

Economic Landscape

May 2017

MANUFACTURING

- Manufacturing activity grew at a slower pace in April, as the Institute for Supply Management's PMI registered 54.8%, falling short of expectations as well as 2.4 percentage points below the March reading. New orders dropped 7.0 percentage points to 57.5%, but production accelerated by a point to 58.6%; employment declined by 6.9 percentage points to 52.0%. The ISM Prices Index decreased to 68.5% reflecting weaker input prices led by oil.
- Industrial production rose 1.0% in April marking the biggest one-month gain since February 2014. Factory output advanced 1.0% reflecting broad-based gains in production of durables and nondurables. Utilities output rose 0.7% as rising demand for air conditioning and electricity more than offset reduced output for gas utilities and lower heating demand. Mining production increased 1.2% in April on stronger coal mining output and upturns in drilling and support activities. The capacity utilization rate rose by 0.6 percentage points to 76.7%.

LABOR MARKETS

- Rebounding from a weather-related weak March, nonfarm payrolls increased by 211,000 in April with notable job growth in leisure & hospitality (+55,000); professional & business services (+39,000); financial activities (+19,000); health care (+19,500); social assistance (+17,300); mining (+8,800); manufacturing (+6,000); and construction (+5,000). Government employment rose by 17,000 jobs in April.
- The official unemployment rate (4.4%) and the labor force participation rate (62.9%) both edged slightly lower for the month. Average hourly earnings for private payroll employees rose by \$0.07 to \$26.19, and over the past 12 months hourly earnings have increased by 2.5%.
- Job openings rose (+ 61,000) to 5.74 million in the March Job Openings and Labor Turnover Survey, while hires picked up modestly (+11,000) to 5.26 million. The quits rate was unchanged at 2.1%, but the number of quits as a percentage of separations edged higher suggesting that employers are motivated to retain workers in the tight labor market conditions.

SALES

- Retail sales increased 0.4% in April, and March sales were revised higher (from -0.2% to +0.1%). Auto sector sales rose 0.7%, leaving sales ex-auto up 0.3%. Gas station sales increased 0.2% for the month, while sales at building material & garden equipment & supplies dealers advanced 1.2%. The control group, used in the GDP calculation, rose 0.2% in April as sales rose at electronics & appliance stores (+1.3%); health & personal care stores (+0.8%); sporting goods, hobby, book & music stores (+0.6%); food & drink establishments (+0.4%); and nonstore retailers (+1.4%). Sales declined at furniture & home furnishings stores (-0.5%); grocery stores (-0.4%); and clothing & accessories stores (-0.5%). Year over year, retail sales have gained 4.8%.

PRICES

- The U.S. Import Price Index increased 1.5% in April following an upwardly revised gain of 0.1% in the prior month. Imported fuel prices rose 1.6% in April reflecting gains in petroleum (+1.6%) and natural gas (+4.0%). Nonfuel import prices increased 0.3% for the month, as broad price gains were led by industrial supplies. Export prices rose 0.2% in April with agricultural export prices up 0.3% and nonagricultural prices ticking 0.1% higher.
- Consumer prices bounced back in April, as the Consumer Price Index rose 0.2% following a 0.3% decline in March. Consumer food prices increased 0.2% in April reflecting a 5.1% jump in fresh fruit prices which offset declines across most of the remaining categories of food at home; prices for food away from home also increased. Energy prices advanced 1.1% in April on higher prices for gasoline, natural gas, and electricity. Excluding food and energy, core CPI increased 0.1%, predominantly on the 0.3% rise in the cost of shelter. Over the past 12 months, headline CPI rose 2.2% and core CPI increased 1.9%.

OUTSHINED

Manufacturing data has been somewhat mixed over the last few weeks, as good readings for industrial production, factory and durable goods orders, and positive surveys from the ISM and Philly Fed were tempered by weaker measures from Empire State Manufacturing and Markit. Filtering out the glare and noise, the manufacturing sector is positioned for steady - albeit modest - growth in the coming months. Along with the strong labor market and rebound in inflation, the Fed should remain on track for another rate hike in June.

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