Economic Landscape

March 2019

MANUFACTURING

- Manufacturing growth decelerated in February as the ISM's PMI slowed by 2.4 percentage points to 54.2%. New Orders (-2.7 percentage points), production (-5.7 percentage points), and employment (-3.2 percentage points) all grew at a slower pace in February, and the ISM Prices Index contracted (at a 49.4% reading) for the second month in a row.
- Industrial production edged slightly higher (+0.1%) in February following a 0.4% January decline. Factory output declined (-0.4%) for a second straight month. Mining production increased 0.3% for the month and has advanced 12.5% from year ago levels. Utilities output rose 3.7% in February as cold temperatures across the U.S. drove demand for heating higher. The capacity utilization rate was little changed at 78.2%, but remains 1.6 percentage points below the 1972-2018 average.

LABOR MARKETS

- Payroll employment only rose by 20,000 jobs in February, far below expectations. However, total employment figures were revised up for December and January for a combined 12,000 more jobs than previously reported, bringing the three-month average to a solid 186,000 jobs per month. In February, job gains in professional and business services (+42,000), health care (+20,800), wholesale trade (+10,900), and financial activities (+6,000) were partially offset by declines in construction (-31,000), retail trade (-6,100), and mining (-2,800). The official unemployment rate, or U-3, fell 0.2 percentage points to 3.8% for the month, while the labor force participation rate was unchanged at 63.2%. Average hourly earnings rose by eleven cents to $27.66 in February, and over the past twelve months have increased by 3.4%.
- In the January Job Openings and Labor Turnover survey, job openings rose modestly (+102,000) to 7.58 million, while hires levels (+84,000) trended upward to 5.80 million. Total separations also edged higher (+81,000), and within separations the number of quits rose by 99,000 as the quits rate remained 2.3% for the fifth consecutive month.

PRICES

- The Consumer Price Index (CPI) increased 0.2% in February after a flat reading in January. The food index advanced 0.4% reflecting broad price gains for food at home (+0.4%) as well as higher prices for food away from home (+0.4%). The index of consumer energy prices increased 0.4% in February as the 1.5% rise in gasoline prices more than offset declines for natural gas (-2.4%) and electricity (-0.3%). Excluding food and energy, the core CPI ticked 0.1% higher. Year over year, CPI rose 1.5% and core CPI increased by 2.1%.
- The Producer Price Index for final demand notched a 0.1% increase in February, attributable to the 0.4% rise in prices for final demand goods. Over 80 percent of the goods advance can be traced to a 1.8% increase in the prices for final demand energy. Prices for final demand services were unchanged in February.
- Prices for U.S. imports increased 0.6% in February led by higher energy prices. The price index for fuel imports rose 4.9% for the month with gains in petroleum (+4.7%) and natural gas (+10.5%); nonfuel import prices recorded no change. The U.S. Export Price Index rose 0.6% in February with agricultural commodity prices gaining 0.3% and nonagricultural export prices rising 0.7%. Over the last twelve months, import prices have declined 1.3% and export prices increased 0.3%.

SALES

- January retail sales rose an estimated 0.2% following an abysmal 1.6% decline in December. Sales at motor vehicle & parts dealers fell 2.4% in January, leaving sales ex-auto up 0.9% for the month. Sales decreased at furniture & home furnishings stores (-1.2%); electronics & appliance stores (-0.3%); gas stations (-2.0%); and clothing stores (-1.3%), but were offset by gains at home improvement stores (+3.3%); grocery stores (+1.2%); health & personal care stores (+1.6%); sporting goods, hobby, musical instrument, & book stores (+4.8%); nonstore retailers (+2.6%); and food & drink establishments (+0.7%). Retail sales rose 2.3% year over year.

GREEN LIGHT TURNS YELLOW

A number of economic indicators are signaling slower growth ahead. While February payroll numbers were weak, the trend has remained solid and the sharp "hit then miss" from January to February likely reflects challenges with seasonal adjustments and government shutdown effects more than anything. However, the slower growth in manufacturing raises concerns about the outlook for the factory sector as we move further into 2019. Retail sales have only partially rebounded from a weak December contraction and do not bode well for consumer spending this quarter. Even the updated projections from the Federal Reserve Board members have shaved a few tenths from their outlook for GDP growth this year. It's important to recognize that these indicators continue to point to slower growth rather than contraction, suggesting that a U.S. recession remains unlikely this year.

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