

# Economic Landscape

November 2017

## MANUFACTURING

- Manufacturing growth moderated in October as the ISM manufacturing index slipped by 2.1 percentage points to 58.7%. New orders, production, and employment all grew at a slower pace in October, but all remain at levels near the cycle high. The ISM Prices Index declined by 3 percentage points to 68.5% suggesting that a significant number of respondents reported paying higher prices.
- Industrial production advanced by 0.9% in October following a 0.4% gain in September. Mining production declined by 1.3% due to some temporary effects from Hurricane Nate, while utilities output increased by 2.0% for the month as services were restored after Hurricanes Harvey and Irma. Factory output rose 1.3% for October with production rising for both durables (+0.4%) and nondurables (+2.3%). The capacity utilization rate increased by 0.6 percentage points to 77.0% in October, a level 2.9 percentage points below the 1972-2016 average.

## LABOR MARKETS

- The U.S. economy added 261,000 jobs in October as payrolls bounced back from storm-related interruptions. Notably, employment in food services and drinking establishments surged (+88,500) after falling by 98,000 jobs in September due to the hurricanes. Job gains also registered in professional and business services (+50,000); manufacturing (+24,000); health care (+21,500); and construction (+11,000). Average hourly earnings were nearly flat (-\$0.01) in October, and over the past 12 months have increased by 2.4%. The official unemployment rate edged down to 4.1%, while the labor force participation rate decreased by 0.4 percentage points to 62.7%.
- Demand for qualified workers remained firm in September, with job opening little changed (+3,000) at 6.09 million; the number of hires in September declined slightly (-147,000) to 5.27 million. Total separations declined slightly (-33,000), but within separations the number of quits rose (+89,000) to 3.18 million pushing the quits rate to 2.2%.

## SALES

- Sales for U.S. retailers rose 0.2% in October following a 1.9% gain in the prior month. Sales at motor vehicle and parts dealers increased by 0.7%, leaving sales ex-auto up by 0.1% for the month. There were solid gains in sales at furniture & home furnishings stores (+0.7%); electronics & appliance stores (+0.7%); clothing & accessories stores (+0.8%); health & personal care stores (+0.8%); sporting goods, hobby, book, & music stores (+1.5%); and food & drink establishments (+0.8%). Sales declined for the month at gas stations (-1.2%); home improvement stores (-1.2%); and nonstore retailers (-0.3%). Year over year, headline retail sales increased 4.6%.

## PRICES

- Wholesale prices rose more than expected as the Producer Price Index increased 0.4% in October. The index for final demand services rose 0.5% in October driven primarily by the 1.1% gain in margins. Prices for final demand goods increased by 0.3% reflecting higher wholesale prices for foods (+0.5%) and core goods (+0.3%). Wholesale energy prices were flat following two straight months of gains. PPI for final demand rose 2.8% over the past 12 months.
- The headline Consumer Price Index increased 0.1% in October after gaining 0.4% and 0.5% in August and September, respectively. The consumer food index was flat in October; consumer energy prices fell 1.0% for the month as declines in gasoline (-2.4%) more than offset gains in electricity (+0.5%) and natural gas (+0.3%) prices. Excluding food and energy, core consumer prices rose 0.2% in October on firmer prices for shelter (+0.3%), medical care (+0.3%), and used cars and trucks (+0.7%). Since October 2016, CPI is up by 2.0% and core CPI has increased 1.8%.
- The index of U.S. import prices increased 0.2% in October following a 0.8% rise in September. Fuel imports advanced 1.4% for the month as rising petroleum prices (+1.7%) outweighed falling natural gas prices (-6.7%). Prices for nonfuel imports increased by 0.2% in October driven by rising prices for industrial supplies and materials (+0.9%).

## MEET THE NEW BOSS, SAME AS THE OLD BOSS

*President Trump has nominated Federal Reserve governor Jerome "Jay" Powell to chair the Fed when Janet Yellen's term ends in February. While there could be some posturing during the Senate confirmation hearings, Powell is expected to get solid bipartisan support. He is considered more of an expert on regulatory policy rather than monetary policy. We believe he will remain very consistent with the path laid out by Yellen, and rate hikes next year should proceed in a cautious, measured trajectory.*

Information and opinions expressed herein are of a general nature and should not be construed as investment or economic advice. Relevant information was obtained from sources deemed to be reliable, but First Commonwealth does not guarantee it to be accurate. Opinions and forecasts are subject to change without notice. First Commonwealth does not assume any liability for any loss that may result from a person acting on this information.

