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MONDAY ECONOMIC REPORT

Quits in the Economy Hit All-Time Highs, with Job Openings Still Very Elevated

By Chad Moutray – October 18, 2021

The Weekly Toplines

- Manufacturing job openings pulled back from a record high but remained very elevated, down from a revised 906,000 in July to 870,000 in August. It was the fifth straight month with postings that exceeded 800,000. In addition, quits in the manufacturing sector increased from 300,000 in July to 306,000 in August, a new all-time high. Likewise, nonfarm payroll quits soared from 4,028,000 to a record 4,270,000.

- Nonfarm business job openings decreased from a record 11,098,000 in July to 10,439,000 in August. There were 8,384,000 unemployed Americans in August, which translates to 0.80 unemployed workers for every one job opening in the U.S. economy. That speaks to the tightness of the labor market, with more job openings than people looking for work.

- According to the National Federation of Independent Business, the percentage of small business respondents suggesting they had job openings they were unable to fill inched up from 50% to 51%, a new record, and the percentage of respondents saying there were few or no qualified applicants for job openings rose from 60% to a record 62%.

- Initial and continuing unemployment claims dropped to post-pandemic lows in the latest data.

- Consumer and producer prices hit new record year-over-year paces in September, but core inflation moderated slightly (at still very elevated paces) in both measures.

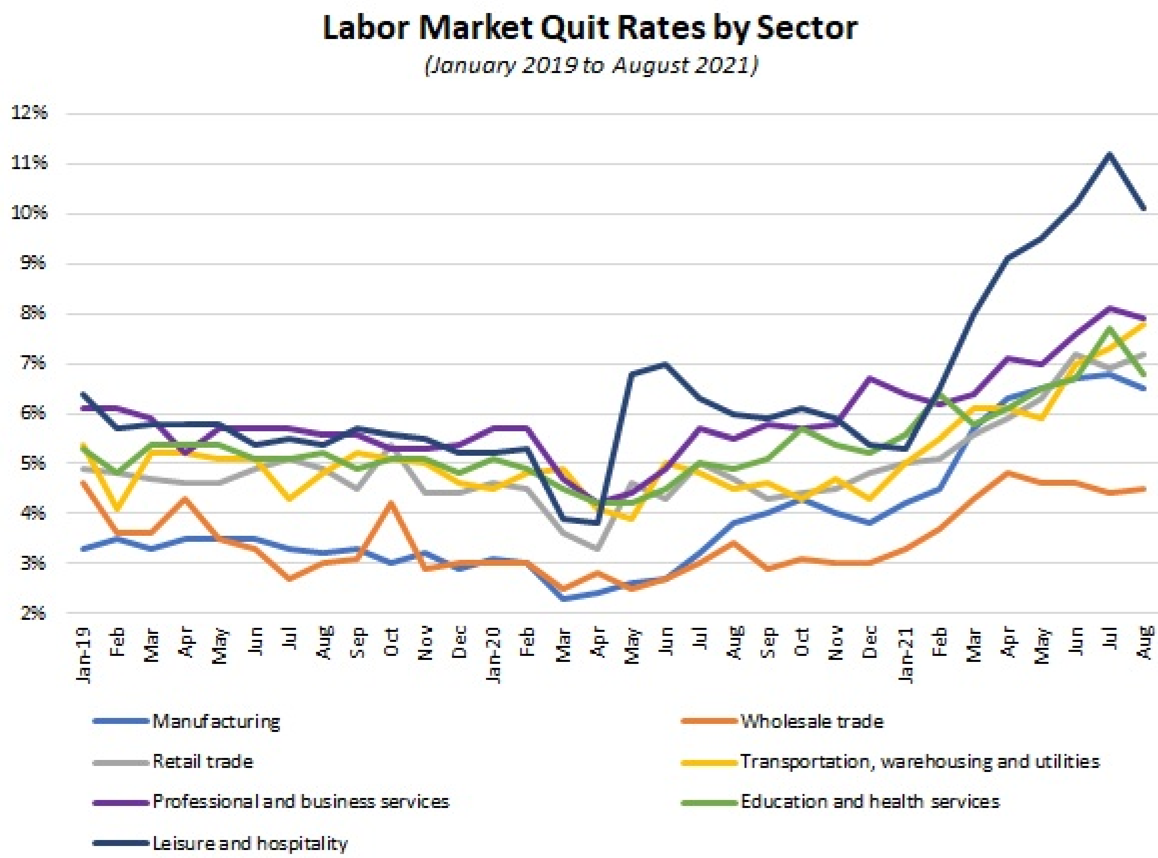
- Food and energy costs helped buoy price growth in September, but on the consumer side, some easing occurred in costs for used cars and trucks and transportation services, both of which have propped up the CPI year to date. The price of new vehicles continued to rise solidly.

- For its part, the Federal Open Market Committee will likely start the process of tapering asset purchases at its next meeting on Nov. 2–3, with the federal funds rate edging higher by the second half of 2022. Even with those moves, monetary policy will continue to be highly stimulative for the foreseeable future.

- Manufacturing activity slowed but continued to expand solidly in October, according to the Empire State Manufacturing Survey. The index for delivery times soared to a record high. Input and output costs remained near record paces, but manufacturers in the New York Fed's district remained very upbeat in their outlook.

- Retail sales rose 0.7% in September, building on the 0.9% gain in August. The underlying data were mostly higher, which was an encouraging sign that consumer spending continues to rebound. Importantly, this included motor vehicles and parts dealers and food services and drinking places, both of which have been hard-hit over the past year.

- The Index of Consumer Sentiment declined from 72.8 in September to 71.4 in October, according to preliminary data from the University of Michigan and Thomson Reuters. This remains not far from August's reading (70.3), which was the lowest since December 2011.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, October 11
COLUMBUS DAY HOLIDAY

Tuesday, October 12
Job Openings and Labor Turnover Survey
NFIB Small Business Survey

Wednesday, October 13
Consumer Price Index

This Week's Indicators:

Monday, October 18
Industrial Production
NAHB Housing Market Index

Tuesday, October 19
Housing Starts and Permits

Wednesday, October 20
None

Thursday, October 14
Producer Price Index
Weekly Initial Unemployment Claims

Friday, October 15
New York Fed Manufacturing Survey
Retail Sales
University of Michigan Consumer Sentiment

Thursday, October 21
Conference Board Leading Indicators
Existing Home Sales
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, October 22
IHS Markit Flash U.S. Manufacturing PMI
State Employment Report

Deeper Dive

- **Consumer Price Index:** Consumer prices rose 0.4% in September, which was also the average growth rate over the past three months. Food and energy costs rose 0.9% and 1.3%, respectively, in September. Excluding food and energy, core consumer prices increased 0.2% in September, up from 0.1% in August and remaining down sharply from the 0.9% growth rate in June (which, along with April's reading, was the strongest pace since April 1982). This suggests some moderation in core inflation following sharper rises in the spring and early summer.

  For instance, after very sharp increases earlier in the year, including a 10.5% gain in June, used car and truck prices have fallen 1.5% and 0.7% in August and September, respectively. Even with some easing in the latest data, used car and truck prices remain 28.5% higher today than in February. Likewise, the cost of transportation services, which was also strong earlier in the year, declined for the third straight month, down 0.5% in September but remaining up 3.8% since February. Meanwhile, the price of new vehicles rose 1.3% in September, with 8.6% growth since January, when the chip shortage in the sector started to impact production.

The consumer price index has risen 5.4% over the past 12 months, up from 5.2% in August and the fastest year-over-year pace since July 2008. At the same time, core inflation (which excludes food and energy) increased 4.0% year-over-year in September, the same rate as in August. Core inflation has decelerated from the 4.5% year-over-year growth rate in June, which was the highest since November 1991.

Overall, price pressures for consumers remain highly elevated, but there are also signs of moderation from the more robust paces earlier in the year. There continues to be volatility in the data for automobiles and transportation services, with rapid price growth year to date, largely on supply chain issues and soaring demand. Once those issues abate, consumer price growth should begin to stabilize. (A more favorable base comparison next year will also help.) At the same time, food and energy costs had solid cost increases in September, a trend that will likely continue in October, and wage growth will also keep core inflation higher than we have become accustomed to in recent years.

- **Job Openings and Labor Turnover Survey:** Manufacturing job openings pulled back from a record high but remained very elevated, down from a revised 906,000 in July to 870,000 in August. It was the fifth straight month with postings that exceeded 800,000. In August, job openings rose to an all-time high for nondurable goods firms (up from 388,000 to 393,000), but postings slipped from the previous month's record for durable goods businesses (down from 517,000 to 477,000).

  With manufacturing demand continuing to expand strongly, companies must hire more workers to increase capacity, pushing job postings to unprecedented levels. These data are consistent with confidence seen in the business outlook, as business leaders who are uncertain about future activity are less likely to want to add to their workforce. At the same time, manufacturers continue to cite difficulties with attracting and retaining workers as one of their top concerns, as do leaders from other sectors.

  In the larger economy, nonfarm business job openings decreased from a record 11,098,000 in July to 10,439,000 in August. There were 8,384,000 unemployed Americans in August, which translates to 0.80 unemployed workers for every one job opening in the U.S. economy. That speaks to the tightness of the labor market, with more job openings than people looking for work. Note that the number of unemployed Americans fell further in September, down to 7,674,000.

  In August, manufacturers hired 471,000 workers, down from 477,000 in July, led by slower hiring for nondurable goods firms. Total separations inched up from 436,000 to 437,000. Therefore, net hiring (or hiring minus separations) was 34,000 in August, averaging a solid 44,500 over the past four months.

  Finally, it is important to look at the "churn" in the labor market, as this provides an indication of economic health. For instance, workers do not switch jobs if there is nervousness in the economic outlook. Quits in the manufacturing sector increased from 300,000 in July to 306,000 in August, a new all-time high. Likewise, nonfarm payroll quits soared from 4,028,000 to a record 4,270,000.

- **New York Fed Manufacturing Survey:** Manufacturing activity slowed but continued to expand solidly, according to the Empire State Manufacturing Survey, with the composite index declining from 34.3 in September to 19.8 in October. New orders, shipments, employment and the average employee workweek softened for the month, but the index for delivery times soared to a record high. Input costs and inventories also moved higher in September, with the index for raw material costs not far from May's record growth rates. At the same time, the index for selling prices pulled back from September's record high but remained highly elevated.

Manufacturers in the region remained very upbeat about growth over the next six months, with the forward-looking composite index rising from 48.4 in September to 52.0 in October, the strongest reading since June 2020. Roughly 63% of respondents predict increased new orders and shipments moving forward, with 44.0% and 39.8% forecasting more hiring and capital spending, respectively. Respondents expect input and product prices to remain elevated and not far from recent record paces.

- **NFIB Small Business Survey:** The National Federation of Independent Business reported that the Small Business Optimism Index declined from 100.1 in August to 99.1 in September. Small business owners remain challenged by supply chain disruptions, workforce shortages, inflation and COVID-19. The net percentage expecting better business conditions six months from now has plummeted from -28 in August to -33 in September, the lowest since December 2012.

  As with other surveys, pricing pressures remain very elevated. In September, the net percentage of respondents reporting higher prices today than three months ago pulled back from a record 49% to 46%, but the net percentage planning a price increase over the next three months rose from 44% to 46%, a new all-time high.

  The labor market remained tight. The percentage of respondents suggesting they had job openings they were unable to fill inched up from 50% to 51%, a new record, and the percentage of respondents saying there were few or no qualified applicants for job openings rose from 60% to a record 62%. With that said, the percentage of respondents planning to increase hiring over the next three months eased from a record 32% to 26%, the lowest since April. Respondents once again cited difficulties in obtaining qualified labor as the top "single most important problem."

  Regarding capital spending, 53% of small firms have made an investment over the past six months, inching down from 55% in the previous survey. In addition, the percentage of respondents planning to make a capital investment over the next three to six months declined from 30% to 28%.

- **Producer Price Index:** Producer prices for final demand goods and services rose 0.5% in September, the slowest monthly gain since December. At the same time, producer prices for final demand goods grew 1.3% in September, up from 1.0% in August. Food and energy costs rose 2.0% and 2.8% for the month, respectively. Excluding food and energy, producer prices for final demand goods increased 0.6% in September, the same pace as in August. Meanwhile, producer prices for final demand services pulled back for the second straight month from a record 1.1% increase in July to 0.7% and 0.2% in August and September, respectively.

  Over the past 12 months, producer prices for final demand goods and services jumped 8.6%, the biggest increase on record. Meanwhile, core producer prices increased by a seasonally adjusted 6.0% year-over-year in September, down from a record 6.3% in August.

  Manufacturing leaders continue to cite supply chain disruptions as their top challenge, and the data reflect additional sharp rises in raw material prices, albeit with some deceleration in some areas. While raw material costs are likely to stabilize somewhat over the coming months and into the new year, there will also likely be some pricing pressures that will not abate, particularly given the rebounding of the economy.

For its part, the Federal Open Market Committee will likely start the process of tapering asset purchases at its next meeting on Nov. 2–3, with the federal funds rate edging higher by the second half of 2022. Even with those moves, monetary policy will continue to be highly stimulative for the foreseeable future.

- **Retail Sales:** Retail sales rose 0.7% in September, building on the 0.9% gain in August. The underlying data were mostly higher, which was an encouraging sign that consumer spending continues to rebound.

  In September, the largest gains in retail spending occurred at sporting goods and hobby stores (up 3.7%), general merchandise stores (up 2.0%), gasoline stations (up 1.8%), miscellaneous store retailers (up 1.8%) and clothing and accessories stores (up 1.1%), among others. Importantly, motor vehicles and parts dealers had sales growth of 0.5% in September, recovering at least some of the 3.3% decline in August. In addition, spending at food services and drinking places rose 0.3% in September, a sign that Americans are spending more for a sector that was especially hard-hit in the pandemic. In contrast, retail sales declined in September for health and personal care (down 1.4%) and electronics and appliances (down 0.9%) stores.

  Overall, retail spending has soared 13.9% over the past 12 months, with retail sales excluding automobiles rising 15.6% year-over-year. There is optimism that consumers will continue to increase spending moving forward as the economy continues to rebound, especially given elevated savings rates, but this could hinge on supply chains stabilizing. Consumers have also been concerned about rising prices, and this could impact spending moving forward.

- **University of Michigan Consumer Sentiment (Preliminary):** The Index of Consumer Sentiment declined from 72.8 in September to 71.4 in October, according to preliminary data from the University of Michigan and Thomson Reuters. This remains not far from August's reading (70.3), which was the lowest since December 2011. Americans felt slightly less upbeat about current and future economic conditions in October. The release notes supply chain disruptions, the continued spread of the delta variant and reduced labor force participation rates, but previous surveys have also cited inflationary worries as a key concern.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 293,000 for the week ending Oct. 9, down from 329,000 for the week ending Oct. 2 and the lowest since the week of March 14, 2020. Meanwhile, continuing claims declined from 2,727,000 for the week ending Sept. 25 to 2,593,000 for the week ending Oct. 2, also a post-pandemic low. Continuing claims were consistent with 1.9% of the workforce, down from 2.0% in the previous report.

  At the same time, 3,649,013 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Sept. 25. That figure was down from 4,172,439 for the week ending Sept. 18. The decrease in the latest figures stemmed from sizable declines in pandemic and state unemployment assistance and extended benefits.

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