Economic Landscape

April 2019

MANUFACTURING

- Manufacturing bounced back a bit in March, as the ISM PMI rose by 1.1 percentage points to 55.3%. New orders, production, and employment all accelerated in March, but order backlogs moderated. After two months of contraction, the ISM Prices Index gained 4.9 percentage points to 54.3% suggesting modestly firmer input prices. New export orders and imports slowed as a sign of continued softening in global demand.
- Industrial production ticked lower (-0.1%) in March following a 0.1% gain in February. Factory output was unchanged in March as gains in the production of primary metals and computer and electronic parts were offset by declines in the wood products and motor vehicle industries. Utilities output rose 0.2% in March, while mining production moved down by 0.8%. The capacity utilization rate declined by 0.2 percentage points to 78.8% in March, which is 1.0 percentage point below the 1972-2018 average.

LABOR MARKETS

- The U.S. economy added 196,000 jobs in March, and revisions to payroll figures for January and February reflect a combined 14,000 more jobs than previously reported. In March, employment rose in health care (+49,100); professional and business services (+37,000); leisure and hospitality (+ 33,000); construction (+16,000); and financial activities (+11,000). Government payrolls increased by 14,000 in March predominantly at the local level. The labor force participation rate slipped to 63.0%, while the official unemployment rate was unchanged at 3.8%. Average hourly earnings advanced by $0.04 in March to $27.70, and over the last twelve months have increased by 3.2%.
- The number of job openings fell to 7.1 million (-538,000) in the February JOLTS, with the largest declines in accommodation and foodservices; real estate and rental and leasing; and transportation, warehousing, and utilities. Total hires were down slightly to 5.7 million (-133,000), while separations were little changed at 5.6 million (-24,000). Within separations, the number of quits was essentially flat at 3.5 million (-3,000), and the quits rate held steady at 2.3%.

PRICES

- The Consumer Price Index (CPI) accelerated in March, up 0.4% following a 0.2% increase in the prior month. The energy index rose 3.5% in March on rising prices for gasoline (+6.5%), fuel oil (+2.1%), and electricity (+0.4%). Food prices also increased (+0.3%) with rising prices for food at home (+0.4%) and away from home (+0.2%). However, core prices remained tame (+0.1%) as higher costs for medical care, shelter, and new vehicles were largely offset by declines in prices for apparel and used cars and trucks. Year over year, headline CPI advanced 1.9% and core CPI increased by 2.0%.
- Wholesale prices also jumped in March, as the Producer Price Index for final demand rose 0.6%. The index for final demand goods rose 1.0% with most of the gain attributable to the 5.6% spike in energy prices. Food prices increased 0.3%, and the index for final demand goods excluding food and energy rose 0.2%. Prices for final demand services rose 0.3% primarily on trade margins. Headline PPI has increased 2.2% over the past twelve months.
- U.S. import prices rose 0.6% in March led by higher fuel prices. The index for import fuel prices rose 6.4%% for the month reflecting gains in petroleum (+4.7%) and natural gas (+42.3%) prices. Import prices excluding fuel declined 0.2% in March. Prices for U.S. exports increased 0.7% for the month as agricultural export prices advanced 0.9% and nonagricultural exports rose 0.7%.

SALES

- While February sales were a disappointment (-0.2%), the news was much improved for March as estimated sales advanced by 1.6%. Auto sector sales rose 3.1% in March, while sales ex-auto increased 1.2% reflecting sales gains at furniture retailers (+1.7%); electronics stores(+0.5%); building materials and garden supplies dealers (+0.3%); grocery stores (+1.2%); gas stations (+3.5%); clothing stores (+2.0%); nonstore retailers (+1.2%); and food and drink establishments (+0.8%). Since March 2018, retail sales have increased by 3.6%.

GOOD ENOUGH FOR NOW

Data over the last few weeks shows that the U.S. economy continues to grow, but is unlikely to accelerate anytime soon. The pace of improvement is slowly waning, and the recent uptick in inflation is not expected to push above the Fed's 2% target in any meaningful way this year. Futures suggest the Fed will be very patient in the coming months, with virtually no chance of a rate hike and a diminishing chance of a rate cut.

First Commonwealth Advisors