Economic Landscape

September 2017

MANUFACTURING

- According to the survey data from the Institute for Supply Management, August manufacturing activity rose to its fastest pace since April 2011. The August PMI registered 58.8%, up from 56.3% in July. Production, employment, and inventories accelerated; new orders remained strong at 60.3% but slightly slower than July. The ISM Prices Index recorded 62.0% in August, which matched the pace of rising prices for the prior month.
- Industrial production declined by 0.9% in August following a 0.4% gain in July. Mining output fell 0.8% reflecting broad-based declines within the industry group. Utilities production dropped 5.5% as milder temperatures reduced air conditioning usage and demand was impacted due to hurricane damage. Factory output decreased 0.3% as stronger durables production was more than offset by declines in nondurables, publishing, and logging. The Fed estimates that Hurricane Harvey, which struck the Texas Gulf Coast region in late August, accounts for a decline of ~0.75 percentage points in total output. The capacity utilization rate fell 0.8% in August to 76.1%.

LABOR MARKETS

- The U.S. economy added 156,000 jobs in August – below consensus - and net revision to the previous two months account for 41,000 fewer jobs than previously reported. The Bureau of Labor Statistics reports that Hurricane Harvey had no discernable effect on the August data. Notable job gains registered in manufacturing (+36,000); construction (+28,000); professional and business services (+40,000); health care (+20,200); financial activities (+10,000); and mining (+6,500). Government payrolls declined by 9,000 jobs in August. The official unemployment rate was little changed at 4.4%, and the labor force participation rate remained steady at 62.9%. Average hourly earnings rose $0.03 in August, and have increased by $0.65, or 2.5%, since August 2016.
- Job openings increased modestly in July, up 54,000 to 6.17 million based on data in the July Job Openings and Labor Turnover Survey. The number of hires advanced slightly (+69,000) to 5.50 million, while total separations rose to 5.33 million (+23,000). The mix improved within separations as the number of quits rose by 34,000 to 3.16 million and the quits rate ticked up to 2.2%.

SALES

- Sales at U.S. retailers fell 0.2% in August, and July sales were revised down to a gain of 0.3% - half of what had been previously estimated. In August, auto sector sales dropped 1.6%, leaving sales ex-auto up 0.2%. Sales also declined at electronics & appliance stores (-0.7%); home improvement stores (-0.5%); clothing stores (-1.0%); department stores (-0.1%); and nonstore retailers (-1.1%). Gas station sales increased 2.5% in August, and sales also rose at home furnishings stores (+0.4%); grocery stores (+0.3%); and food & drink establishments (+0.3%). Over the past 12 months, headline retail sales have gained 3.2%.

PRICES

- Producer prices firmed ahead of Harvey, as the Producer Price Index for final demand increased0.2% in August. Prices for final demand goods rose 0.5%, driven by a 3.3% surge in energy prices. Final demand services prices ticked up by 0.1%. Earlier stages of production were mixed, with intermediate demand goods up 0.4% in price and the index for unprocessed goods 0.7% lower. Year over year, headline PPI advanced 2.6%.
- The Consumer Price Index rose 0.4% in August, slightly ahead of expectations. The energy index increased 2.8% as the 6.3% rise in gasoline prices outweighed the 0.5% decline in prices for natural gas; electricity was unchanged. Consumer food prices edged 0.1% higher in August. Excluding food and energy, core CPI advanced 0.2% for the month. Since August 2016, CPI increased 1.9% and core CPI rose 1.7%.
- After falling for three consecutive months, U.S. import prices rose 0.6% in August. Fuel import prices increased 4.2% with the 4.8% jump in petroleum prices overshadowing the 5.7% decrease in imported natural gas prices. Nonfuel import prices rose 0.3% driven by higher prices for industrial supplies & materials as well as foods, feeds, & beverages. U.S. export prices also rose 0.6% in August as agricultural prices ticked up by 0.1% and nonagricultural prices gained 0.7%.

TIME TO UNWIND

Unsurprisingly, the Fed made no change to rates in September, and their dot plot suggests that a December hike could still be on the table. What is certain is that beginning in October the Fed will begin reducing its balance sheet by initially allowing $6 billion in maturing Treasuries and $4 billion in mortgage-backed securities to run off for the first three months, with quarterly increases to the roll off amounts planned out for the next several years.

First Commonwealth Advisors