Economic Landscape

June 2020

MANUFACTURING

- The ISM manufacturing index rose from 41.5% in April to 43.1% for May indicating that the pace of contraction in the manufacturing economy has slightly subsided. New orders, production, and employment also reflected slower contraction. Supplier deliveries remained extremely sluggish but also better than April levels.
- Following a 12.5% plunge in April, industrial production advanced 1.4% in May. Factory output rose 3.8% in May as auto industry factories began to resume operations. Mining production dropped by 6.8% for the month, and utilities output fell 2.3%. Capacity utilization increased by 0.8 percentage points to 64.8% in May, a rate that is 15.0 percentage points below its long-run (1972–2019) average and 1.9 percentage points below its trough during the Great Recession.

LABOR MARKETS

- Payrolls increased by 2.5 million jobs in May with some of the industries hardest hit due to COVID-19 shutdowns reflecting good gains. Employment in leisure and hospitality rose by 1.2 million following declines of 7.5 million in April. Construction recouped 464,000 in May after falling by 995,000 in April. Education and health services, retail trade, and manufacturing also significantly regained jobs in May but all remain well under pre-COVID employment levels. The official unemployment rate fell from 14.7% in April to 13.3% in May, though the Bureau of Labor statistics notes that data collection errors and reduced survey respondents have likely underreported the unemployment rate by as much as 3 percentage points.

PRICES

- Consumer prices declined for a third consecutive month as headline CPI ticked 0.1% lower in May. The food index rose 0.7% led by a 1.0% gain in prices for food at home. Consumer energy prices fell 1.8% in May due to declines in gasoline and electricity prices. Excluding food and energy, core CPI decreased 0.1% in May. Over the past twelve months, the headline Consumer Price Index is up 0.1% and core CPI increased 1.2%.
- Producer prices rose 0.4% in May following two straight months of declines. The increase is attributable to the 1.6% gain in final demand goods, while the index for final demand services declined 0.2%. U.S. import prices rose 1.0% in May, driven by a 20.5% gain in prices for imported fuels. Prices for U.S. exports increased 0.5% as the 0.6% rise in nonagricultural prices more than offset the 0.5% fall in agricultural export prices.

SALES

- Consumer spending bounced higher than expected, as retail sales rose 17.7% from April to May but remain 6.1% below May 2019 sales. While every major business sector posted a gain in May, the rebound was uneven. There were big monthly increases in clothing (+188.0%); furniture and furnishings (+89.7%); electronics and appliance stores (+50.5%); department stores (+36.9%); food and drink places (+29.1%); and gas stations (+12.8%), but sales in all of these industries remain well below year ago levels. Auto sector sales rose 44.1% in May and are down 3.9% from last year. May sales also increased at sporting goods, hobby, musical instrument, and book store (+88.2%); home improvement stores (+10.9%); grocery stores (+1.3%); and nonstore retailers (+9.0%) and are higher year over year.

ONE STEP FORWARD

The improvement in economic activity in May does support the notion that the worst is behind us; however, the magnitude of improvement in May is unlikely to be repeated in June. The number of COVID-19 infections has generally been trending lower in the U.S., but the states where the number of cases is on the rise has led to concerns about future economic implications and is stoking market volatility. The June Summary of Economic Projections indicates that Fed officials believe that unemployment will remain above pre-COVID levels for several years and expect to keep the federal funds rate at the zero lower bound through 2022. We believe that the U.S. is in a better position to deal with a possible resurgence of the coronavirus, but we also anticipate a slower pace of economic recovery going forward.

First Commonwealth Advisors