Economic Landscape

March 2020

MANUFACTURING

- The ISM manufacturing index registered 50.1% in February, down from 50.9% in the prior month. New orders contracted for the month, and new export orders slowed. Order backlogs grew in February and supplier deliveries have slowed, but with orders weakened and prices falling these components point to early signs of supply chain disruptions.
- Industrial production increased 0.6% in February following a 0.5% decline in January. Factory output ticked 0.1% higher reflecting a large gain in production of motor vehicles and parts and a large decrease for aircraft production. Mining output fell 1.5%, while utilities surged by 7.1% as cooler temperatures drove higher demand for natural gas and electric utilities. The capacity utilization rate was 77.0% for February, 2.8 percentage points below the 1972-2019 average.

LABOR MARKETS

- The U.S. added 273,000 jobs in February, with notable gains in health care (+31,600); social assistance (+24,900); food service and drinking places (+52,600); construction (+42,000); professional and business services (+41,000); and financial activities (+26,000). Government employment rose by 45,000 jobs. Net revisions to December and January reflect a total 85,000 more jobs than previously reported. The official unemployment rate edged back down to 3.5%, and the labor force participation rate held steady at 63.4%. The February Employment Situation release captures data collected prior to the escalation of COVID-19 activity restrictions. Jobless claims and unemployment measures will climb rapidly in in the next few months, but it is important to note the strength of U.S. labor markets prior to the onset.

PRICES

- The Consumer Price Index (CPI) advanced by 0.1% in February following a 0.1% increase in January. Food prices rose 0.5%, led by broad gains in grocery prices (+0.5%). The index for consumer energy decreased 2.0% in February reflecting declines in gasoline (-3.4%), fuel oil (-8.5%), natural gas (-0.9%), and electricity (-0.1%). Core consumer prices rose 0.2% boosted by gains in shelter, medical care, new vehicles, tobacco, and alcohol. For the twelve months ended in February, headline CPI rose 2.3% and core CPI increased 2.4%. Looking ahead, the plunge in oil prices triggered by the price war and weaker demand for core goods and services resulting from the global health crisis will slow inflation in the coming months.
- The Producer Price Index dropped 0.6% in February. The index for final demand goods fell 0.9% for the month, led by the 3.6% decrease in energy prices. Service prices also declined (-0.3%) due largely to falling trade margins. Year over year, PPI increased 1.3% while prices for final demand less foods, energy, and trade services declined 1.4%.
- Prices for U.S. imports declined 0.5% in February as the 7.7% drop in fuel import prices more than offset the 0.3% gain in nonfuel imports. U.S. export prices also fell in February, down by 1.1%, with prices for agricultural exports down 2.7% and nonagricultural prices off by 1.0%.

SALES

- Retail sales declined 0.5% in February. Sales were lower at motor vehicle and parts dealers (-0.9%) and gas stations (-2.8%), and sales excluding auto and gas fell 0.2%. Monthly sales also decreased at home furnishing stores (-0.4%); electronics and appliance stores (-1.4%); home improvement stores (-1.3%); apparel stores (-1.2%); food and drink places (-0.5%); and more. Not surprisingly, nonstore retailers (+0.7%) posted one of the only gains.

BUSINESS UNUSUAL

While the U.S. economy remained on solid footing in the first half of February, the shutdown of so much activity along with "social distancing" in order to slow the spread of COVID-19 has created an unprecedented demand shock. This interruption of what had become normal life brings with it a cycle of curtailed spending and higher unemployment for at least the next few weeks and months. The Fed has responded quickly and aggressively, slashing rates to zero and launching numerous programs to maintain the flow of credit to people and businesses. At this writing, Congress and the Trump administration are close to agreement on a major stimulus package to further support the economy by providing aid to citizens and businesses. As sure as we are that the economy is about to get worse, we are equally assured that tremendous efforts are being made to hasten us to the eventual recovery. Hang in there, and be safe.

First Commonwealth Advisors