

Economic Landscape

January 2024

MANUFACTURING

- Marking the 14th consecutive month of contraction, the ISM manufacturing index recorded 47.4% in December, a slight improvement over the 46.7% of the prior month. New orders, employment, delivery times, and backlogs all reflected the sector weakness; however, production accelerated in December while prices fell more quickly.
- Industrial production edged 0.1% higher in December following a flat November. Mining output advanced 0.9% for the month, offset largely by a 1.0% drop in utilities production amidst the mild December weather. Factory output ticked up by 0.1% led by a 1.6% increase in motor vehicle and parts production.

LABOR MARKETS

- December payrolls rose by 216,000 compared to consensus expectations of 160,000, however revisions to October and November accounted for 71,000 fewer jobs than previously reported. Employment rose in government, health care, social assistance, and construction. Wage growth was a little stronger than expected, rising 0.4% for the month and 4.1% year over year. The official unemployment rate held steady at 3.7% to end the year.
- The number of job openings rose slightly (+101,000) to 9.0 million in December and hires remained steady at 5.6 million. Total separations were essentially unchanged at 5.4 million, though within separations the number of quits fell (-132,000) to 3.4 million while layoffs and discharges increased (+85,000) to 1.6 million. The quits rate remained 2.2% from November to December.

PRICES

- The headline Consumer Price Index (CPI) came in a little hotter than expected in December, up 0.3%. Food prices rose 0.2% as grocery prices advanced by 0.1% in December while prices to dine out increased by 0.3%. Energy prices gained 0.4% for the month reflecting higher monthly prices for electricity (+1.3%) and gasoline (+0.2%). The report does note that prior to seasonal adjustment, gasoline prices fell by 5.8% in December. Excluding food and energy, core CPI rose 0.3% in line with the consensus forecast. Shelter continues to be the largest contributor to monthly gains, rising 0.5% in December; prices were also higher for new vehicles (+0.3%), used cars and trucks (+0.5%), vehicle insurance (+1.5%), and medical care (+0.6%). Over the course of 2023, the CPI rose 3.4% and core CPI increased 3.9%.

SALES

- Consumer spending ramped up in December as retail sales rose by an estimated 0.6%. Auto sector sales advanced by 1.1%, leaving sales ex-auto with a 0.4% gain. The holiday spirit was evident in higher sales at department stores (+3.0%); clothing stores (+1.5%); sporting goods, hobby, musical instrument, and book stores (+0.3%); home improvement stores (+0.4%); grocery stores (+0.2%); and online retailers (+1.5%). Sales declined at gas stations (-1.3%); furniture and home furnishings stores (-1.0%); electronics and appliance stores (-0.3%); and health and personal care stores (-1.3%). Sales at bars and restaurants were flat in December, but it's worth noting that they are up by 11.1% year over year.

NO RUSH

The first look at fourth quarter GDP exceeded expectations at 3.3% SAAR reflecting a healthy balance of consumer spending, business investment, government spending, as well as a surprisingly positive kick from real net exports. Inflationary pressures continue to unwind bringing the Fed's preferred measure –core PCE deflator –closer to the Fed's target. Yet given the economic resilience and momentum carried into 2024, Fed officials will likely see no need to rush the start of an easing cycle and current market expectations for the first cut have been pushed into the spring.

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