Economic Landscape

July 2017

MANUFACTURING

- The ISM manufacturing index registered 57.8% for June, its highest reading since August 2014. New orders, backlog of orders, and new export orders accelerated for the month and bodes well for manufacturing activity in the third quarter. Employment, production, and inventories also improved in June. The ISM Price Index fell 5.5 percentage points to 55.0% for the month, indicating that prices are rising at a slower pace than the previous month.
- Industrial production increased 0.4% in June marking a fifth straight monthly gain. Factory output rose 0.2% for the month on higher durable goods production. Utilities output was unchanged from the prior month, and mining production jumped 1.6% reflecting gains in oil and gas extraction, coal mining, drilling, and support activities. The capacity utilization rate increased by 0.2 percentage points to 76.6%, but remains below the longer run average of 79.9% suggesting there is lingering slack in the industrial sector.

LABOR MARKETS

- Nonfarm payrolls exceeded expectations and increased by a strong 222,000 in June, and the prior two-month net revision accounts for 47,000 more jobs than previously reported. In June, there was notable job growth in health care (+36,500); professional & business services (+35,000); food services & drinking places (+29,300); social assistance (+22,600); financial activities (+17,000); construction (+16,000); and mining (+8,000). Government employment rose by 35,000 in June, almost entirely at the local level. The official unemployment rate edged up to 4.4% as the civilian labor force grew by 361,000 and the number of employed persons increased by 245,000 in June; the labor force participation rate ticked up to 62.8%. Average hourly earnings rose by $0.04 in June to $26.25 and year-over-year average wages are up 2.5%.
- Data from the May Job Openings and Labor Turnover Survey (JOLTS) reveal that job openings declined to 5.67 million in May, about 301,000 fewer jobs than the April JOLTS. Hiring rose by 429,000 in May to 5.47 million with gains across a majority of industries. Total separations increased by 251,000 and quits rose by 177,000, as the quits rate rose to 2.2%.

SALES

- Another swing and a miss for retail sales, as June sales fell 0.2% following an upwardly-revised drop of 0.1% in May. Auto sector sales rose slightly (+0.1%) for the month, but sales at gas stations plunged 1.3% on falling energy prices, leaving sales ex-auto and gas down 0.1% in June. Sales also declined at grocery stores (-0.5%); clothing & accessories stores (-0.1%); sporting goods, hobby, book & music stores (-0.6%); department stores (-0.7%); and food & drink establishments (-0.6%). It was not all bad news, however, as sales trended higher at furniture & home furnishings stores (+0.1%); electronics & appliance stores (+0.1%); home improvement stores (+0.5%); health & personal care stores (+0.3%); and nonstore retailers (+0.4%).

PRICES

- June import prices fell 0.2% following a 0.1% decrease in May. Energy once again pulled the broader index lower, as fuel import prices declined 2.1% in June with petroleum (-2.2%) and natural gas (-1.0%) both down. Prices for nonfuel imports rose 0.1% for the month on higher import prices for foods, feeds, & beverages as well as capital goods. U.S. export prices declined 0.2% in June with prices for agricultural exports down 1.5% for the month with nonagricultural exports recorded no change. Over the past 12 months, the Import Price Index rose 1.5% while the Export Price Index gained 0.6%.
- The Consumer Price Index (CPI) was flat from May to June as headline inflation continues to moderate. The energy index declined 1.6% for the month reflecting lower consumer prices for gasoline (-2.8%), electricity (-0.6%), and natural gas (-0.2%). The food index was unchanged in June after five consecutive monthly increases. Excluding food and energy, core CPI rose 0.1% in June with higher prices for shelter, medical care, auto insurance, education, and personal care. For the 12 months ending June, the headline CPI rose 1.6% and core CPI increased 1.7%.

INFLATION ABERRATION

The U.S. economy appears to be at or near full employment, though wage growth remains stuck in the mid-two percent range, limited in part by weak productivity and inflation. Most inflation measures have softened over the past few months, though the Fed continues to view the situation as transitory. However, the future trajectory of rate hikes seems contingent upon inflation pressures firming up from current levels and it seems unlikely that the Fed will move the target federal funds rate again before the December meeting.

First Commonwealth Advisors