Dec. 31, a 15-week low. In addition, the week ending Dec. 31 saw 1,634,000 continuing claims, down from 1,697,000 for the week ending Dec. 24 and pulling back for the second straight week. Overall, the labor market remained a bright spot in the economy, as illustrated by strength in these data.

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