Nationwide Economics
Weekly Economic Review & Outlook
October 10, 2022

Continued momentum for the labor market

September saw further solid job gains with the unemployment rate returning to its lowest level in over 50 years. Additionally, the ISM surveys showed further modest expansion, but the manufacturing survey dropped to its lowest level since June 2020 and is trending towards contraction territory.

Above-trend job gains and a fall in the unemployment rate
Nonfarm payrolls grew by 263,000 in September, in line with expectations. While still above the 10-year median for monthly gains, September's increase was the slowest since December 2020 as hiring gradually moderates this year. Strong gains were seen in leisure and hospitality and health care on the services side, as well as in manufacturing on the goods side.

The unemployment rate fell by 0.2 percentage points to once again match its lowest level in over 50 years at 3.5 percent — aided by a small decline in the labor force participation rate. This highlights the persistent imbalance between labor demand and labor supply in the jobs market. Labor demand has retreated on the margins but is still very strong with job openings well above the long-term average. The civilian labor force, on the other hand, only recently surpassed its pre-pandemic peak as many individuals remain on the sidelines despite a favorable market for workers.

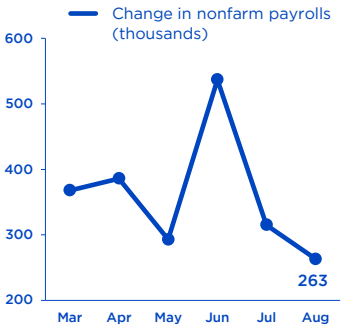
It's unlikely that we see a pivot from the Fed's aggressive stance during its early November meeting after this positive employment update. The focus continues to be on tamping down inflation, especially with little sign that the sharp Fed tightening so far has slowed the labor market.

Manufacturing growth weakens while services sector shows resilience
The ISM manufacturing index fell to a 28-month low in September at 50.9 (readings above 50 indicate expansion). The biggest declines came from the new orders and employment components, both of which fell into contraction. Survey responses for employment still indicate a relatively tight labor market with high turnover related to backfill and retirement issues. But the hiring market is loosening a bit as an increasing number of firms are instituting hiring freezes under the assumption that turnover will reduce the workforce over time. This jibes with the latest job openings data, which fell by 1.0 million to 10.1 million in August. While still elevated, total openings are significantly lower than recent readings and suggest that the tightness of the labor market is easing. It's worth noting that this runs counter to the strong manufacturing job growth during September and could represent some downside for payrolls in coming months.

The ISM services index dropped slightly in September, beating expectations of a more significant decline. Growth in business activity and new orders both slowed but should still be considered strong, while growth in employment picked up. Amid other signs of slowing economic growth, the ISM services index has remained resilient and, although lower than the record high from November, is still above its long-run average.

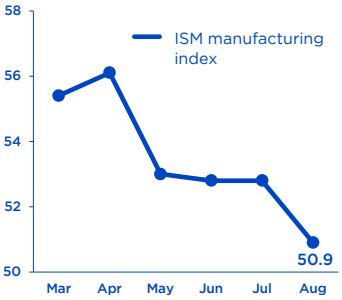
Price growth for services remains rapid but slowed for a fifth consecutive month as supply conditions improve. Input costs for manufacturers are now only modestly above the expansion/contraction line and are below the long-run average. Fading price pressures for both sectors can also be seen in fewer supplier delays; the supplier deliveries indexes for manufacturing and services fell to the lowest levels since before the pandemic. Anecdotally, however, respondents to both surveys noted continued supply chain disruptions across most industries.

Strong but slower growth in payrolls



Nonfarm payroll growth in September was above median growth of the last 10 years, but, nonetheless, continued the downward trend this year.

Manufacturing closing in on contraction territory



The ISM manufacturing index fell to its lowest level in over two years and was just above the expansion/contraction line in September.

Sources:
Bureau of Labor Statistics; Institute for Supply Management

Contributors: Daniel Vielhaber, Economist | Scott Murray, Financial Markets Economist

The Week Ahead

Here's what we are watching this week:

Producer Price Index — Oct 12

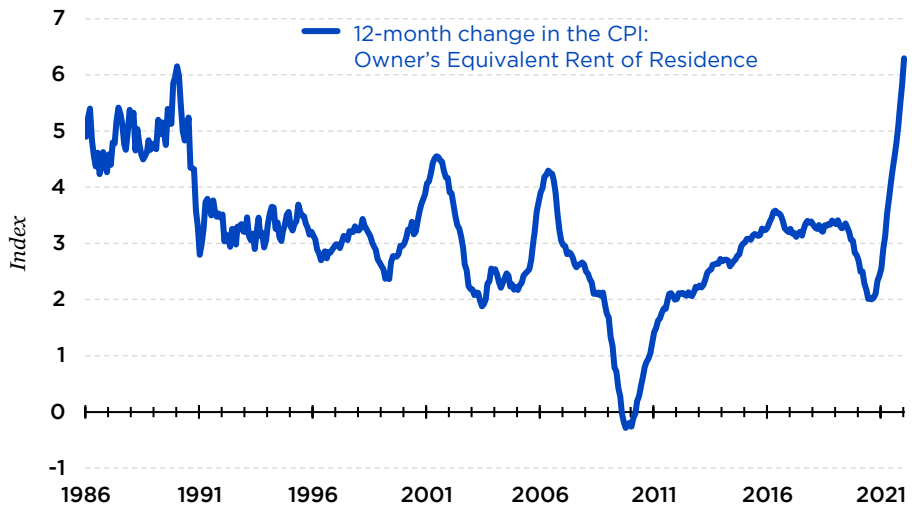
Producer costs should continue to drop

Producer costs are expected to fall for the third consecutive month in September as supply conditions continue to heal. Manufacturers are benefiting from stable raw material prices, allowing them to take a break from higher prices. Still, non-energy costs refuse to go down. The annual change in the PPI remains in the high single-digits, keeping businesses from using lower prices to gain market share.

Consumer Price Index — Oct 13

CPI projected to show inflation is on a slow retreat

Consumer prices are forecasted to show another more modest increase in September. For the third quarter, prices are expected to have risen less than one percent, a stark contrast to the almost two-and-a-half percent gain in each of the previous three quarters. However, the better news is offset by the rapid increase in year-over-year housing costs, a portion of inflation that tends to be stickier in nature.



Sources: Source: Bureau of Labor Statistics

Retail Sales — Oct 14

Retail sales should show that consumers are still buying

Spending at retailers likely rose again in September but, as has been the case in recent months, much of the increase will be driven by higher prices. Still, third-quarter retail sales are expected to outpace the previous quarter. The auto market remains constrained by limited new car production. New vehicle sales are 80 percent of normal, lifting the used car market and holding back purchases on big-ticket new cars, which would have raised consumption further.

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Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
S&P Global US Manufacturing PMI	September	52.0	51.8
Construction Spending MoM	August	-0.7%	-0.4%
ISM Manufacturing	September	50.9	52.8
Wards Total Vehicle Sales	September	13.5	13.2
Factory Orders	August	0.0%	-1.0%
JOLTS Job Openings	August	10,053 k	11,170 k
ADP Employment Change	September	208,000	185,000
Trade Balance	August	-67.4 b	-70.5 b
S&P Global US Services PMI	September	49.3	49.2
ISM Services Index	September	56.7	56.9
Challenger Job Cuts YoY	September	67.6	30.3
Initial Jobless Claims	Week ending October 1	219,000	190,000
Continuing Claims	Week ending September 24	1,361 k	1,346 k
Change in Nonfarm Payrolls	September	263,000	315,000
Unemployment Rate	September	3.5%	3.7%
Average Hourly Earnings MoM	September	0.3%	0.3%
Average Hourly Earnings YoY	September	5.0%	5.2%
Average Weekly Hours All Employees	September	34.5	34.5
Consumer Credit	August	$34.5 b	$23.8 b

This Week's Indicators

	Release Date	Period	Forecast*	Previous
NFIB Small Business Optimism	Tuesday	September	93.5	91.8
PPI	Wednesday	September	-0.2%	-0.1%
Core PPI	Wednesday	September	0.2%	0.4%
CPI (m/m)	Thursday	September	0.3%	0.1%
CPI (y/y)	Thursday	September	8.2%	8.3%
Core CPI (m/m)	Thursday	September	0.4%	0.6%
Core CPI (y/y)	Thursday	September	6.4%	6.3%
Initial Jobless Claims	Thursday	Week ending October 1	230 k	219 k
Continuing Jobless Claims	Thursday	Week ending October 8	1,402 k	1,361 k
Retail Sales	Friday	September	0.4%	0.3%
Retail Sales excluding autos	Friday	September	0.1%	-0.3%
Import prices	Friday	September	-1.3%	-1.0%
Consumer sentiment	Friday	October	60.5	58.6

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