Economic Landscape

February 2020

MANUFACTURING

- The ISM manufacturing index registered 50.9% in January following five consecutive months of contraction. New orders, new export orders, and production all ramped up for the month, while employment remained soft. The ISM Prices Index increased for a second straight month following six consecutive months of contraction.
- Industrial production fell 0.3% in January following a 0.4% drop in the prior month. Unseasonably warm weather led to back-to-back declines in utilities production for December (-6.2%) and January (-4.0%). Factory output fell 0.1% in January thanks to a considerable drag from the production in the aerospace industry (-7.4%); excluding aircraft and parts, manufacturing production rose 0.3% in January. The capacity utilization rate declined by 0.3 percentage points to 76.8%, remaining below the 1972-2019 average of 79.8%.

LABOR MARKETS

- The U.S. economy added 225,000 jobs in January, besting the 175,000 average monthly jobs increase for 2019. For the month, there were notable additions in construction, health care, and transportation & warehousing. The official unemployment rate ticked up to 3.6%, while the labor force participation rate moved up to 63.4%. Over the past 12 months, average hourly earnings have increased by 3.1%.
- Job openings fell by 364,000 in December to 6.4 million, which follows a drop of 574,000 in November. The number of hires remained steady for the month at 5.9 million (+80,000), and total separations were little changed at 5.7 million (+21,000). Within separations, the number of quits declined to 3.5 million (-80,000) and the quits rate was unchanged at 2.3%.

PRICES

- The Consumer Price Index (CPI) edged 0.1% higher in January following three straight monthly gains of 0.2%. Energy prices dropped 0.7% for the month, led by a 1.6% decrease in gasoline prices. Food prices rose 0.2% with the cost of dining out (+0.4%) outpacing the costs for food at home (+0.1%). Excluding energy and food, core CPI increased 0.2% in January with prices rising for shelter, apparel, and medical care services. Since January of 2019, the headline CPI advanced 2.5% while core CPI gained 2.3%.
- The U.S. Import Price Index was unchanged from December to January. Prices for fuel imports declined by 2.2% reflecting lower prices for imported petroleum (-1.7%) and natural gas (-11.7%). Nonfuel imports increased 0.2% for the month on higher prices for finished goods; industrial supplies; and foods, feeds, and beverages. The index for U.S. export prices rose 0.7% in January with broad gains in agricultural and nonagricultural exports.
- Producer prices rose 0.5% in January, largely attributed to the 0.7% climb in final demand services. Prices for final demand goods ticked up 0.1% led by higher core prices. Prices were generally lower in the intermediate stage of demand.

SALES

- U.S. retail and food services sales rose 0.3% in January, in line with expectations. Auto sector sales advanced (+0.2%) and gas station sales slipped (-0.5%), leaving sales ex-auto and gas up 0.4% for the month. Monthly sales also rose at home improvement stores (+2.1%); furniture stores (+0.6%); grocery stores (+0.3%); food and drink establishments (+1.2%); and nonstore retailers (+0.3%). Year over year, headline retail sales are up 4.4%.

GOING VIRAL

Minutes from the January FOMC meeting suggest that Fed officials are in no hurry to cut interest rates despite the ramp up in market volatility tied to growing concerns about the coronavirus. This is at odds with the trend in futures markets, where we observe a rising probability that the Fed will cut rates by midyear or sooner. Chair Powell did indicate in his recent congressional testimony that the Fed is "closely monitoring the emergence of the coronavirus" but also noted that it was too early to speculate about the potential impact to the U.S. economic outlook. Despite the enormity of the humanitarian aspects of this health crisis, the economic ramifications can often be transitory. Expect the Fed to remain on hold until the data reflects the effects to the U.S. economy.

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