Economic Landscape

February 2019

MANUFACTURING

- After taking a big dip in December, manufacturing activity rebounded a bit in January. The ISM PMI rose 2.3 percentage points in January to 56.6% reflecting faster growth in new orders and production. However, new export orders were slower and inventories may be showing signs of backing up. The ISM Prices Index fell 5.3 percentage points to 49.6% as input price pressures have subsided for the first time since February 2016.
- Industrial production fell 0.6% in January. Factory output decreased 0.9% with much of the weakness coming from motor vehicle and parts assemblies (-8.8%). Mining production ticked up 0.1% for the month, and is up by 15.3% year over year. Utilities output rose 0.4% as cold January temperatures drove demand for heat boosting natural gas utilities production 6.0% higher. Capacity utilization declined 0.6 percentage points to 78.2%, a rate 1.6 percentage points below the 1972-2018 average.

LABOR MARKETS

- In the December Job Openings and Labor Turnover survey, the number of job openings reversed trend and reached a series high of 7.34 million. Hires rose modestly to 5.91 million, while separations edged up to 5.55 million. Within separations, the number of quits ticked slightly lower to 3.48 million, though the quits rate held steady at 2.3%.
- The U.S. economy added 304,000 jobs in January with notable gains in leisure and hospitality (+74,000); construction (+52,000); health care (+41,600); professional and business services (+30,000); transportation and warehousing (+26,600); retail trade (+20,800); manufacturing (+13,000); financial activities (+13,000); and government (+8,000). After revisions, employment gains in November and December were a combined 70,000 fewer jobs than previously reported and job growth has averaged a healthy 241,000 per month over the past three months. In January, average hourly earnings rose by $0.03 to $27.56, and wages are up 3.2% over the past twelve months. The unemployment rate ticked up to 4.0%.

PRICES

- The headline Consumer Price Index (CPI) was unchanged for the third consecutive month in January. The energy index fell (-3.1%) reflecting a decline in gasoline (-5.5%) and fuel oil (-1.3%) and electricity (-0.6%) prices. Food prices trended higher (+0.2%) for both food at home (+0.1%) and away from home (+0.3%). Excluding energy and food, the core Consumer Price Index rose 0.2% in January with prices higher for shelter (+0.3%); new vehicles (+0.2%); used cars and trucks (+0.1%); apparel (+1.1%); medical care commodities (+0.1%) and services (+0.3%). Year over year, CPI increased 1.6% and core CPI rose 2.2%.
- The Producer Price Index dipped 0.1% in January following a like decline in December. The index for final demand goods decreased 0.8%, largely attributable to lower prices for final demand energy (-3.8%); final demand foods declined 1.7% in January. Excluding food and energy, prices for final demand goods increased 0.3%. Prices for final demand services rose 0.3% in January, primarily on trade service margins. The Producer Price Index has advanced by 2.0% from one year ago.
- U.S. import prices dropped 0.5% in January, the third straight monthly decline for a cumulative decrease of 3.1%. Import fuel prices fell 3.2% in January as natural gas prices plummeted (-44.2%) and petroleum prices edged lower (-0.1%). Nonfuel import prices declined by 0.2% for the month with falling import prices for industrial supplies and materials; consumer goods; automotive vehicles; and foods, feeds, and beverages. Export prices also fell, dropping 0.6% in January as agricultural prices decreased 2.1% and nonagricultural prices were down 0.3%.

SALES

- We finally got a look at December retail sales estimates, which had been delayed by a full month due to the partial government shutdown. Instead of the anticipated modest gain, the data suggests a 1.2% decline from the previous month. Sales at motor vehicle and parts dealers increased 1.0% in December, dropping sales ex-auto to -1.8%. Sales were lower at gas stations (-5.1%); furniture and home furnishings stores (-1.3%); electronics and appliance stores (-0.1%); grocery stores (-0.5%); health and personal care stores (-2.0%); clothing and accessories retailers (-0.7%); sporting goods, hobby, musical instrument, and book stores (-4.9%); department stores (-3.3%); miscellaneous store retailers (-4.1%); nonstore retailers (-3.9%); and food and drink places (-0.7%).

SIGNS OF SLOWING

Overall, the U.S. economy remains in good shape, but the data is suggesting that pace of growth is beginning to moderate. It appears that the Fed is taking a break and refraining from making additional interest rate hikes in the first half of this year. However, a Fed move in the second half is not completely off the table provided labor markets remain strong and energy prices firm up.

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