Economic Landscape

June 2024

MANUFACTURING

- The manufacturing sector contracted for a second straight month as the ISM PMI manufacturing index fell from 49.2% in April to 48.7% for May. Faster contraction in New Orders and quicker runoff of backlogs reflect weaker demand. However, output improved for the month as production and employment expanded. Inventory drawdown accelerated in May, and the ISM Prices index fell 3.9 percentage points to 57.0%, indicating that input prices are still rising.
- Industrial production increased 0.9% in May following a flat April. Factory output advanced 0.9% reflecting broad gains across a majority of industry groups. Mining production increased 0.3% led by stronger oil and gas extraction. Utilities output rose by 1.6% for the month. The capacity utilization rate moved up by five tenths of a percent to 78.7%, still lingering below the 1972-2023 average of 79.6%.

LABOR MARKETS

- The U.S. economy added 272,000 jobs in May with noteworthy gains in health care (+68,000); government (+43,000); leisure and hospitality (+42,000); and professional, scientific, and technical services (+32,000). Average hourly earnings rose by $0.14 (or 0.4%) in May, putting year over year wage growth at 4.1%. The separate household survey was less robust as the official unemployment rate ticked up to 4.0% and the participation rate slipped to 62.5%.
- The number of job openings fell (-296,000) to about 8.1 million in April, while the number of hires remained fairly steady (+23,000) at 5.6 million. Total separations rose modestly (+42,000) to 5.4 million, and within separations, layoffs and discharges fell (-86,000) while quits accelerated (+98,000). The quits rate remained 2.2%.

PRICES

- The Consumer Price Index (CPI) was unchanged from April to May. The energy index decreased by 2.0% for the month, led lower by gasoline (-3.6%), natural gas (-0.8%), and fuel oil (-0.4%). The food index increased 0.1% in May with grocery prices unchanged and prices to dine out up 0.4%. Excluding energy and food, the core CPI rose 0.2% in May with shelter (+0.4%) again being the largest factor in the monthly advance. Prices also increased for medical care services, prescription drugs, and used cars and trucks. Prices fell in April for airfare, new vehicles, apparel, and motor vehicle insurance. Over the past twelve months, headline CPI is up 3.3% and core CPI has increased by 3.4%.
- The Producer Price Index for final demand declined 0.2% from April to May, led by a 4.8% drop in energy goods. The index for final demand service prices was unchanged, as was the core PPI index, which excludes foods, energy, and trade services. The index of U.S. import prices decreased 0.4% in May with fuel import prices down by 2.0% and nonfuel prices down 0.3%. U.S. export prices fell by 0.6% in May as the 0.5% increase in agricultural prices was more than offset by the 2.0% decline in prices for nonagricultural industrial supplies and materials.

SALES

- Retail sales were underwhelming in May, up 0.1% following a 0.2% dip in April. Auto sector sales rose 0.8%, leaving sales ex-auto down 0.1%. The biggest declines were in sales at gas stations (-2.2%); furniture and home furnishings (-1.1%); grocery stores (-0.4%); and bars and restaurants (-0.4%).

A DELICATE BALANCE

The Fed's updated Summary of Economic Projections suggests only one (or maybe two) rate cuts are likely warranted this year and Chairman Powell has repeatedly suggested that the timing of cuts is dependent upon the data. To cut too soon may halt or reverse the progress to date on inflation, but to wait too long is to risk greater declines in job openings, wages, and spending. Fed officials maintained their outlook for continued economic growth over the next few years as well as only a modest uptick in unemployment.

First Commonwealth Advisors