Economic Landscape

April 2020

MANUFACTURING

- The ISM manufacturing index fell from 50.1% in February to 49.1%, though the underlying survey details reveal a sharper contraction in the manufacturing economy. New orders, production, employment, and new export orders receded at an accelerated pace and the ISM Prices Index plunged to 37.4%. The index for supplier deliveries rose to 65.0% suggesting slower delivery times, and as was the case in February, a result of supply chain constraints.
- In March, industrial production declined by 5.4% as a number of production facilities suspended their operations due to the COVID-19 pandemic. Factory output dropped by 6.3%, led by a 28.0% drop in the production of motor vehicles and parts. Utilities output decreased 3.9% in March with declines in both electric and natural gas utilities. Mining production fell 2.0% with drops in crude oil extraction, coal mining, natural gas liquids extraction, and non-energy mining. The capacity utilization rate decreased 4.3 percentage points in March to 72.7%.

LABOR MARKETS

- Payroll employment fell by 701,000 jobs in March with notable declines in leisure and hospitality (-459,000); health care and social assistance (-61,200); professional and business services (-52,000): retail trade (-46,200); and construction (-29,000). The unemployment rate rose by 0.9 percentage points to 4.4% in March and the labor force participation rate fell to 62.7%. Data surveys for the monthly employment situation report generally occur prior to the middle of the month, and would not fully reflect the extensive impact of the COVID-19 crisis and measures taken to contain it. We therefore anticipate that the April jobs report will indicate a further large increase in the number of jobs lost and in the overall unemployment rate.

PRICES

- The headline Consumer Price Index (CPI) decreased 0.4% in March following modest 0.1% gains in both January and February. Consumer food prices were 0.3% higher in March, led by a 1.1% gain in prices for food at home. The energy index declined 5.8% for the month reflecting price drops in gasoline (-7.4%), fuel oil (-13.7%), natural gas (-1.4%), and electricity (-0.2%). Excluding food and energy, core CPI decreased 0.1% with noteworthy declines in prices for lodging away from home (-6.8%), airlines fares (-12.6%), apparel (-2.0%), and new vehicles (-0.4%). Prices were higher, though, for physicians' services (+0.3%), hospital services (+0.4%), used cars and trucks (+0.8%), and motor vehicle insurance (+0.6%). Year over year, CPI rose 1.5% and core CPI is up 2.1%.

SALES

- Business shutdowns and stay-at-home orders resulted in big declines for March retail sales, down 8.7% from February. Auto sector sales plunged 25.6% and gas station sales decreased by 17.2%, leaving sales excluding auto and gas 3.1% lower from February levels. Significant drops occurred in sales at furniture stores (-26.8%); electronics & appliance stores (-15.8%); clothing & accessories stores (-50.5%); sporting goods, hobby, musical instrument, & book stores (-23.3%); and food services & drinking places (-26.5%). By contrast, grocery store sales surged (+26.9%), and gains were also registered at home improvement stores (+1.3%); health & personal care stores (+4.3%); general merchandise stores (+6.4%); and nonstore retailers (+3.1%).

KEEP GOING

Manufacturing activity, labor markets, and retail sales all nosedived in March reflecting the early stages of the U.S. shutdown of all nonessential business activity. April will certainly be worse, but over the next few months many economic indicators will also be somewhat skewed as different industries and geographic regions of the U.S. will fall and rebound at distinctly separate paces. To help ease the strain on small businesses, the government's Paycheck Protection Program initially authorized $349 billion in emergency loans and approval for additional funding is anticipated. The Federal Reserve remains proactive in measures to broadly support market liquidity and access to credit. At the household level, stimulus payments and increased unemployment compensation allocated by the CARES (Coronavirus Aid, Relief, and Economic Security) Act have started to go out to qualified individuals. We expect some unprecedented economic declines during the second quarter of 2020, but if we can gain confidence in the public health response to this crisis and keep going, we will see signs of recovery in the second half of the year.

First Commonwealth Advisors