Economic Landscape

July 2019

MANUFACTURING

- Growth continues to moderate in the manufacturing sector, as the ISM PMI drifted 0.4 percentage points lower to 51.7% in June. Production and employment picked up for the month, but new orders were flat and new export orders and order backlogs suggest sluggish growth in the months ahead. The ISM Prices Index contracted, registering 47.9% in June as prices fell for raw materials like copper, steel, energy, and aluminum.
- Industrial production registered no change in June as gains in factory output (+0.4%) and mining production (+0.2%) offset a big drop (-3.6%) in utilities output. The capacity utilization rate decreased 0.2 percentage points to 77.9% for the month, and remains 1.9 percentage points below the 1972-2018 average of 79.8%.

LABOR MARKETS

- Payroll employment rose by 224,000 in June, far above expectations, with solid additions in professional & business services (+51,000); health care (+34,900); transportation & warehousing (+23,900); construction (+21,000); manufacturing (+17,000); and social assistance (+15,600). The official unemployment rate edged up to 3.7%, while the labor force participation rate ticked up to 62.9%. Average hourly earnings rose by $0.06 in June to $27.90, and over the past twelve months have increased by 3.1%.
- May JOLTS data reveals that the number of job openings declined for a second straight month, but the number of available jobs continues to exceed the number of persons considered unemployed. The number of hires in May declined by 266,000 to 5.7 million. Total separations fell by 192,000 to 5.5 million with declines in quits, layoffs & discharges, and other separations; the quits rate was unchanged at 2.3%.

PRICES

- The headline Consumer Price Index rose 0.1% in June. The food index was unchanged as prices for food at home fell 0.2% and the price index for food away from home increased 0.3%. The energy index dropped 2.3% in June as prices fell for gasoline (-3.6%), electricity (-0.8%), and natural gas (-0.3%). Core CPI advanced 0.3% for the month reflecting broad-based gains. Since June 2018, CPI rose 1.6% and core CPI increased 2.1%.
- The Producer Price Index for final demand rose 0.1% in June. Prices for final demand goods declined by 0.4% as the 0.6% increase in food prices was more than offset by the 3.1% drop in energy prices. The price index for final demand services rose 0.4% on stronger trade margins. For the twelve months ended June 2019, PPI for final demand increased 1.7%.
- In June, U.S. import prices fell 0.9% as nonfuel prices declined 0.3% and prices for fuel imports plunged 6.5%. U.S. export prices also declined, down 0.7% for the month as the 2.7% rise in agricultural prices was outflanked by the 1.1% decrease in nonagricultural export prices – particularly industrial supplies and materials. Over the one-year period, import prices are down 2.0% and export prices are 1.6% lower.

SALES

- Personal consumption finished the quarter on a strong note, as retail sales advanced 0.4% in June. Sales at motor vehicle & parts dealers rose 0.7%, and sales excluding the auto sector increased 0.4%. Gas station sales fell 2.8% in June reflecting falling gasoline prices, and sales declined by 0.3% at electronics & appliance stores in June. Aside from those, gains were broad based with notable increases in home furnishings stores (+0.5%); home improvement stores (+0.5%); grocery stores (+0.5%); health & personal care stores (+0.5%); clothing stores (+0.5%); nonstore retailers (+1.7%); and food & drink places (+0.9%). Year over year, retail sales are up 3.4%.

IT'S COMING

Jobs and retail sales came in much better than expected for June, and core CPI registered a bit hotter than anticipated, but none of that is expected to deter the FOMC from cutting the target federal funds rate at the end of July. Fed Chair Jay Powell laid out his rationale during his recent semiannual monetary policy congressional testimony, and minutes from the June Fed meeting suggests there was a consensus decision among the members to do so barring strong evidence that the economy was on an upswing. While the size of the next cut – be it 25 basis points or 50 – remains a matter of speculation, it is clear that a rate cut is coming.

First Commonwealth Advisors