Economic Landscape

April 2012

MANUFACTURING & PRODUCTION

- Expansion in the manufacturing sector extended its run to 32 consecutive months according to the Institute for Supply Management's monthly Report on Business. The PMI rose to 53.4% in March as growth accelerated in employment and production suggesting continued support for the expansion. New orders and exports grew at a slower pace in March, and inventory activity was unchanged. The prices paid component slipped modestly from 61.5% in February to 61.0% in March. More importantly, the price index remained above the 50% breakeven for three months in a row, reflecting a rising trend in the price of raw materials – particularly copper, aluminum and crude oil.
- Industrial production was unchanged again in March. Factory output decreased 0.2% for the month, but this follows three straight months of solid gains. Mining production rose 0.2%, while utilities production advanced 1.5% for the month. The capacity utilization rate for March was 78.6%, slightly below the long-term average of 80.3%.

LABOR MARKETS

- Payroll employment increased by 120,000 in March, with gains in manufacturing (+37,000), food and drink establishments (+37,000), professional and business services (+31,000), health care (+26,000), and financial activities (+15,000). Retail trade employment fell by 34,000 for the month.
- The unemployment rate fell slightly from 8.3% in February to 8.2% for March, and the number of persons counted as unemployed was little change at 12.7 million. Average hourly earnings rose $0.05, or 0.2%; year over year average hourly earnings grew by 2.1%.

SALES

- Retail sales rose by an impressive 0.8% in March following a 1.0% increase for February. Sales at motor vehicle and parts dealers gained 0.9%, leaving sales ex-auto up 0.8% across a broad range of business categories. Home improvement store sales surged by 3.0% for the month, while sales at furniture and home furnishing stores increased 1.1% and electronics and appliance store sales rose 1.0%. Gas station sales are 1.1% higher. Sales at clothing stores grew by 0.9%; sporting goods, hobby, book and music store sales increased by 0.5%; and department store sales rose 0.3%. Sales at grocery stores and food and drink establishments each advanced by 0.3%. Over the past 12 months, retail sales have trended 6.4% higher.

PRICES

- U.S. import prices jumped 1.3% in March, the first monthly increase since the 0.7% increase in November. Prices for fuel imports rose 3.8% as the 4.3% surge in petroleum prices more than offset the 14.2% decline in natural gas import prices. Nonfuel import prices advanced 0.5% in March. Export prices rose 0.8% in March, which is the biggest gain in this index since an equivalent rise in April of last year.
- The Producer Price Index for finished goods was unchanged in March following the 0.4% gain for February, according to the Bureau of Labor Statistics. The index for finished foods edged up 0.2% for the month, while wholesale energy prices declined 1.0%. Excluding food and energy, core PPI rose a more-than-expected 0.3%for the month. Prices in the earlier stages of production were mixed, with intermediate goods up 0.7% while crude goods declined 2.5% in March.
- The Consumer Price Index increased 0.3% in March after rising 0.4% in February. Foods prices were 0.2% higher in March. The energy index, which increased 3.2% in February, rose 0.9% in March on higher prices for gasoline and fuel oil. Core CPI advanced 0.2% in March. Over the past 12 months, the headline CPI increased 2.7% while core CPI rose 2.3%.

FEDERAL RESERVE

- The April 25 FOMC statement noted a moderately improving economy, albeit one with an elevated unemployment rate. With only one dissension, the Committee voted to maintain the target federal funds rate range at 0.00% to 0.25% with the expectation to keep rates low through late 2014. The Fed's economic projections have been modestly adjusted to reflect slightly accelerated improvement in unemployment and GDP growth for 2012 coupled with an uptick in core inflation.

THE STORY SO FAR

While some of the economic data released over the last few weeks has been mixed, none of the underlying trends have altered the trajectory of the economic expansion. Wage growth continues to lag headline inflation (and is barely keeping up with core inflation), but retail sales figures reflect solid spending on consumer goods.

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