

# Economic Landscape

August 2021

## MANUFACTURING

- The manufacturing economy expanded for the 14<sup>th</sup> consecutive month as the ISM PMI registered 59.5% for July. New orders and new export orders remained strong, inventory levels stayed low, and backlogs got more backlogged. Employment improved from the previous month, and while input prices continue to rise, the pace was less blistering in July compared to June.
- Led by strong gains in the manufacturing sector, industrial production increased 0.9% in July following a 0.2% rise for June. Factory output rose 1.4% with roughly half the increase attributable to the 11.2% jump in motor vehicle and parts assemblies. Mining production gained 1.2% in July, while utilities output declined 2.1%. The capacity utilization rate advanced by 0.7 percentage points to 76.1%, which is 3.5 percentage points below the 1972-2020 average.

## LABOR MARKETS

- July nonfarm payrolls increased by 943,000 led by gains in leisure & hospitality (+380,000); local government education (+221,000); professional & business services (+60,000); transportation & warehousing (+50,000); private education (+40,000); other services (+39,000); health care (+37,000); and manufacturing (+27,000). Payroll employment figures were revised higher for May and June resulting in a combined 119,000 more jobs than previously reported. The deficit from February 2020 - the last cyclical employment peak - is down to 5.7 million jobs. The official unemployment rate dropped by 0.5 percentage points to 5.4% while the labor force participation rate edged up 61.7%.

## PRICES

- Following a 0.9% surge in June, the Consumer Price Index increased 0.5% in July. Food prices rose 0.7% with groceries up 0.7% and restaurant prices up 0.8%. The consumer energy index climbed 1.6% in July with prices higher for gasoline (+2.4%), natural gas (+2.2%), and electricity (+0.4%). The July 0.3% increase in core consumer prices is the smallest monthly gain in four months. Within the core index, prices rose for new vehicles (+1.7%), but leveled off a bit for used cars and trucks (+0.2%) following three straight months of aggressive gains. The costs for shelter, education, communication, tobacco, and alcoholic beverages also increased in July. Headline CPI rose 5.4% over the last 12 months, and core CPI is up 4.3%.
- The Producer Price Index rose by 1.0% in July, largely attributable to the 1.1% rise in services. Service margins increased and prices for transportation and warehousing advanced. The index for goods rose 0.6% as the higher prices for energy goods and core goods more than offset the decline in food prices. Prices for U.S. imports increased 0.3% in July, the smallest monthly gain since November 2020, as fuel import prices rose 2.9% and nonfuel import prices were largely unchanged. U.S. export prices increased 1.3% as agricultural export prices dropped by 1.7% while nonagricultural export prices gained 1.6%.

## SALES

- Retail sales declined by 1.1% in July. Auto sector sales fell 3.9%, leaving sales ex autos down 0.4% for the month. Sales declined across a broad array of retail lines including furniture; building material, garden equipment, & supplies; groceries; clothing; sporting goods, hobby, musical instruments, & books; department stores; and nonstore retailers. Bar and restaurant sales increased 1.7% in July, supporting the idea that consumers are shifting demand from goods to services, and gas station sales rose 2.4%.

## HOT AND STICKY

*The economy continues to recover and grow, though some activity may plateau as rising instances of Delta variant COVID affects confidence or raises concerns about economic disruption though nothing of the magnitude we experienced last year. Consumer spending should continue to trend higher for services, as there is still an element of pent up demand. The shift in spending from goods to services may contribute to a little relief in pricing pressures, but meaningful moderation in prices won't occur until supply chains become functional again. Moreover, with labor in short supply, wage pressure should remain sticky.*

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