

Economic Update, August 12, 2022

Submitted by Bob Moreo

Summary: This week brought news that inflation may finally be slowing down. Overall, the Consumer Price Index was flat in July after increases of 1.0 and 1.3 percent in May and June, as falling gas prices offset continued increases for food and electricity. Producers also saw lower prices in July—the first month since April 2020 that the producer price index for final demand goods decreased, [CNBC's Jeff Cox reports](#). Prices for intermediate goods used in production fell too; as one economist explained, “Cooling prices paid by producers portend a further cooling for consumer prices.”

However, sentiment about current economic conditions remains low among consumers, investors, and small business owners alike, although expectations for the next six to twelve months showed signs of improving. Data released this week appears to be sending mixed signals about the labor market. Fewer workers believe they'll lose their job in the next 12 months, but fewer also believe they would find another job if they did lose theirs. Online job postings increased in July, according to The Conference Board, but the overall employment trends index ticked down, indicating fewer job gains in the coming months. Unemployment claims increased last week and have been trending higher since April.

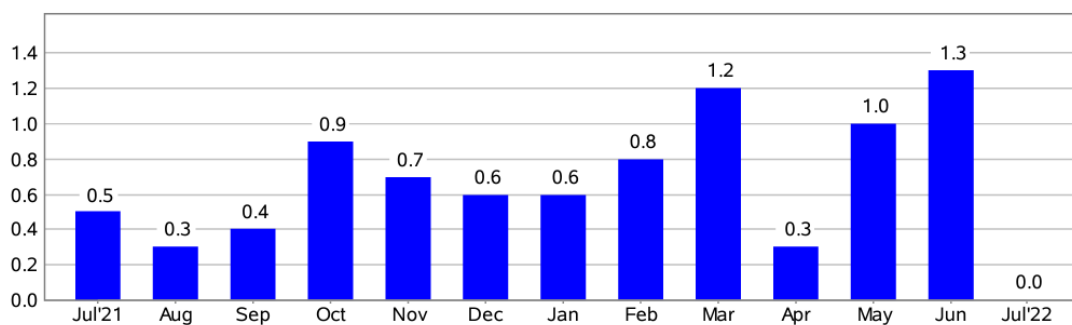
Federal Government Indicators and Reports:

Bureau of Labor Statistics

Tuesday, [Productivity and Costs](#): “Nonfarm business sector labor productivity decreased 4.6 percent in the second quarter of 2022. . . . Output decreased 2.1 percent and hours worked increased 2.6 percent. From the same quarter a year ago, nonfarm business sector labor productivity decreased 2.5 percent . . . Unit labor costs in the nonfarm business sector increased 10.8 percent in the second quarter of 2022, reflecting a 5.7-percent increase in hourly compensation and a 4.6-percent decrease in productivity. Unit labor costs increased 9.5 percent over the last four quarters. Manufacturing sector labor productivity increased 5.5 percent in the second quarter of 2022. . . . Manufacturing sector output is now 3.6 percent above its level in the fourth quarter of 2019, the last quarter not affected by the COVID-19 pandemic.”

Wednesday, [Consumer Price Index](#): “The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in July on a seasonally adjusted basis after rising 1.3 percent in June. . . . Over the last 12 months, the all items index increased 8.5 percent before seasonal adjustment. . . . The food index continued to rise, increasing 1.1 percent over the month. . . . The index for all items less food and energy rose 0.3 percent in July, a smaller increase than in April, May, or June.”

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, July 2021 - July 2022
Percent change



Wednesday, [Real Earnings](#): “Real average hourly earnings for all employees increased 0.5 percent from June to July. . . . [but] decreased 3.0 percent, seasonally adjusted, from July 2021 to July 2022.”

Thursday, [Producer Price Indexes](#): “The Producer Price Index for final demand fell 0.5 percent in July . . . [following] advances of 1.0 percent in June and 0.8 percent in May. On an unadjusted basis, final demand prices moved up 9.8 percent for the 12 months ended in July. . . . Eighty percent of the July decline in the index for final demand goods is attributable to gasoline prices, which fell 16.7 percent.

“The index for processed goods for intermediate demand fell 2.3 percent in July. . . . The indexes for processed materials less foods and energy and for processed foods and feeds also moved lower, 0.2 percent and 0.1 percent, respectively. . . . Prices for unprocessed goods for intermediate demand fell 12.4 percent. . . . Prices for unprocessed nonfood materials less energy and for unprocessed foodstuffs and feedstuffs also declined, 6.9 percent and 0.8 percent, respectively. . . . The index for services for intermediate demand edged up 0.1 percent in July after a 0.3-percent decline in June. Leading the increase, prices for transportation and warehousing services for intermediate demand rose 0.9 percent.”

Bureau of Transportation Statistics

Wednesday, [Freight Transportation Services Index](#): “The Freight Transportation Services Index . . . rose 1.7 percent to an all-time high in June from May, rising for the second consecutive month. . . . From June 2021 to June 2022 the index rose 4.6 percent.”

Census Bureau

Wednesday, [Monthly Wholesale Trade](#): “June 2022 sales . . . were \$709.6 billion, up 1.8 percent from the revised May level and were up 20.4 percent from the revised June 2021 level. . . . Total inventories . . . were \$895.4 billion at the end of June, up 1.8 percent from the revised May level. Total inventories were up 25.5 percent from the revised June 2021 level. . . . The June inventories/sales ratio for merchant wholesalers . . . was 1.26.”

Thursday, [Business Formation Statistics](#): “Business Applications for July 2022, adjusted for seasonal variation, were 425,698, an increase of 3.7 percent compared to June 2022. . . . Projected Business Formations . . . [saw] an increase of 3.1 percent.”

Department of Labor

Thursday, [Unemployment Insurance Weekly Claims](#): “In the week ending August 6, the advance figure for seasonally adjusted initial claims was 262,000, an increase of 14,000 from the previous week's revised level. The previous week's level was revised down by 12,000 from 260,000 to 248,000. The 4-week moving average was 252,000.”

Economic Indicators and Confidence:

Federal Reserve Bank of New York

Monday, [Survey of Consumer Expectations](#): “Median one- and three-year-ahead inflation expectations both declined sharply in July, to 6.2 percent and 3.2 percent from 6.8 percent and 3.6 percent in June respectively. . . . The median expected change in home prices one year from now dropped sharply to 3.5 percent from 4.4 percent, its third consecutive decrease and its lowest reading of the series since November 2020. . . . The mean perceived probability of losing one's job in the next 12 months declined slightly to 11.8 percent from 11.9 percent, remaining well below its pre-pandemic reading of 13.8 percent in February 2020. . . . The median expected growth in household income increased by 0.2 percentage point in July to 3.4 percent, a new series high. . . . Perceptions about

households' current financial situations compared to a year ago improved slightly in July, with slightly fewer respondents reporting being financially worse off than they were a year ago. Respondents were also more optimistic about their household's financial situation in the year ahead, with fewer respondents expecting their financial situation to deteriorate a year from now.”

Investor’s Business Daily

Tuesday, [Economic Optimism Index](#): 62 percent of Americans “think the U.S. economy is in a recession, up from 58 percent a month ago, 53 percent in June and 48 percent in May. . . . Meanwhile, the IBD/TIPP Economic Optimism Index . . . slipped fourth-tenths of a point to 38.1, matching June's reading for the lowest since August 2011. . . . The six-month outlook for the U.S. economy edged up four-tenths of a point to 32.6.”

S&P Global

Tuesday, [Global Investment Manager Index](#): “U.S. equity investors remain risk averse in August due to market headwinds from the increasingly gloomy global macroeconomic outlook, geopolitical tensions with China and the Russia-Ukraine war, as well as high inflation and the subsequent trajectory of policy tightening by the Federal Reserve. The degree of negative sentiment eased from July, however, as the prospect of stronger shareholder returns are encouraging some investors to take more risks. . . . The Risk Appetite Index . . . rose from -16 percent in July to -13 percent in August, its second-highest since February.”

University of Michigan

Friday, [Index of Consumer Sentiment \(preliminary\)](#): “Consumer sentiment moved up very slightly this month to about 5 index points above the all-time low reached in June. . . . The year-ahead economic outlook rose substantially to just above its average reading from the second quarter 2022, while the two other expectations index components remain at or below their second quarter averages. At the same time, high income consumers, who generate a disproportionate share of spending, registered large declines in both their current personal finances as well as buying conditions for durables.”

Preliminary Results for August 2022

	Aug 2022	Jul 2022	Aug 2021	M-M Change	Y-Y Change
Index of Consumer Sentiment	55.1	51.5	70.3	+7.0%	-21.6%
Current Economic Conditions	55.5	58.1	78.5	-4.5%	-29.3%
Index of Consumer Expectations	54.9	47.3	65.1	+16.1%	-15.7%

Employment and Businesses:

The Conference Board

Monday, [Employment Trends Index](#): The index “decreased in July 2022 to 117.63—down from a downwardly revised 118.71 in June.” Frank Steemers, senior economist at The Conference Board, said, “While the U.S. labor market is currently still robust, the recent behavior of the Index signals that slower job gains should be expected over the next several months. This would bring the labor market in line with the rest of the economy, where economic activity has already been slowing.”

Wednesday, [Help Wanted Online Index](#): The index “increased in July and now stands at 167.0, up from 162.4 in June. The 2.8 percent increase between June and July follows a 5.4 percent decrease between May and June. Overall, the Index is up 2.0 percent from a year ago.

National Federation of Independent Business

Tuesday, [Small Business Optimism Index](#): “NFIB’s Small Business Optimism Index rose 0.4 points in July to 89.9. . . . Thirty-seven percent of small business owners reported that inflation was their single most important problem in operating their business, an increase of three points from June. . . . Owners expecting better business conditions over the next six months increased nine points from June’s record low level to a net-negative 52 percent.”

Mortgages and Housing Markets:

Fannie Mae

Monday, [Home Purchase Sentiment Index](#): The index “decreased 2.0 points in July to 62.8, its lowest level since 2011 and well below the all-time high set in 2019. Surveyed consumers continue to express pessimism about homebuying conditions, with only 17 percent of respondents reporting it’s a good time to buy a home. Meanwhile, the percentage of consumers believing it’s a good time to sell has begun ticking downward in recent months, falling from 76 percent in May to 67 percent in July.”

Freddie Mac

Thursday, [Primary Mortgage Market Survey](#): The rate for a 30-year fixed-rate mortgage “averaged 5.22 percent with an average 0.7 point as of August 11, 2022, up from last week when it averaged 4.99 percent. A year ago at this time, the 30-year FRM averaged 2.87 percent.”

Mortgage Bankers Association

Wednesday, [Weekly Mortgage Applications Survey](#): “Mortgage applications increased 0.2 percent from one week earlier, according to data . . . for the week ending August 5, 2022. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances (\$647,200 or less) increased to 5.47 percent from 5.43 percent.”

National Association of Home Builders

Thursday, [Housing Opportunity Index](#): “Rising mortgage rates, high inflation, low existing inventory and elevated home prices contributed to housing affordability falling to its lowest point since the Great Recession in the second quarter of 2022. . . . Just 42.8 percent of new and existing homes sold between the beginning of April and end of June were affordable to families earning the U.S. median income of \$90,000. This is a sharp drop from the 56.9 percent of homes sold in the first quarter that were affordable to median-income earners.

National Association of Realtors

Thursday, [Second Quarter Metro Home Prices](#): “Eighty percent of the 185 tracked metro areas posted double-digit price gains, up from 70 percent in the first quarter of this year. . . . Nationally, the median single-family existing-home price eclipsed \$400,000 for the first time, rising 14.2 percent from one year ago to \$413,500. Year-over-year price appreciation eased slightly compared to the previous quarter's 15.4 percent.”