

Economic Landscape

December 2021

MANUFACTURING

- The ISM manufacturing index rose from 60.8% for October to 61.1% for November. Demand expanded overall with acceleration in the New Orders index and continued strength in new export orders. Supplier delivery times and prices both fell by more than three points in November and backlogs fell by 1.7 points. Labor shortages remain an issue, but the 1.3 percentage point improvement in the employment index to 53.3% suggests some modest success in November hiring.
- Industrial production grew by 0.5% in November. Utilities output fell 0.8%, and mining production gained 0.7% for the month. Factory output rose 0.7% with solid gains in production of motor vehicles and parts, aerospace and transportation equipment, textile mills, and plastic and rubber products. The capacity utilization rate rose three tenths to 76.8%.

LABOR MARKETS

- Nonfarm payrolls rose by 210,000 in November, well short of expectations. Jobs were added in professional and business services (+90,000); transportation and warehousing (+50,000); construction (+31,000); manufacturing (+31,000); leisure and hospitality (+23,000); and financial activities (+13,000). Employment figures were revised for September and October for a combined 82,000 more jobs than previously reported, though payrolls are still 3.9 million jobs short of February 2020 level. The unemployment rate fell by 0.4 to 4.2% for November, and the labor force participation rate improved to 61.8%.
- Job openings rose (+431,000) to 11.03 million in October, but hires declined slightly (-82,000) to 6.46 million and total separations fell by 255,000 to 5.89 million. Within separations, the number of quits decreased by 205,000 to 4.16 million and the quits rate registered 2.8% suggesting that worker retention remains a challenge.

PRICES

- After rising 0.9% in October, the Consumer Price Index climbed 0.8% in November. Energy prices increased by 3.5% reflecting increases in gasoline, fuel oil, natural gas, and electricity. The food index rose 0.7% with grocery prices up 0.8% and restaurant prices up 0.6%. Excluding food and energy, core CPI rose 0.5% in November as prices advanced for shelter, used cars and trucks, new vehicles, household furnishings, apparel, and airfares. Year over year, headline CPI increased 6.8% - the biggest 12-month gain since June 1982; core CPI rose 4.9%.
- Producer prices increased 0.8% in November, as service prices gained 0.7% while goods prices rose 1.2%. Prices for U.S. imports increased 0.7% led by a 2.0% rise in fuel import prices. Nonfuel import prices gained 0.5% with increase for industrial supplies, capital goods, consumer goods, and auto imports. Export prices increased 1.0% with gains in both agricultural (+0.8%) and nonagricultural (+1.0%) exports.

SALES

- Following a strong gain of 1.8% in October, retail sales rose a somewhat disappointing 0.3% for November. Auto sector sales edged 0.1% lower, and sales also declined at electronics & appliance stores (-4.6%); health & personal care stores (-0.6%); and department stores (-5.4%). Sales were higher at home improvement stores (+0.7%); grocery stores (+0.9%); gas stations (+1.7%); clothing stores (+0.5%); sporting goods, hobby, music, & book stores (+1.3%); and bars & restaurants (+1.0%). Retail sales are up 18.2% from November 2020.

POLICY PIVOT

Shifting to a somewhat more hawkish tone, Fed officials decided in December to double their pace of tapering monthly purchases of Treasury and mortgage-backed securities, putting them on a course to conclude the program by the end of March 2022. The Fed also provided the latest Summary of Economic Projections indicate expectations for hotter inflation, steadily improving labor markets, and above trend GDP growth. They also suggest that the Fed may start raising the target federal funds rate as soon as March, with another one or two hikes quite possible before the end of 2022.

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