

Economic Landscape

April 2024

MANUFACTURING

- Following 16 consecutive months of contraction, the ISM manufacturing index came in above the breakeven level at 50.3% for March. Contributing to the upturn were turnarounds in new orders and production. The employment index (47.4%) suggests weak hiring in the manufacturing sector, while backlogs continue to fall and delivery times held steady. Rising input prices accelerated in March.
- Industrial production advanced 0.4% in March following an upwardly revised 0.4% gain in February. Factory output increased 0.5% for the month reflecting solid gains in the auto, aerospace, and wood products industries. Mine production declined 1.4% in March on weaker oil and gas extraction; the output of utilities increased by 2.0%. The capacity utilization rate ticked up to 78.4%, just 1.2 percentage points below the 1972-2023 average.

LABOR MARKETS

- Payroll employment rose by 303,000 jobs in March, considerably higher than expected. Job growth occurred in health care (+72,000); government (+71,000); construction (+39,000); leisure and hospitality (+49,000); and retail trade (+18,000). The official unemployment rate was 3.8% for March and has remained range bound (3.7% to 3.9%) since last summer. Average hourly earnings increased in March by 0.3%, and are up by 4.1% over the past 12 months.

PRICES

- Consumer prices came in higher than expected in March, as the headline CPI rose 0.4% for a second straight month. Over half the monthly increase can be attributed to the gains in shelter (+0.4%) and gasoline (+1.7%). The food index was up 0.1% in March with grocery prices flat while prices to dine out rose 0.3%. The energy index increased 1.1% as the rise in prices for gasoline and electricity more than offset the drop in fuel oil prices. Excluding food and energy, core CPI rose 0.4% in March as prices rose for vehicle insurance, medical care, apparel, and personal care in addition to shelter. Prices were lower for new vehicles (-0.2%) and used cars and trucks (-1.1%). Year over year through March, CPI increased 3.5% and core CPI is up 3.8%.
- In March, the Producer Price Index for final demand rose 0.2% following a 0.6% increase in February, with the services index up 0.3% and the goods index down 0.1%. U.S. import prices increased 0.4% for the month led by a 4.7% advance in imported fuel prices. Prices for U.S. exports rose 0.3% in March as the 0.4% gain in nonagricultural export prices more than offset the 0.7% drop in agricultural export prices.

SALES

- Retail sales exceeded expectations in March with a 0.7% gain. Auto sector sales fell by 0.7% for the month, leaving sales ex-auto up 1.1%. The biggest gains came from sales at home improvement stores (+0.7%); gas stations (+2.1%); grocery stores (+0.5%); online retailers (+2.7%); and bars and restaurants (+0.4%). Sales were weaker at furniture stores; electronics and appliance stores; department stores; and sporting goods, hobby, book, and music retailers.

WATCHING AND WAITING

Labor markets and consumer spending remained solid through the first quarter, and the manufacturing sector may finally be stabilizing. However, the continued strength in economic activity has coincided with slower progress on reducing inflation. Fed rate cuts are now anticipated to start later and be smaller than previously expected.