Economic Landscape

January 2020

MANUFACTURING

- The ISM manufacturing index registered 47.2% in December, marking the fifth consecutive month of contraction and the lowest reading since June 2009. New orders, new export orders, production, and employment led the slowdown. The ISM Prices Index increased by 5 percentage points to 51.7%, indicating an upturn in raw materials prices after six consecutive months of declines.
- Industrial production fell 0.3% in December, following a gain of 0.8% in the prior month. The decline can be attributed to an erratic swing from unusually cold November temperatures transitioned to unseasonably warm December weather causing a big drop in the demand for heating and a 5.6% decrease in utilities output overall. Mining production rose 1.3% in December after three straight months of declines reflecting gains in oil and gas extraction. Factory output shifted 0.2% higher, restrained by a 4.6% decrease in motor vehicles and parts assemblies. Excluding the auto sector, manufacturing production was up 0.5%. The capacity utilization rate declined by 0.4 percentage points to 77.0%, a level 2.8 percentage points below the 1972-2018 average.

LABOR MARKETS

- The U.S. economy added 145,000 jobs in December, while revisions to payroll changes in October and November account for 14,000 fewer jobs than previously reported. After the revisions, job gains averaged 184,000 over the past three months. Notable industries adding jobs in December included retail trade (+41,200); leisure and hospitality (+40,000); health care (+28,100); and construction (+20,000). Manufacturing employment declined modestly (-12,000), as did mining (-8,000). The official unemployment rate was 3.5% in December, down from 3.9% one year ago. The labor force participation rate was unchanged at 63.2% throughout the quarter. Over the past 12 months, average hourly earnings have increased by 2.9% to $28.
- Job openings declined the most in roughly four years (-561,000) to 6.8 million in the November JOLTS, while hiring improved (+39,000) and separations were essentially flat (-4,000). The quits rate was unchanged at 2.3%.

PRICES

- Following a 0.3% increase in November, consumer prices (CPI) rose 0.2% in December. The food index advanced 0.2% for the month led by higher prices for food away from home. Energy prices increased 1.4% for the month as gains in gasoline (+2.8%) and natural gas (+0.3%) more than offset a drop (-0.5%) in electricity prices. Excluding food and energy, core CPI ticked 0.1% higher with prices up for medical care, shelter, new vehicles, and apparel. Over the past twelve months, the headline Consumer Price Index and core CPI are both up 2.3%.
- The Producer Price Index for final demand rose a modest 0.1% in December. Prices for finished goods gained 0.3% for the month due mostly to a 1.5% rise in energy prices. Prices for final demand services were flat. Year over year, PPI increased 1.3%.
- Prices for U.S. imports rose 0.3%, driven by a 2.8% surge in imported fuel prices. Prices for both petroleum (+2.1%) and natural gas (+19.4%) advanced in December. Nonfuel import prices were unchanged for the month as a drop in industrial supplies and materials prices (-0.1%) offset rising prices for foods, feeds, and beverages (+1.1%). Export prices decreased 0.2% in December as prices fell for both agricultural and nonagricultural exports.

SALES

- U.S. retail and food services sales rose 0.3% in December, in line with expectations. Auto sector sales shrank (-1.3%) and gas station sales soared (+2.8%), leaving sales ex-auto and gas up 0.5% for the month. Aside from gas stations, sales also rose at electronics and appliance stores (+0.6%); home improvement stores (+1.4%); grocery stores (+.4%); health and personal care stores (+0.4%); clothing retailers (+1.6%); sporting goods, hobby, musical instrument, and book stores (+0.9%); and food and drink establishments (+0.2%). Sales to nonstore retailers rose 0.2% in December, and were up a whopping 19.2% for the year. Retail sales rose 5.8% in 2019.

2020 VISION

The U.S. economy entered the year on solid footing. While the pace of improvement is slowing, labor markets remain tight. The trade war was a headwind to the factory sector last year and suspension of Boeing's 737 MAX production will drag on first quarter activity, but recent progress on trade deals inspire some optimism that output will pick up in the second half of the year. Inflation remains benign allowing the Fed to remain on hold.

First Commonwealth Advisors