# Economic Landscape

*January 2019*

## MANUFACTURING

- The pace of growth in the manufacturing sector softened in December as the PMI registered 54.1%. Growth slowed in the component indices for new orders, production, and employment. However, new export orders grew slightly faster and inventories are regarded as too low. The ISM Prices Index dropped 5.9 percentage points to 54.9% - the lowest month of price expansion since June 2017.
- Industrial production rose 0.3% in December following a 0.4% advance in November. Factory output increased 1.1% in December, led by solid gains in motor vehicles and parts, nonmetallic mineral products, and petroleum and coal products. Mining production advanced 1.5% with growth from oil and gas extraction, coal mining, and mining support activities. Utilities output declined 6.3% for the month. The capacity utilization rate ticked up to 78.7%, just 1.1 percentage points below the 1972-2017 average.

## LABOR MARKETS

- Job growth came in surprisingly strong in December, as payrolls increased by 312,000. Gains came in health care (+50,200); professional and business services (+43,000); food services and drinking places (+40,700); construction (+38,000); manufacturing (+32,000); and retail trade (+23,800). Employment in financial activities (+6,000); mining (+4,000); and transportation and warehousing (+2,200) were little changed on the month. The official unemployment rate rose 0.2 percentage points to 3.9% for December, and the labor force participation rate gained 0.2 percentage points to 63.1%. Average hourly earnings continued to rise in December (+$0.11), and over the past twelve months have increased by $0.84, or 3.2%.
- There were 6.89 million job openings in November, 243,000 fewer openings than October but well above the number of unemployed for that time period. Hires declined (-218,000) to 5.71 million for the month, and total separations fell (-114,000) to 5.51 million. Within separations, the number of quits dropped (-112,000) to 3.41 million and the quits rate was unchanged at 2.3%.

## PRICES

- The Consumer Price Index (CPI) declined by 0.1% in December following no change in November. The food index rose 0.4% for the month reflecting higher prices for food both at home (+0.3%) and away from home (+0.4%). Energy prices posted another decline (-3.5%) in December, as lower prices for gasoline (-7.5%) and fuel oil (-11.4%) more than offset the gains in natural gas (+5.6%) and electricity (+0.7%). Excluding food and energy, the core CPI increased 0.2% in December as prices drifted higher for shelter, medical care services, and education. Year over year, the headline CPI rose 1.9% and core CPI increased by 2.2%.
- Producer prices (PPI) decreased 0.2% in December on lower prices for final demand goods (-0.4%) and services (-0.1%). A 13.1% drop in gasoline prices drove the decline in final demand goods. The drop in prices for final demand services was largely due to lower margins for food retailing. PPI less foods, energy, and trade was flat for the month.
- The U.S. Import Price Index fell 1.0% in December after declining by 1.9% in the previous month. Prices for fuel imports plunged 9.2% in December as the 11.6% drop in petroleum prices easily offset a 30.3% rise in natural gas prices. Prices for nonfuel imports were unchanged in December. Import prices are down 0.6% over the last twelve months. Export prices fell 0.6% for the month despite a 3.9% increase in the prices for agricultural exports. Prices for nonagricultural exports fell 1.1% for the month on price declines for industrial supplies and materials. Year over year, export prices have advanced 1.1%.

## THE WALL BETWEEN US

*The partial shutdown of the federal government caused a number of economic data releases to be postponed, including the important December retail sales report. The data that has been available suggests that the underlying economy remains in good shape but growth is clearly slowing. The economic drag from the shutdown was initially expected to be modest because the government agencies impacted represent about one quarter of discretionary government spending. The longer the shutdown goes on, however, the further the negative effects will ripple out from the government agencies, unpaid workers, and government contractors to the broader economy.*



First Commonwealth Advisors