

**AUGUST 2023**

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## ECONOMIC OUTLOOK

This month we again raised our forecast for U.S. economic growth in 2023. We now expect the economy to grow 2% in 2023. This is up from a forecast of 0.5% at the start of the year. While the U.S. economy has been resilient and largely surpassed expectations for the year, there remain tremendous headwinds in the months ahead. The Federal Reserve has raised rates significantly over the last year. It typically takes about 6 months for rate increases to fully diffuse through the economy. In other words, the economy has likely not yet fully internalized the impact of rate increases and this will play out in the months ahead. But parts of the economy are starting to show the weight of stricter monetary policy.

The labor market is showing clear signs of slowing, though given the degree of monetary tightening, has held up well. Payroll growth has averaged 194,000 in the past 6 months, which is a solid figure. In 2019, the U.S. saw average monthly gains of 163,000 new jobs so the economy continues to outpace 2019 levels. But the current 194,000 monthly figure is down from a monthly average of 399,000 in 2022 and an average of 360,000 in January and February of this year.

A weakening labor market appears to be slowing wage growth as well – at least for now. Average hourly earnings increased 0.2% in August compared to an average gain of 0.36% in the previous 12 months. While wage gains are still growing at a 4.3% rate year-over-year, this is slower than the 5.9% growth recorded in March 2022. Wage pressures are starting to recede, though a number of large unions are demanding higher wages, which could reverse this trend in the coming months.

Job opens fell by 338K in July. Openings remain above the pre-pandemic peak, but they have fallen by about 25% from the March 2022 peak of 12.027M. We have also seen the quit rate slow from 3% in April 2022 to 2.3% in July. The quit rate is a good barometer for employee confidence. Workers do not tend to quit the jobs they have if they don't perceive a strong labor market with plentiful jobs as replacements. Similarly, the job appraisal measure in the Conference Board's survey has also deteriorated. The share of survey respondents indicating that jobs were plentiful fell to 40.3% from 43.7%. At the same time, the share of

respondents reporting that jobs were hard-to-get rose to 14.1% from 11.3%. The spread between plentiful and hard-to-get is the lowest since the spring of 2021. Fewer workers quitting their jobs for other jobs might lessen the upward pressure on wage growth.

The unemployment rate rose 0.3 percentage points to 3.8% in August – driven by a surge of 736,000 new workers. As the excess savings from pandemic-related relief measures are exhausted, something that should largely happen by the end of the year, we might see more workers enter the labor force, which could push the unemployment rate higher. In turn, this could also ease wage pressures as it becomes easier for employers to find needed workers.

This is playing out while all eyes are fixed on the Federal Reserve's next moves. The Federal Reserve is likely to hold rates steady in September, given a weaker trend in recent economic data. At the same time, the 4.3% year-over-year growth in wages is likely inconsistent with the Fed's stated goal of 2% inflation. The Fed will probably want to see weaker labor market fundamentals in the coming months.

Inflation remains stubbornly high which is going to keep the Fed vigilant through the remainder of the year. While the futures markets suggest rate hikes are over, we can't rule out one final hike at one of the Fed's three remaining meetings this year. The initial figures for the headline and core price indexes for personal consumption expenditures were revised lower. They now show increases of 2.5 and 3.7%, respectively, compared to the initially reported 2.6

and 3.8%. But these remain higher than the Fed's target of 2% and the recent rise in oil prices and the potential for higher wages from union negotiations likely have the Fed's attention.

The manufacturing sector recorded a strong month, reporting output gains rose 0.5% in July, the first gain in three months. Auto and non-auto manufacturing both posted increases, rising 5.2% and 0.1%, respectively. Consumers continue to shift spending from goods to services, which could weigh on the manufacturing sector in the second half of the year. But the U.S. consumer continues to spend – driven in part by rising incomes. Spending was up 0.8% in July. The after inflation rise of 0.6% is the fastest growth since January 2022. While consumers continue to spend despite still high inflation and rising interest rates, the growth in consumer spending will likely slow. Consumers are fueling much of their spending by cutting into reserves. The savings rate fell to the lowest level in a year and credit card debt is rising. This will become unsustainable in the months ahead.

On a positive note, infrastructure investments are poised to give a boost to the construction sector, potentially offsetting some of the slowdown in other areas of the economy. As the nation grapples with these multifaceted economic dynamics, prudent fiscal policies and adaptive business strategies will be vital in navigating the complex landscape ahead. The coming months will be crucial in determining the trajectory of the U.S. economy, with a keen eye on the Federal Reserve's strategies to balance growth and inflation concerns.

**5.3%**

**Euro area annual inflation was 5.3% in August 2023.**

**0.5%**

**The manufacturing sector reported 0.5% growth in July, the first rise in 3 months.**

**2.0%**

**The U.S. economy is now expected to grow 2% in 2023, up from a 0.5% forecast in January 2023.**

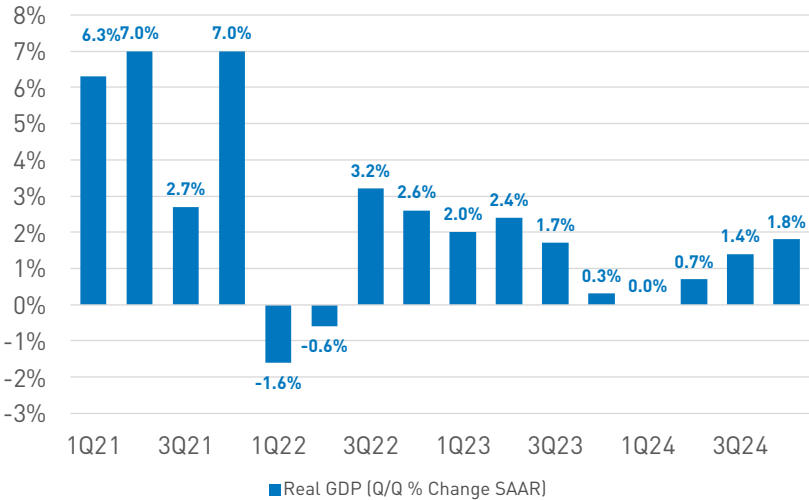
**2.15%**

**Market-based inflation expectations for the next 5 years continue to drift towards the Fed's stated goal.**

# U.S. OUTLOOK

## ECONOMIC GROWTH

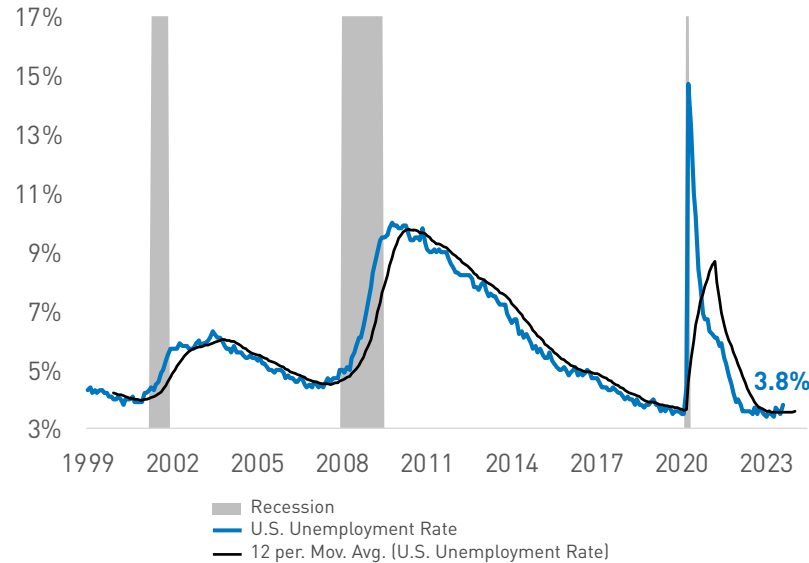
The U.S. economy grew 2.1% in Q2, a small downward adjustment from the initial 2.4% estimate. A downward adjustment to business investment drove a large part of the revision. Business fixed investment grew 6.6% during the quarter as opposed to 7.7% – adding 0.8 percentage points to GDP instead of 1 percentage point. At the same time, investment in structures was revised higher (11.2% instead of 9.7%). There were also downward revisions to inventories and net exports. GDP revisions offered modest improvements in inflation. The GDP price index was adjusted downward by 0.2 percentage points to 2.0%.



	2023 ECONOMIC GROWTH (GDP % Change)	2024 ECONOMIC GROWTH (GDP % Change)	2023 EXCHANGE RATE (v. USD)	2024 EXCHANGE RATE (v. USD)
UNITED STATES	2.0%	0.8%	N/A	N/A
CANADA	1.5%	1.1%	1.37	1.31
MEXICO	2.6%	1.6%	17.87	19.11
EURO AREA	0.6%	1.0%	1.09	1.15
CHINA	5.1%	4.7%	7.04	6.75

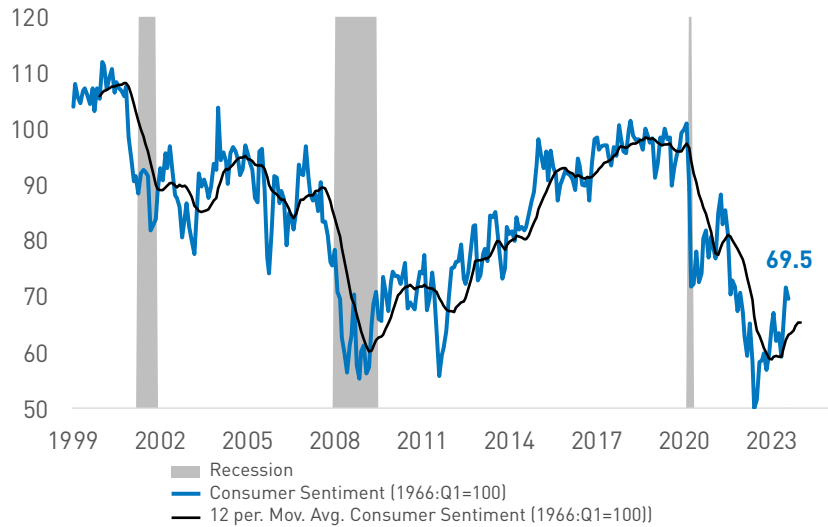
## EMPLOYMENT

U.S. nonfarm payrolls added 187,000 jobs in August, but June and July gains were trimmed by 110,000 jobs, bringing the net gain, including revisions, to just 77,000 jobs. Two big factors contributed to the soft results. The bankruptcy at Yellow Trucking directly impacted the 37K decline in trucking transportation. The ongoing Hollywood actors' strike drove a 17K drop in the motion picture industry. The unemployment rate bumped up to 3.8%, but this was driven by a 736,000 increase in the labor force (people who are working or looking for work). Workers returning to the workforce could help keep wage growth in check in the coming months.



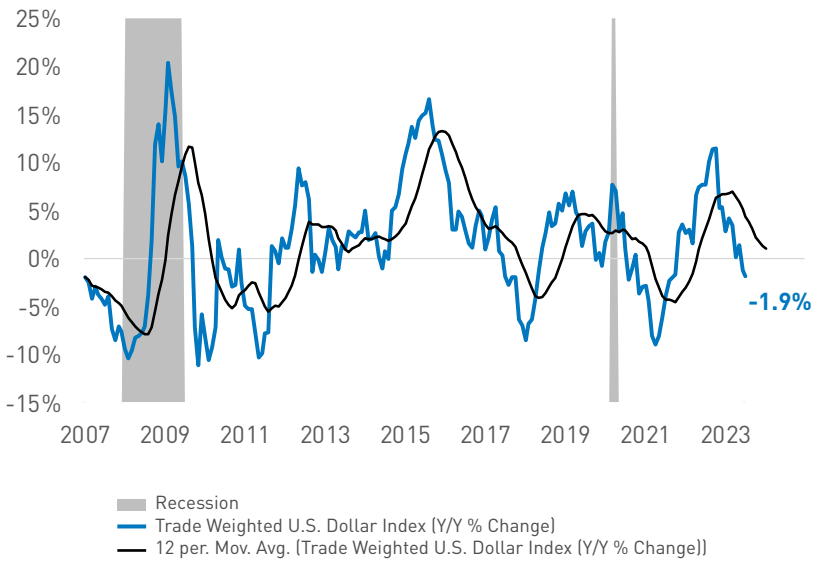
## SENTIMENT

Consumer sentiment slipped slightly in August, after rising sharply in the prior two months. August's reading was the second highest in 21 months. Sentiment is about 39% higher than the all-time historic low hit in June 2022. Consumers are feeling a bit more optimistic about buying conditions for durable goods but the long-run economic outlook slipped about 12% during the month, leading to the slight decline in the headline number. Year-ahead inflation expectations edged up to 3.5%. Consumers remain cautious about the future outlook.



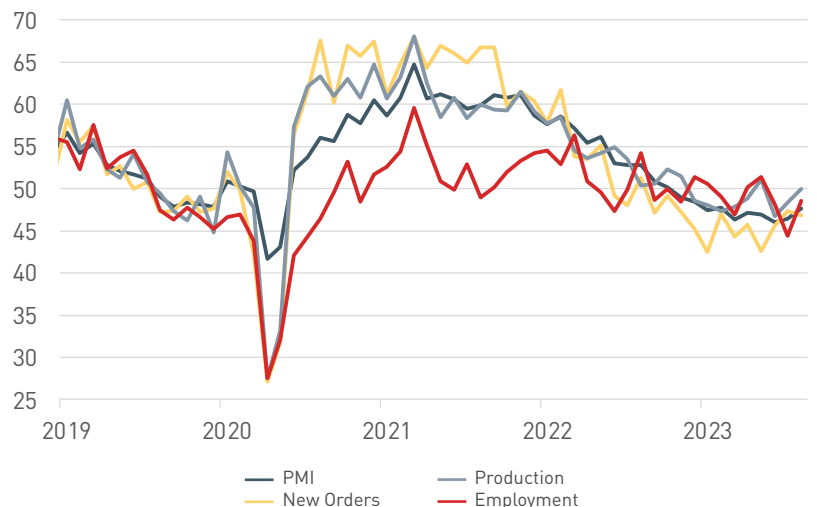
## TRADE-WEIGHTED U.S. DOLLAR INDEX

The dollar moved higher over the last month, raising about 1.6% over the last month. The dollar value has benefited from a month of strong economic data and a shift in the conversation from recession to soft landing. The U.S. is looking relatively stronger compared to its trading partners. U.S. GDP expectations for 2023 have risen steadily this year, but especially over the last two months – increasing from 1.2% in June to 2% in August. The U.S. was the only G-10 economy to see meaningful upward revisions, and this aided dollar strength.



## MANUFACTURERS' SENTIMENT (PMI)

U.S. manufacturing sentiment contracted for the 19th consecutive month in August. The August Manufacturing PMI was 1.2 percentage points higher this month at 47.6, suggesting a slower rate of contraction. This marks the second consecutive monthly increase but the overall index remains in contractionary territory as do most of the sub indexes. The New Orders Index suggests orders remain soft, but manufacturers appear to be managing slower orders well. The Production Index improved to 50 while at the same time manufacturers are working to keep inventories lean and employment inline with production needs.



# U.S. END MARKETS FOR ELECTRONICS

U.S. industrial production jumped 1% in July. The manufacturing sector rose 0.5% during the month.



## AUTOMOTIVE PRODUCTS

Auto production shot up 5.2% during the month. Non-auto manufacturing rose 0.1%. Auto production is up 10.3% in the past year and non-auto manufacturing is down 1.5%.



## TRANSIT EQUIPMENT

Transit equipment production rose 3.7% during the month. The sector is up 5.6% over the last year.



## INFORMATION PROCESSING & RELATED EQUIPMENT

Production in the information processing and related equipment sector rose 0.5% during the month. The sector is down 0.2% over the last year.



## INDUSTRIAL & OTHER EQUIPMENT

The industrial sector rose 0.2% last month. The sector is down 2.1% over the last year.



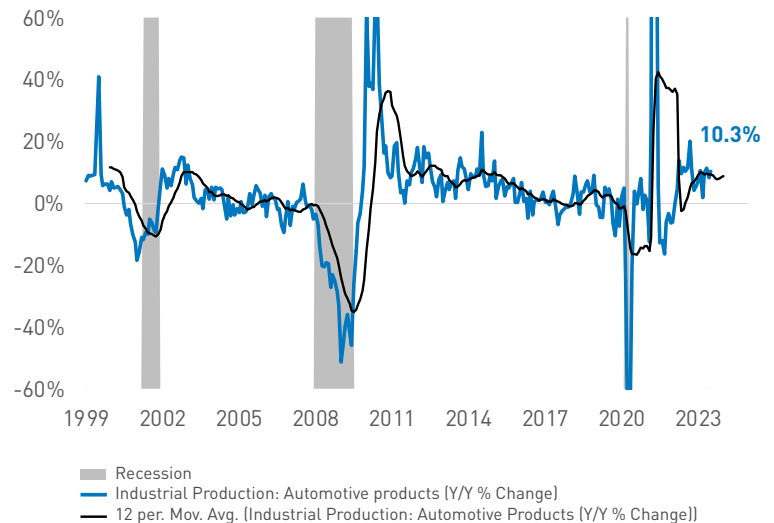
## DEFENSE & SPACE EQUIPMENT

The defense and space equipment segment rose 1%. The sector is up 5.2% over the last year.

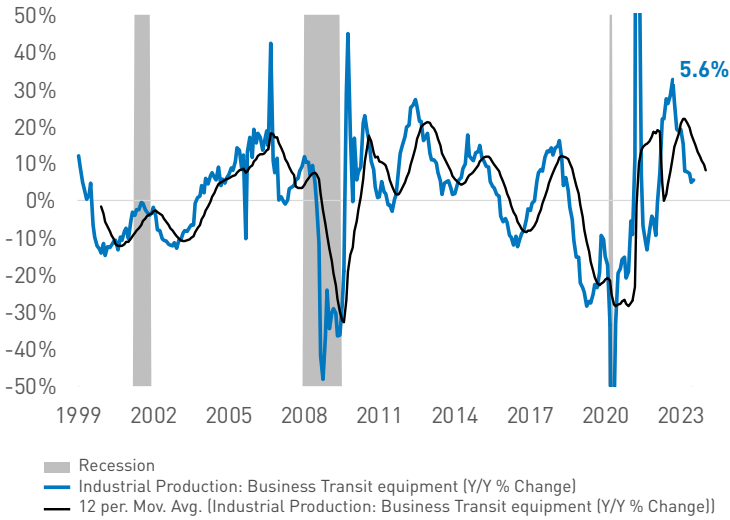
## Manufacturing



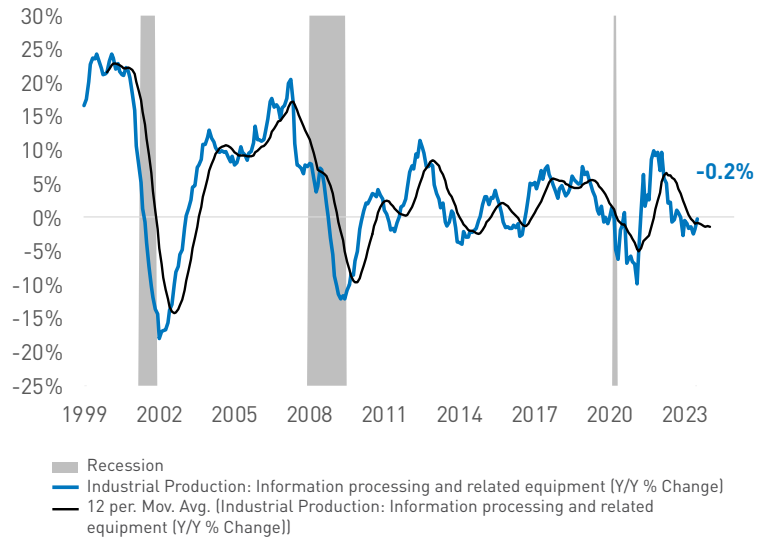
## Automotive Products



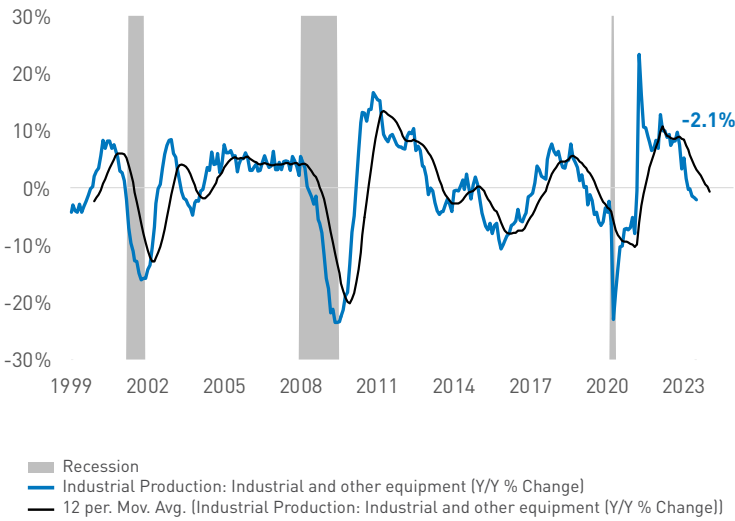
### Business Transit Equipment (Y/Y % Change)



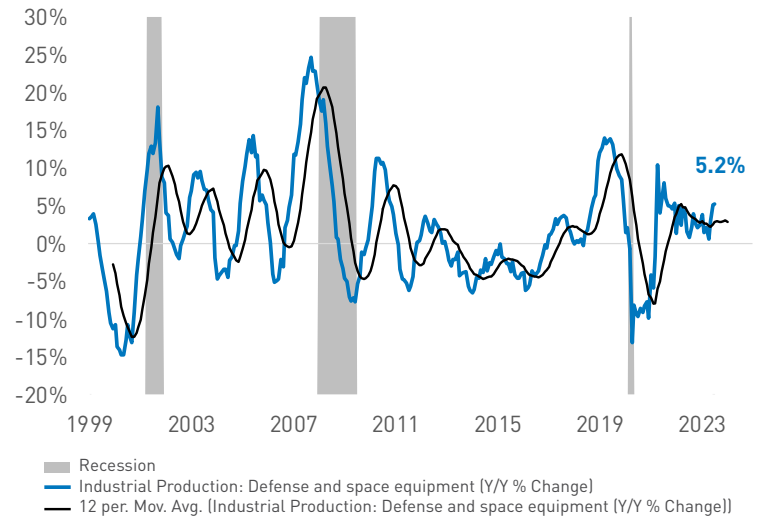
### Information Processing & Related Equipment (Y/Y % Change)



### Industrial & Other Equipment (Y/Y % Change)



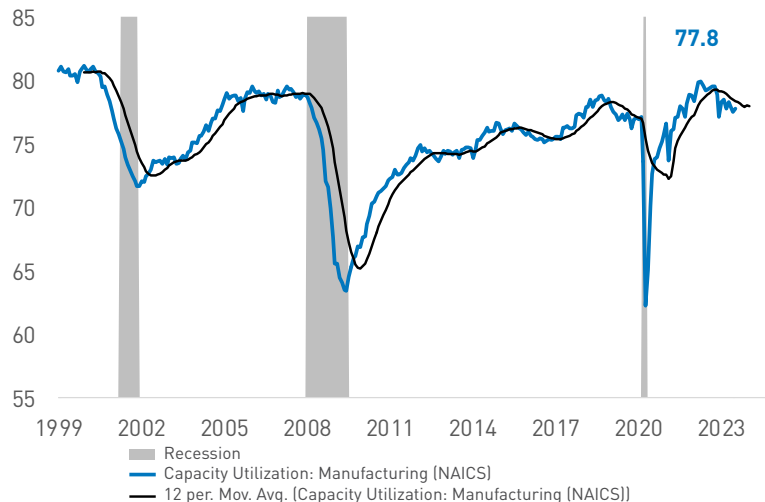
### Defense & Space Equipment (Y/Y % Change)



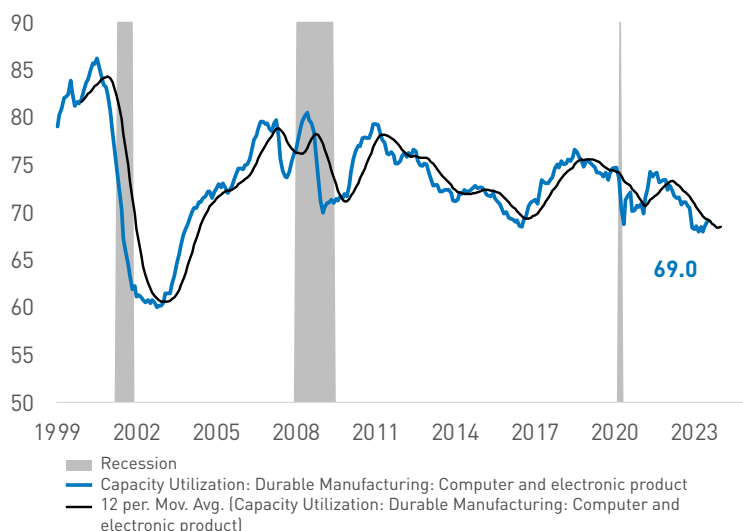
# MANUFACTURING CAPACITY UTILIZATION

Overall capacity utilization rose to 79.3% in July. Manufacturing capacity increased to 77.8%, up from 77.5%. Computer and electronic production capacity utilization rose 0.6% to 69%. Electrical equipment, appliances and components utilization fell 1.8% to 75.8%. Utilization in the auto sector rose 5% to 79.6%. Capacity utilization in the aerospace and miscellaneous transportation equipment sector rose to 69.3%.

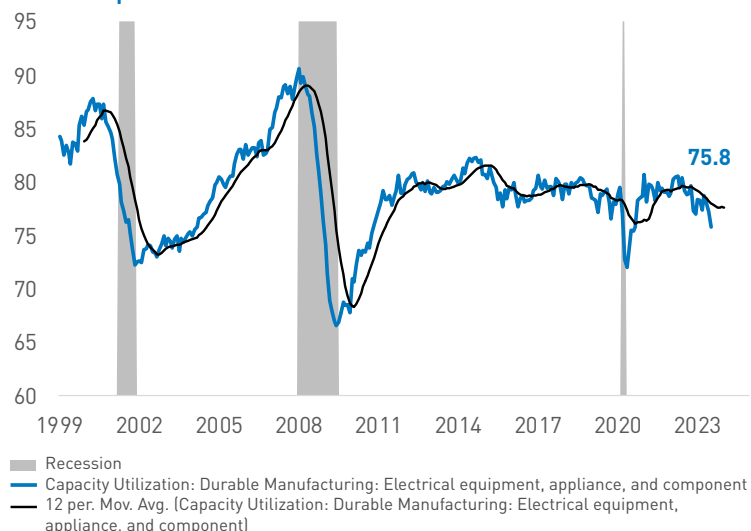
## Manufacturing (NAICS)



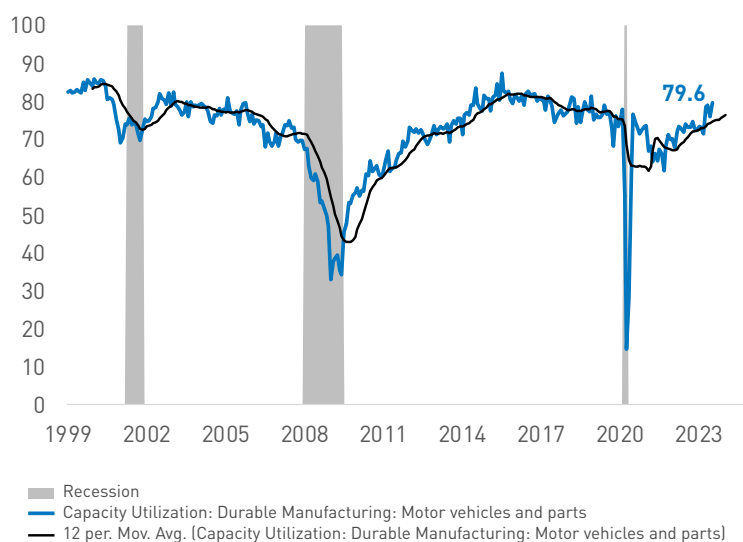
## Computer & Electronic Product



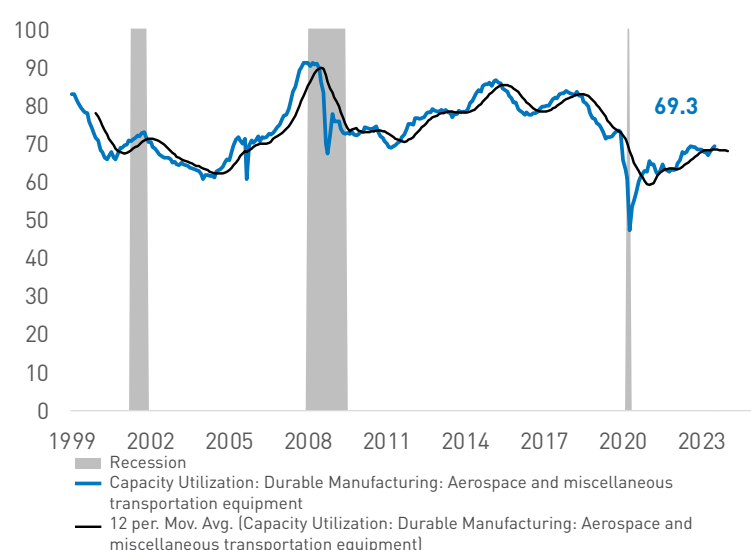
## Electrical Equipment, Appliance, & Component



## Motor Vehicles & Parts



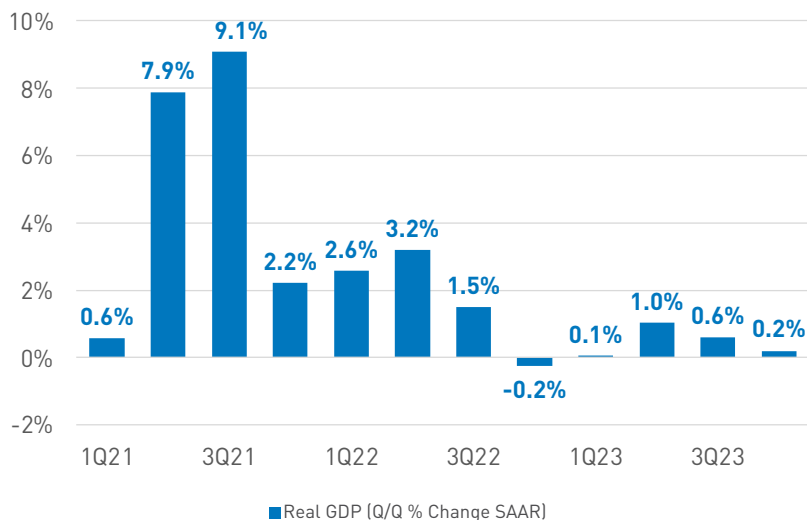
## Aerospace & Miscellaneous Transportation Equipment



# EUROPEAN OUTLOOK

## ECONOMIC GROWTH

Economic growth in the euro zone picked up in Q2, expanding by 0.3% compared to the previous quarter. This marks the most substantial growth since Q2 2022 and follows a Q1 that saw no sequential growth. Q2 also saw significant variations across different areas in the region. Germany's economy remained stagnant, showing no signs of growth. Germany's economy is down 0.1% compared to 2Q22. Italy's economy shrunk by 0.3%, a decline exacerbated by a worsening manufacturing sector. This follows a substantial 0.6% growth in 1Q23. Meanwhile, the economies of France and Spain demonstrated positive growth. France expanded 0.5% and Spain was up 0.4%. This growth was propelled by a surge in exports in France and a rebound in domestic demand in Spain. Several countries saw a second consecutive quarter of economic decline. Ireland was the standout performer during Q2, rebounding impressively with a 3.3% expansion in the second quarter, following a 2.8% contraction in the first quarter. Latvia was the worst performer, recording a decline of 0.6% during the quarter.



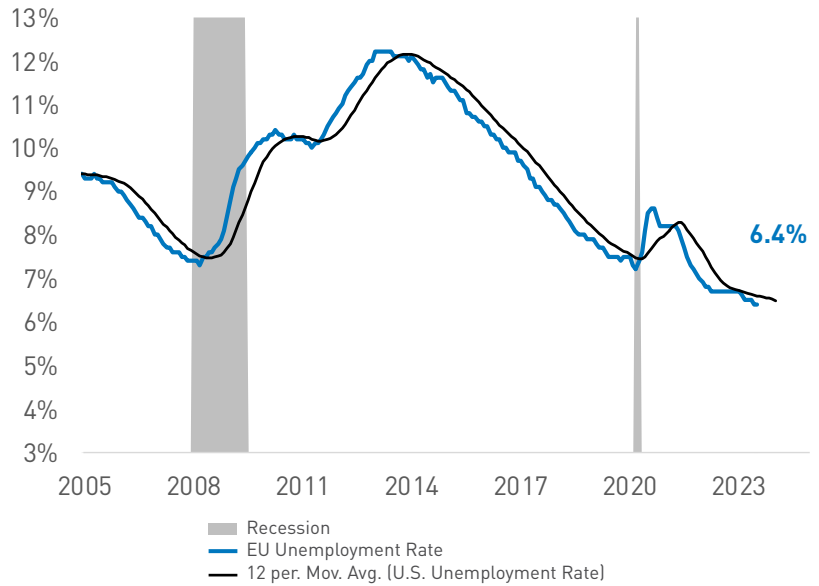
	Q/Q PERCENTAGE CHANGE				Y/Y PERCENTAGE CHANGE			
	2022Q3	2022Q4	2023Q1	2023Q2	2022Q3	2022Q4	2023Q1	2023Q2
<b>EURO AREA (20)</b>	0.4%	-0.1%	0.0%	0.3%	2.4%	1.8%	1.1%	0.6%
<b>EUROPEAN UNION (EU)</b>	0.4%	-0.1%	0.2%	0.0%	2.5%	1.6%	1.1%	0.5%
<b>GERMANY</b>	0.4%	-0.4%	-0.1%	0.0%	1.2%	0.8%	-0.3%	-0.1%
<b>FRANCE</b>	0.2%	0.1%	0.1%	0.5%	1.2%	0.7%	0.9%	0.9%
<b>ITALY</b>	0.4%	-0.1%	0.6%	-0.3%	2.5%	1.5%	2.0%	0.6%
<b>SPAIN</b>	0.4%	0.4%	0.5%	0.4%	4.9%	3.0%	4.2%	1.8%

	2023 ECONOMIC GROWTH (GDP % CHANGE)	2024 ECONOMIC GROWTH (GDP % CHANGE)
<b>EURO AREA</b>	0.6%	1.0%
<b>GERMANY</b>	-0.2%	0.8%
<b>FRANCE</b>	0.7%	0.8%
<b>NETHERLANDS</b>	1.0%	1.1%



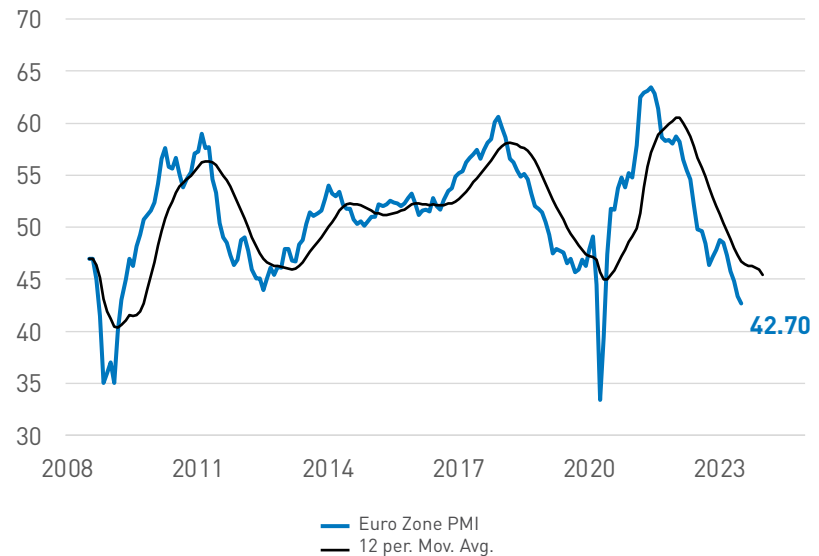
## EMPLOYMENT

In the second quarter of 2023, employment rose by 0.2% in both the euro zone and the EU. During the first quarter of 2023, both regions witnessed a more substantial increase in employment, with a growth rate of 0.5%. In July 2023, the seasonally-adjusted unemployment rate in the euro area remained steady at 6.4%, showing no change from June 2023. Unemployment decreased from 6.7% in July 2022. Similarly, the EU maintained a stable unemployment rate of 5.9% in July 2023, unchanged from June 2023, and showing an improvement from the 6.1% recorded in July 2022.



## MANUFACTURERS' SENTIMENT (PMI)

In August, the HCOB Eurozone Manufacturing PMI marked its fourteenth consecutive month below the critical 50 threshold, indicating a continued decline in operational conditions. Although the primary index experienced a slight increase to 43.5 from July's 38-month lull of 42.7, it still suggests a significant deterioration in the state of the manufacturing economy in the euro area. The manufacturing sector in the eurozone continues to face severe strain. A sharp decline in new orders and swiftly diminishing work backlogs will significantly strain production lines throughout Europe. Although factory employment levels experienced a slight decrease, the reduction in purchasing activity was more pronounced, with companies persisting in their efforts to reduce inventory levels. The manufacturing sector noted a sixth consecutive monthly decrease in input costs. Moreover, the prices of goods exiting factories were reduced, as businesses opted to transfer the cost savings to their customers.



# E.U. END MARKETS FOR ELECTRONICS

Manufacturing output rose 1.8% in June from the prior month, but output is down 0.5% from the year-ago period.



## COMPUTER, ELECTRONIC, & OPTICAL PRODUCTS

The electronics industry, which includes categories such as components, loaded boards, computers, communications equipment, and consumer electronics, rose 2.3% (month-on-month) in the last month. The sector is down 0.2% over the last year.



## MOTOR VEHICLES

Motor vehicle manufacturing output fell 2.9% (month-on-month) but the sector is up 16.7% over the last year.



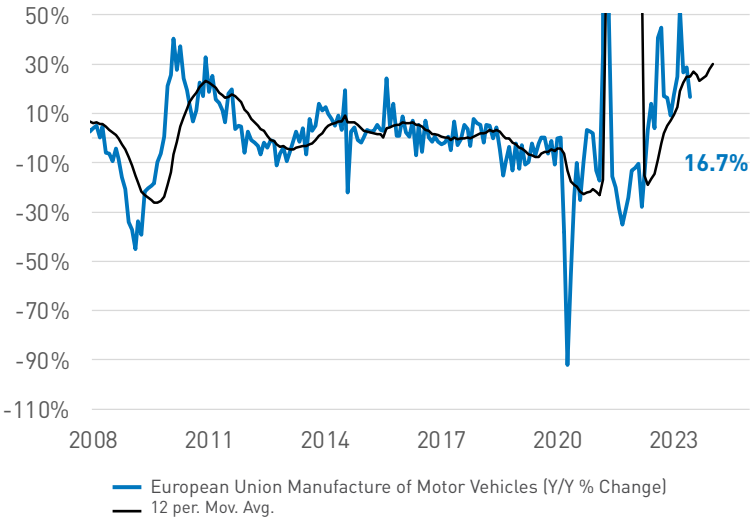
## AIR & SPACECRAFT & RELATED MACHINERY

The air and spacecraft manufacturing sector declined 0.2% during the month. The sector is up 13.3% over the last year.

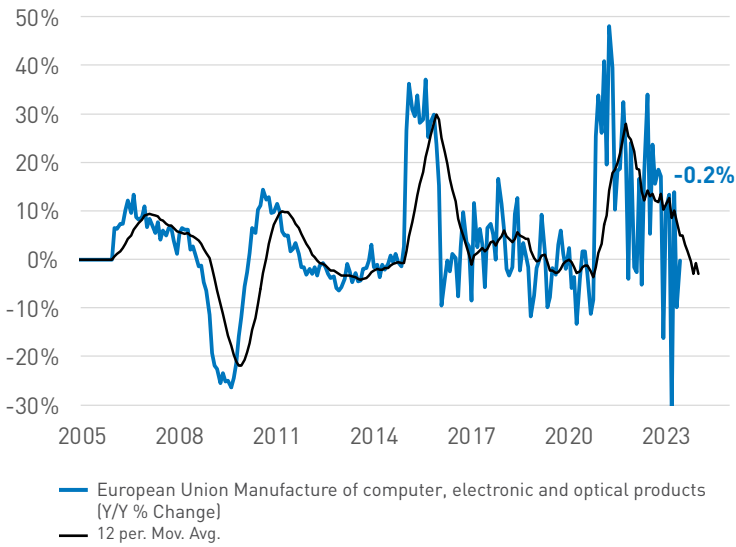
E.U. Manufacturing Output



E.U. Manufacture of Motor Vehicles



### E.U. Manufacture of Computer, Electronic & Optical Products (Y/Y % Change)



### E.U. Manufacture of Air & Spacecraft & Related Machinery (Y/Y % Change)

