

Economic Landscape

May 2018

MANUFACTURING

- Growth continued to moderate in the manufacturing sector, as the PMI slipped from 59.3% for March to 57.3% in April. New Orders, Production, and Employment indices all grew at a slower pace in April, while the index for Backlog of Orders grew faster. Respondents noted again that demand remains strong but that activity is being restrained by labor and skill shortages as well as supply chain disruptions. The ISM Prices Index rose 1.2 percentage points to 79.3% for the month registering its highest level since April 2011 and supports the expectation of further upticks in upcoming inflation measures.
- In April, industrial production increased 0.7% following an upwardly revised gain of 0.7% in March. It is worth noting, however, that first quarter industrial production was revised lower on net, to an annualized rate of 2.3%. Utilities output jumped 1.9% as abnormally cold temperatures boosted heating demand in April. Mining production advanced 1.1% for the month as gains in oil and gas extraction more than offset a downturn in coal mining. Factory output rose 0.5% in April with broad gains in a number of industries excluding motor vehicles and parts (-1.3%) and wood products (-1.2%). The capacity utilization rate increased by 0.4 to 78.0%, a rate 1.8 percentage points below the 1972-2017 average.

LABOR MARKETS

- U.S. payrolls added 164,000 jobs in April, with noteworthy gains in professional and business services (+54,000); manufacturing (+24,000); health care (+24,400); leisure and hospitality (+18,000); construction (+17,000); and mining (+8,000). The unemployment rate edged down to 3.9% and the labor force participation rate ticked down to 62.8%. Average hourly earnings increased by \$0.04 in April to \$26.84, and over the past 12 months wages are up 2.6%.
- The March Job Openings and Labor Turnover Survey (JOLTS) reported that job openings rose by 472,000 to 6.55 million marking the highest level recorded since the series began in December 2000. The number of hires declined by 86,000 in March to 5.43 million. Total separations increased by 118,000 for the month, and within separations the number of layoffs and discharges fell by 56,000 while the number of quits rose by 136,000 and the quits rate ticked up to 2.3%. Overall the March JOLTS suggests an increasingly tighter labor market and upward pressures on wages.

SALES

- U.S. retail and food services sales rose 0.3% in April following a 0.8% gain in March signaling a promising start to the second quarter relative to consumer spending. Sales to motor vehicle & parts dealers notched a 0.1% increase, leaving sales ex-auto essentially unchanged at +0.3%. Sales also rose at clothing & accessories stores (+1.4%); miscellaneous store retailers (+0.9%); gas stations (+0.8%); furniture & home furnishings stores (+0.8%); nonstore retailers (+0.6%); grocery stores (+0.5%); and home improvement stores (+0.4%). However, monthly sales declined at health & personal care stores (-0.4%); food & drink places (-0.3%); electronic & appliance stores (-0.1%); and sporting goods, hobby, book, & music stores (-0.1%). Sales are up 4.7% year over year.

PRICES

- Producer prices increased 0.1% in April as prices moderated somewhat from the 0.3% gain in March. Prices for final demand services rose 0.1% for the month, while prices for final demand goods were unchanged. For the 12 months ending April 2018, the Producer Price Index advanced 2.6%.
- The Consumer Price Index (CPI) increased 0.2% in April after edging lower (-0.1%) in March. The energy index jumped 1.4% in April as rising gasoline prices (+3.0%) outweighed declines in electricity (-0.6%) and natural gas (-0.4%). Consumer food prices advanced 0.3% for the month led by increases in prices for fruits and vegetables (+1.0%); meats, poultry, fish, and eggs (+0.7%); and dairy products (+0.4%). Excluding food and energy, the core CPI increased 0.1% in April with gains in shelter (+0.3%), apparel (+0.3%); and medical care services (+0.2%). Since April 2017, the headline CPI rose 2.5% and core CPI has gained 2.1%.
- Following a 0.2% decline in March, U.S. import prices in April rose 0.3%. Prices for fuel imports increased 1.3% on rising petroleum prices (+1.6%); natural gas import prices slipped (-4.4%) for the month. Nonfuel import prices rose 0.2%. Export prices advanced 0.6% in April as declines in agricultural exports (-1.2%) were offset by increased prices in nonagricultural exports (+0.7%) including industrial supplies and materials.

EASY CALL

What's to decide? The U.S. economy is essentially at full employment and firming prices have positioned inflation very close to the target level, so the way is clear and the Fed will raise rates again at the June meeting. Stamp it.

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