

# Economic Landscape

May 2024

## MANUFACTURING

- Manufacturing activity contracted last month as the April ISM PMI registered 49.2% following the 50.3% PMI breakthrough in March. New orders and new export orders flipped from growing to receding and production growth moderated slightly. Input prices accelerated in April, with the ISM Prices Index hitting 60.9%.
- After edging 0.1% higher in March, industrial production was flat in April. Factory output declined by 0.3%, predominantly on weakness in durables manufacturing. Mining output fell 0.6% in April led by a drop in coal mining. Utilities production rose by 2.8%. Capacity utilization registered 78.4% for April, a level 1.2 percentage points below the 1972-2023 average of 79.6%.

## LABOR MARKETS

- The April jobs report suggested a somewhat cooler labor market. Nonfarm payrolls increased by 175,000 in April, less than expected. Most of the jobs were added in health care (+56,000); social assistance (+31,000); transportation and warehousing (+22,000); retail trade (+20,000); and construction (+9,000). The official unemployment rate ticked up to 3.9%. Average hourly earnings rose by 0.2%, or \$0.07, in April, and year over year wages have grown by 3.9%.

## PRICES

- The headline Consumer Price Index rose 0.3% in April, a tenth of a percent under expectations. The food index was unchanged as grocery prices declined 0.2% for the month while prices for food away from home advanced 0.3%. April energy prices increased 1.1% reflecting higher prices for gasoline (+1.2%) and fuel oil (+0.9%), more than offsetting the drop in natural gas (-2.9%) and electricity (-0.1%). Excluding food and energy, core CPI rose 0.3%, in line with expectations. Shelter was up 0.4% in April and continues to be the largest factor in the monthly rise in core prices. Prices for vehicle insurance and medical care moderated a bit from the prior month, and prices fell for new vehicles, used cars and trucks, and for household furnishings and operations. Over the past 12 months, headline CPI has risen 3.4% and core CPI increased 3.6%.
- The Producer Price Index for final demand (PPI) rose 0.5% in April, due largely to the 0.6% rise in service prices; prices for goods increased 0.4%. U.S. import prices advanced 0.9% for the month as prices for fuel imports rose 2.4% and nonfuel imports increased 0.7%. Export prices rose 0.5% in April despite another decline in agricultural export prices (-1.3% in March and -0.9% in April). Nonagricultural export prices increased 0.7%

## SALES

- Retail sales were unchanged from March to April. Auto sector sales declined by 0.8%, leaving sales ex-auto up a modest 0.2%. Sales were also lower at furniture stores (-0.5%); health & personal care stores (-0.6%); stores for sporting goods, hobbies, etc. (-0.9%); and online retailers (-1.2%). However, sales did advance in a number of categories including electronics & appliance stores (+1.5%); home improvement stores (+0.5%); grocery stores (+0.6%); gas stations (+3.1%); clothing stores (+1.6%); and bars and restaurants (+0.2%).

## A STEP IN THE RIGHT DIRECTION

*The manufacturing sector remains under pressure as the “higher for longer” rate environment has meant elevated borrowing costs and greater uncertainty, which has no doubt constrained capital investment and production activity. Labor markets and retail sales came in a little softer than expected, but there’s little to suggest that consumer spending is about to shift dramatically lower. Perhaps more importantly, the gradual reduction in wage inflation and the slightly cooler pace of consumer price inflation marked a step in the right direction for Fed officials looking for confirmation that inflation is subsiding.*

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