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August 2022

Employers Add 528K Jobs In July, Unemployment Rate Falls To 3.5%—The U.S. labor market remained red-hot in July despite expectations job growth would cool as tighter monetary conditions and company layoffs stoked fears of a recession. July's report marked a sharp jump from the prior month, which saw payrolls rise by 398,000. June's figure was upwardly revised from 372,000 initially reported.

The unemployment rate ticked back down to 3.5%, matching the level seen in February 2020, just before the coronavirus pandemic upended the U.S. and global economies. Full Story
Source: YahooFinance, 08.05.2022

Fed Chair Jerome Powell Said He Doesn't Think The U.S. Is Currently In A Recession—Federal Reserve Chairman Jerome Powell said July 27 he does not believe the U.S. economy is in a recession as the central bank raised rates further to fight inflation.

"I do not think the U.S. is currently in a recession and the reason is there are too many areas of the economy that are performing too well," Powell said at a press conference following the Fed's decision to raise rates by 0.75 percentage point for a second consecutive time. "This is a very strong labor market ... it doesn't make sense that the economy would be in a recession with this kind of thing happening."

The July 27 rate hike marks the latest move in the Fed's efforts to tamp down the strongest inflationary pressures in roughly four decades. Markets jumped after the increase was announced, with the Dow Jones Industrial Average adding more than 450 points and the tech-heavy Nasdaq Composite surging 4%. Investors have been fearing the Fed's hiking campaign may tip the economy into a recession, but Powell also said the central bank will be closely watching economic data as to determine future moves. While another large hike may be necessary, he added that there will come a point when the Fed needs to slow the pace of increases.

Many on Wall Street refer to two consecutive negative quarters as a recession, but the official definition takes into account more factors than just GDP. Powell noted that he hasn't seen the GDP report yet, but that he's waiting to see what it says. "You tend to take first GDP reports with a grain of salt," he said.
Source: CNBC, 07.27.2022

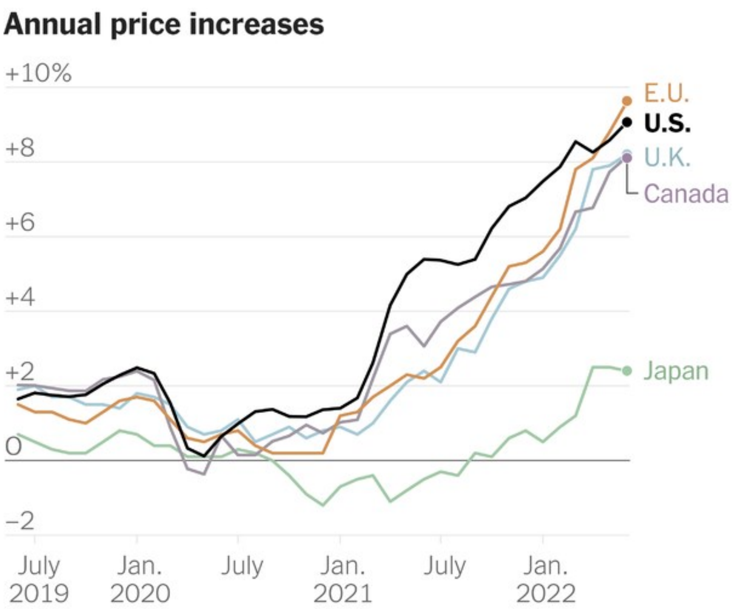
You're Not The Only One Who's Confused About The Economy-Experts Are Baffled, Too—The recovery wasn't supposed to go like this. Wall Street and Main Street alike are suffering from whiplash when it comes to the current state of the U.S. economy. In their roles as consumers, investors and members of the workforce, ordinary Americans have the sense that the country is at an economic inflection point, but without a clear picture of what happens next, nor how to prepare.
Full Story *Source: CNN, 07.22.2022*

Inflation Worldwide Problems

Inflation has dominated the news about America's economy in recent months as prices for food, gas and other goods have increased faster than they have in four decades. But inflation is a global phenomenon right now — and the U.S. has actually fared better than other countries in recent months. In June, consumer prices in the U.S. increased 9.1% over the previous year; they increased 9.6% across the E.U. in the same time period.

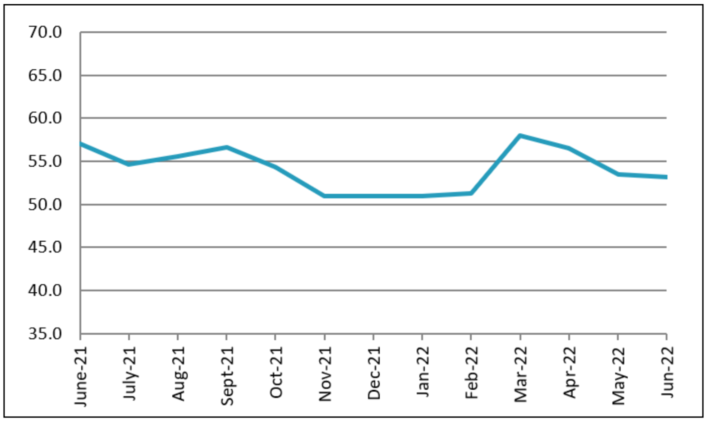
Much of the public discussion about inflation in the U.S. has focused on domestic problems, particularly President Biden's policies. Critics argue that the American Rescue Plan, the pandemic relief bill that Biden signed into law 16 months ago, has supercharged consumer demand by sending $1.9 trillion to Americans, state governments and other programs. As higher demand has chased limited supplies of goods, prices have soared.

The law has certainly played a role in increased inflation, economists say. But the global trends suggest that focusing solely on the U.S.'s role misses a big part of the story — how external forces have driven up prices, too. Full Story
Source: NYTimes, 07.26.2022



Key Economic Indicators

Architecture Billings Index (ABI)

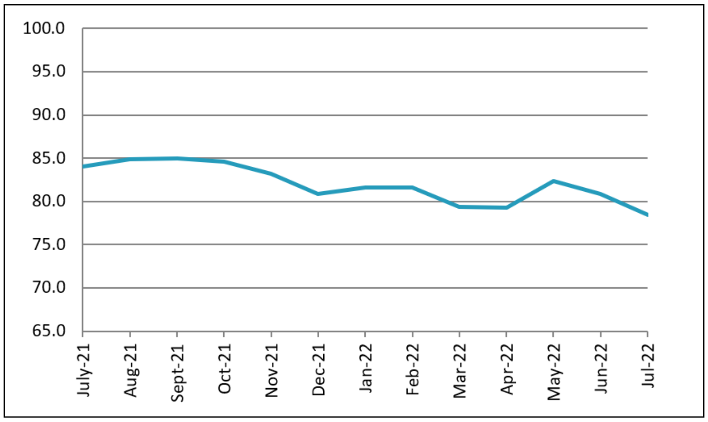


Architecture firms reported increasing demand for design services in June, according to a new report today from The American Institute of Architects (AIA).

The ABI score for June was 53.2. While this score is down slightly from May's score of 53.5, it still indicates moderately strong business conditions overall (any score above 50 indicates an increase in billings from the prior month). Also in June, both the new project inquiries and design contracts indexes moderated from May but continued to show growth, posting scores of 58.2 and 52.2 respectively.

The **Architecture Billings Index (ABI)** is a diffusion index derived from the monthly Work-on-the-Boards survey, conducted by the AIA Economics & Market Research Group. The ABI serves as a leading economic indicator that leads nonresidential construction activity by approximately 9-12 months. An index score of 50 represents no change in firm billings from the previous month, a score above 50 indicates an increase in firm billings from the previous month, and a score below 50 indicates a decline in firm billings from the previous month.
Source: American Institute for Architects, 07.20.2022

Steel Capability Utilization

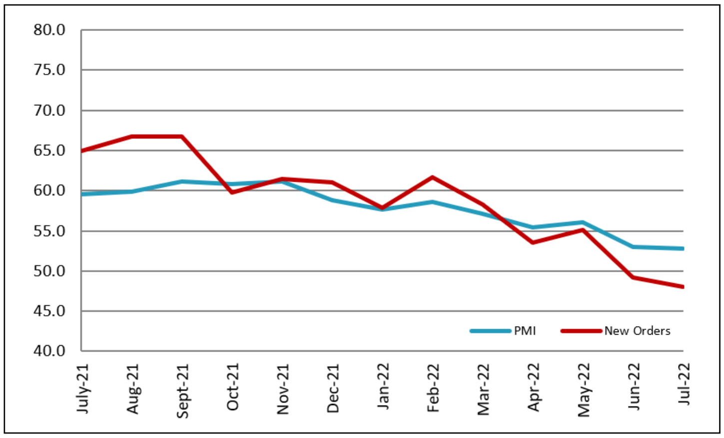


In the week ending on July 30, 2022, domestic raw steel production was 1,727,000 net tons while the capability utilization rate was 78.4%. Production was 1,862,000 net tons in the week ending July 30, 2021, while the capability utilization then was 84.4%. The current week production represents a 7.3% decrease from the same period in the previous year. Production for the week ending July 30, 2022, is down 1.5% from the previous week ending July 23, 2022, when production was 1,754,000 net tons and the rate of capability utilization was 79.6%.

Adjusted year-to-date production through July 30, 2022, was 52,747,000 net tons, at a capability utilization rate of 80.2%. That is down 2.9% from the 54,347,000 net tons during the same period last year when the capability utilization rate was 80.1%.

Steel Capability Utilization is a domestic report based on estimates from companies representing approximately 90% of the Industry's Raw Steel Capability as compiled by the American Iron and Steel Institute.
Source: AISI, 07.30.2022

Purchasing Managers Index (PMI)®



The July Manufacturing PMI® registered 52.8%, down 0.2 percentage point from the reading of 53% in June. This figure indicates expansion in the overall economy for the 26th month in a row after a contraction in April and May 2020. This is the lowest Manufacturing PMI® figure since June 2020, when it registered 52.4%. The New Orders Index registered 48%, 1.2 percentage points lower than the 49.2% recorded in June. The Production Index reading of 53.5% is a 1.4 percentage point decrease compared to June's figure of 54.9%. The Prices Index registered 60%, down 18.5 percentage points compared to the June figure of 78.5%; this is the index's lowest reading since August 2020 (59.5%). The Backlog of Orders Index registered 51.3%, 1.9 percentage points below the June reading of 53.2%. The Employment Index contracted for a third straight month at 49.9%, 2.6 percentage points higher than the 47.3% recorded in June. The Supplier Deliveries Index reading of 55.2% is 2.1 percentage points lower than the June figure of 57.3%. The Inventories Index registered 57.3%, 1.3 percentage points higher than the June reading of 56%. The New Export Orders Index reading of 52.6% is up 1.9 percentage points compared to June's figure of 50.7%. The Imports Index grew again in July, up 3.7 percentage points to 54.4% from 50.7% in June.

Eleven manufacturing industries reported growth in July, in the following order: Apparel, Leather & Allied Products; Nonmetallic Mineral Products; Petroleum & Coal Products; Printing & Related Support Activities; Computer & Electronic Products; Transportation Equipment; Machinery; Textile Mills; Primary Metals; Plastics & Rubber Products; and Electrical Equipment, Appliances & Components. The seven industries reporting contraction in July compared to June, in the following order are: Wood Products; Furniture & Related Products; Paper Products; Miscellaneous Manufacturing; Fabricated Metal Products; Food, Beverage & Tobacco Products; and Chemical Products. *Source: Institute for Supply Management, 08.01.2022*

Industry News

Senate To Consider New Climate, Health Bill

On July 27, Sen. Joe Manchin (D-W.Va.) and Senate Majority Leader Chuck Schumer (D-N.Y.) announced an agreement on a $670 billion health care and climate package that, if approved by both chambers of Congress, would raise taxes, extend Affordable Care Act insurance subsidies, and help to substantially reduce U.S. carbon emissions by 2030. The new budget reconciliation package, dubbed the Inflation Reduction Act of 2022 would:

- Require offshore oil and gas lease sales in federal waters;
- Provide funding for electric vehicle credits and clean energy technology incentives;
- Create tax credits for consumers who add renewable energy items to their homes;
- Establish a new fee on methane emissions;
- Incentivize the increased domestic production of critical minerals used in batteries for electric vehicles; and
- Provide $300 billion over 10 years for deficit reduction.

According to a summary of the legislation available here, the Inflation Reduction Act of 2022 would be paid for through the creation of a 15% corporate minimum tax that reportedly would raise $313 billion over 10 years, reform to Medicare prescription drug pricing, boosting the IRS enforcement budget by $124 billion, and closing the so-called “carried interest loophole.”

The business community opposes these tax increases, which will do nothing to calm inflation. In fact, an analysis from the University of Pennsylvania suggests the legislation might even increase inflation slightly in the very near term.- a statement, President Joe Biden praised the deal, however, saying, “We will pay for all of this by requiring big corporations to pay their fair share of taxes, with no tax increases at all for families making under $400,000 a year.”

The Senate parliamentarian must review the legislation to ensure it complies with the budget reconciliation rules that would allow the legislation to pass the Senate on a simple majority vote. That action will happen over the next several days. ***Source: MSCI, 08.01.2022***

U.S. Durable Goods Orders Rose 1.9% In June

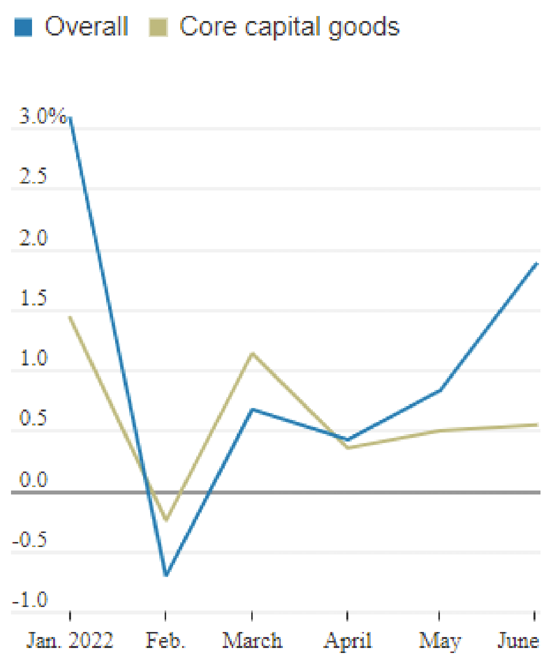
Orders for long-lasting goods rose last month, reflecting a pickup in demand despite other signs pointing to a cooling economy. New orders for durable goods—products meant to last at least three years—rose 1.9% in June to a seasonally adjusted $272.6 billion, the Commerce Department said July 27. The increase was seen across most categories, including motor vehicles and military aircraft. Excluding defense, orders were up a more modest 0.4%.

Overall orders for durable goods—which include factory equipment, computers and washing machines—increased in eight of the past nine months through June, indicating continued solid demand from businesses and consumers. But more broadly, the U.S. economic momentum has shown signs of easing this year after robust growth in 2021.

Economists surveyed by The Wall Street Journal estimate the economic output expanded at a 0.3% annual rate in the April through June quarter, after gross domestic product contracted at a 1.6% annual rate in the first quarter. Second-quarter GDP data will be released July 28.

A closely watched proxy for business investment—new orders for nondefense capital goods excluding aircraft—rose 0.5% to $73.9 billion in June compared with the previous month, the Commerce Department said July 27. In the first half of the year, so-called core capital goods orders were up 10.1%, versus the same period in 2021. ***Source: Morningstar, 07.27.2022***

New durable-goods orders, change from prior month



Note: Seasonally adjusted. So-called core capital goods are defined as nondefense capital goods excluding aircraft.
Source: Commerce Department

Congress Passes CHIPS Act

After months of stalled progress, the CHIPS-Plus Act lurched through the Senate July 29 as the semiconductor subsidy measure amassed 64 votes in favor to beat 33 against. The bill's passage to the House of Representatives was hailed by trade groups representing manufacturers and semiconductor companies as a step toward bolstering the domestic supply of computer chips. According to the office of Senator Chuck Schumer (D-N.Y.), one of two co-sponsors of the original bill, the latest version contains $52 billion in funds for semiconductor manufacturers to use building or improving existing semi-conductor factories, workforce training, wireless broadband development, and regional economic development hubs. It also includes a 25% credit for companies investing in semi-conductor fabricators, or fabs, in the U.S.

"This bill means lowering costs for families, solving our nation's chip shortage, strengthening our national security, and bringing manufacturing back from China to Upstate New York," Schumer said in a statement. Senator Todd Young (R-Ind.), the bill's other co-sponsor, said in a statement July 27 that the bill "will unleash private sector innovation while significantly boosting federal national security investments."

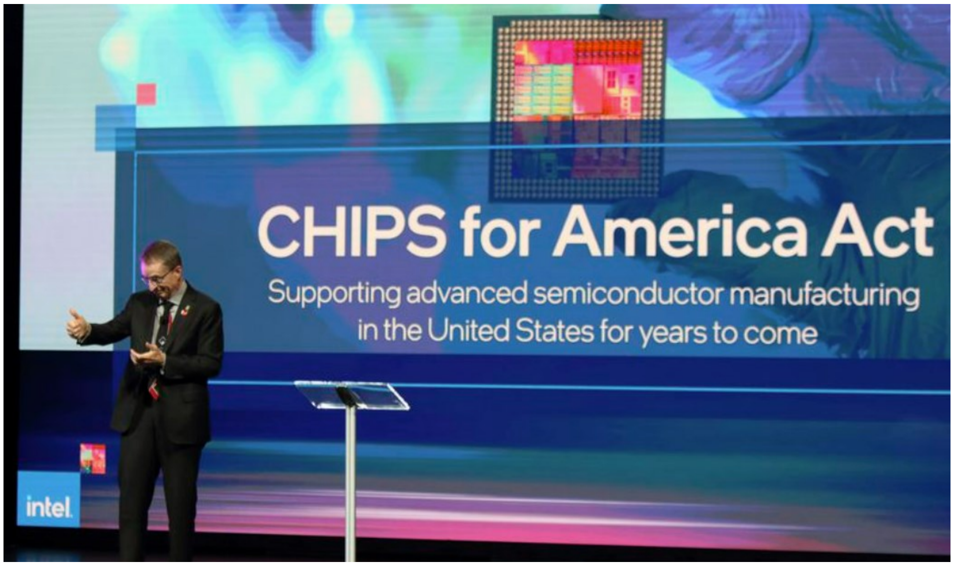
In prepared remarks, Young cast the bill as a strike against China's own investments, noting that China "is currently investing $1.4 trillion in frontier technologies that will dominate the 21st century" and asserting the bill would enable the U.S. "to go on the offensive." Young also noted that chip shortages forced General Motors' assembly plant in Fort Wayne, Indiana, to idle production twice. The bill's passage from the Senate to the House—where it is expected to pass quickly, thanks to bipartisan support and an impending August recess—inspired positive reactions from trade groups and the United Auto Workers. Semiconductor Industry Association CEO John Neuffer, in a statement, commended the Senate for its "decisive progress towards strengthening America's economy, national security, and leadership in the key technologies of today and tomorrow" before urging the House to send the bill to the President's desk quickly.

Jay Timmons, CEO of the National Association of Manufacturers, echoed hopes the bill will improve U.S. competitiveness and called for further action on items left out of the final version of the bill. "This bill will help strengthen American supply chains thanks to its investments in domestic semiconductor production," Timmons said in a statement before pledging to work with Congress on items struck from previous iterations of the bill, such as an anti-counterfeiting measure.

UAW President Ray Curry's response to the bill was similar: Passing the bill is good, but more needs to be done on the dropped policies. "The ongoing shortage of auto-grade semiconductors is an example of what happens when our country fails to invest in U.S. manufacturing and secure our supply chains," Curry said in a statement. Yet, he said, the union had hoped to see the final bill include a reauthorization of the Trade Adjustment Assistance provision, which provided benefits to workers who lose their jobs due to the impacts of offshoring.

The major sticking point among critics of the bill is its price tag. According to the Congressional Budget Office, the CHIPS-Plus Act is expected to cost the U.S. government $79.3 billion over the next ten years.

Source: IndustryWeek, 07.29.2020



Intel CEO Patrick Gelsinger speaks during on Jan. 21, 2022 in Newark, at an event where company officials announced their plan to build a $20 billion computer-chip factory near Columbus. (AP Photo/Paul Vernon) AP

Industry News

U.S. Manufacturing Slows Modestly

U.S. manufacturing activity slowed less than expected in July and there were signs that supply constraints are easing, with a measure of prices paid for inputs by factories falling to a two-year low, suggesting inflation has probably peaked. While the Institute for Supply Management survey on August 1 showed a measure of factor employment contracting for a third straight month, Timothy Fiore, chair of the ISM Manufacturing Business Survey Committee, noted that "companies continue to hire at strong rates, with few indications of layoffs, hiring freezes or headcount reduction through attrition."

The better-than-expected ISM reading suggested that the economy was not in recession despite a decline in gross domestic product in the first half of the year. Businesses, however, are sitting on excess inventories after ordering too many goods because of worries about shortages, depressing new orders. "The post-pandemic inventory restocking cycle is winding down amid softening consumer goods demand," said Pooja Sriram, an economist at Barclays in New York. "This intensifies risks of a harder landing in the manufacturing sector later this year. That said, the overall PMI would still need to decline a fair bit to reach readings consistent with outright economic recession."

The ISM's index of national factory activity dipped to 52.8 last month, the lowest reading since June 2020, when the sector was pulling out of a pandemic-induced slump. The PMI was at 53.0 in June. A reading above 50 indicates expansion in manufacturing, which accounts for 11.9% of the U.S. economy.

Economists polled by Reuters had forecast the index would fall to 52.0. A reading above 48.7 over a period of time generally indicates an expansion of the overall economy. Four of the six biggest manufacturing industries - petroleum and coal products as well as computer and electronic products, transportation equipment and machinery - reported moderate-to-strong growth last month. High inflation remained a complaint among businesses even though overall price increases for inputs have started slowing considerably. Makers of chemical products said inflation is "slowing down business," and also noted an "overstock of raw materials due to prior supply chain issues and slowing orders."

Manufacturers of food products reported that "many customers appear to be pulling back on orders in an effort to reduce inventories." Textile mill operators said "continuing delivery and staffing issues have eaten away the bottom line."

The ISM survey's forward-looking new orders sub-index dropped to 48.0 from a reading of 49.2 in June. It was the second straight monthly contraction. Combined with a steady reduction in order backlogs, that suggests a further slowdown in manufacturing in the months ahead. Many retailers, including Walmart (WMT.N), have reported carrying excess inventory as soaring inflation forces consumers to spend more on low-margin food products instead of apparel and other general merchandise.

SUPPLY BOTTLENECKS EASING

The ISM's measure of factory inventories increased to a 38-year high in July. According to the ISM's Fiore, companies were showing the most concern about their inventory levels since the start of the COVID-19 pandemic two years ago when a slowdown in manufacturing activity was anticipated.

The moderation in manufacturing also reflects a shift in spending back to services from goods and the impact of rising interest rates as the Federal Reserve tackles inflation. The U.S. central bank last week raised its policy rate by another three-quarters of a percentage point. It has now hiked that rate by 225 basis points since March. The economy contracted 1.3% in the first half of the year. Wild swings in inventories and the trade deficit tied to snarled global supply chains have been largely to blame, though overall momentum has cooled.

Supply bottlenecks are loosening up, which is helping to curb inflation at the factory gate. The ISM's measure of supplier deliveries dropped to 55.2 from 57.3 in June. A reading above 50% indicates slower deliveries to factories. The survey's gauge of prices paid by manufacturers plunged to 60.0, the lowest level since August 2020, from 78.5 in June. "This should please the Fed and provides further evidence that rate hikes won't need to continue through 2023," said James Knightley, chief international economist at ING in New York.

But the road to low inflation will be long. While the survey's measure of factory employment rose to 49.9, it remained in contraction territory for a third straight month, with manufacturers continuing to express difficulty finding workers. High turnover related to quits and retirements was also frustrating efforts to adequately staff factories. There were 11.3 million unfilled jobs across the economy at the end of May, with nearly two job openings for every unemployed worker.

"This report is consistent with the Fed's desire to give the supply side a chance to catch up with demand, but there is a long way to go as the manufacturing sector appears to continue to struggle with shortages," said Conrad DeQuadros, senior economic advisor at Brean Capital in New York. ***Source: Reuters, 08.02.2022***

U.S., Canada Argue Mexico Is Not Complying With USMCA Energy Rules

The week of July 18, the U.S. and Canadian governments requested consultations with Mexican officials under the dispute settlement chapter of the U.S.-Mexico-Canada Agreement (USMCA), arguing several of the Mexican government's energy policies are inconsistent with the North American trading pact. At issue are measures related to natural gas, electricity, and renewable energy technology and resources and whether they favor Mexican state-owned enterprises over U.S. companies and U.S.-produced energy.

Click here to read the U.S. government's announcement and click here to read the statement from the Canadian government.

"We have repeatedly expressed serious concerns about a series of changes in Mexico's energy policies and their consistency with Mexico's commitments under the USMCA," said U.S. Trade Representative Katherine Tai. "We have tried to work constructively with the Mexican government to address these concerns, but, unfortunately, U.S. companies continue to face unfair treatment in Mexico."

Since the parties have been unable to reach an agreement, the U.S. requested a formal process. Specifically, the Office of the U.S. Trade Representative said Mexico's unfair actions "include, but are not limited to" the following:

- Amendments to Mexico's electricity law that would prioritize the distribution of power from Mexico's state-owned utility over cleaner sources of energy like wind and solar that are provided by private sector suppliers;
- Mexico's delays, denials, and revocations of U.S. companies' ability to operate in Mexico's energy sector, including with regard to renewable energy projects;
- Compliance with the maximum sulfur content requirements under Mexico's applicable automotive diesel fuel standard; and
- A June 2022 action that the U.S. and Canada allege favors the use of Mexican products in Mexico's natural gas transportation network.

Under USMCA rules, the countries will enter into consultations within 30 days of the request for consultation, unless the parties decide otherwise. If they do not resolve the matter through consultations within 75 days, either the U.S. or Canada may request the establishment of a dispute panel.

According to *Bloomberg*, if the Mexican government loses the dispute, or if the countries do not come to a resolution, by the summer of 2023, products from Mexico could be hit with between $10 billion and $30 billion in tariffs. Mexico's Deputy Economy Minister Luz Maria De la Mora told Reuters, "We want to take advantage of this consultation phase … to see how we can reach a mutually satisfactory solution through an open, frank and constructive dialogue, which will allow us to overcome these differences." ***Source; MSCI, 07.25.2022***

President Biden met with President Andres Manuel Lopez Obrador at the White House in Washington, D.C., on July 12.
Photographer: Chris Kleponis/Sipa/Bloomberg