Economic Landscape

June 2018

MANUFACTURING

- According to the latest survey from the Institute for Supply Management, manufacturing activity expanded with the PMI increasing by 1.4 percentage points to 58.7%. Growth in new orders, production, and employment accelerated while the Backlog of Orders Index rose to 63.5% marking its highest level since April 2004. The Prices Index rose 0.2 percentage points to 79.5% suggesting higher raw materials costs for the 27th consecutive month.
- Industrial production ticked 0.1% lower in May following a 0.9% rise in April. Factory output declined by 0.7% for the month, largely attributable to a major fire at a Ford trucks parts supplier; excluding motor vehicles and parts, manufacturing production slipped by 0.2%. Utilities output rose 1.1% in May on higher demand for electric utilities. Mining production increased 1.8% reflecting ongoing gains in the oil and gas industry. Capacity utilization edged slightly lower to 77.9% for May, up from year ago levels but 1.9 percentage points below the 1972-2017 average.

LABOR MARKETS

- Payroll employment rose by 223,000 jobs in May with noteworthy gains in retail trade (+31,100); professional & business services (+31,000); health care (+28,900); construction (+25,000); leisure & hospitality (+21,000); transportation and warehousing (+18,700); manufacturing (+18,000); financial activities (+8,000); and mining (+5,500). Government payrolls added 5,500 jobs in May. The official unemployment rate edged down to 3.8% for the month, while the labor force participation rate slipped to 62.7%. Average hourly earnings rose by $0.08 to $26.92, and have increased by 2.7% over the past 12 months.
- Job openings rose to a record 6.70 million in April based on data from the Job Openings and Labor Turnover survey. The number of hires increased by 92,000 to 5.58 million in April, while the number of separations rose by 86,000 to 5.41 million. Within separations, quits declined slightly while layoffs edged higher, but the quits rate was unchanged at 2.3%.

SALES

- Sales at U.S. retailers and food service providers advanced by 0.8% in May, and have increased 5.9% from year ago levels. Auto sector sales increased 0.5% for the month, leaving sales ex-auto up 0.9%. Gains were generally broad based, with sales rising at building material, garden equipment, & supplies dealers (+2.4%); electronics & appliance stores (+0.2%); clothing & accessories stores (+1.3%); department stores (+1.5%); miscellaneous stores (+2.7%); food & drink establishments (+1.3%); and nonstore retailers (+0.1%). Higher prices pushed up gas station sales by 2.0% in May. Sales declined at furniture & home furnishings stores (-2.4%) and at sporting goods, hobby, musical instrument, & book stores (-1.1%).

PRICES

- U.S. import prices increased 0.6% for a second consecutive month in May. Import fuel prices surged by 4.9% as the 5.9% gain in petroleum prices more than offset the 19.5% decline in natural gas prices. Excluding fuel, import prices rose 0.2% reflecting higher prices for industrial supplies & materials; consumers goods; and foods, feeds, & beverages. For the second straight month, export prices rose 0.6% as prices increased for both agricultural (+1.6%) and nonagricultural (+0.5%) exports.
- The Consumer Price Index posted a 0.2% increase in May following a similar gain in April. Consumer energy prices rose 0.9% in May due mostly to higher prices for gasoline (+1.7%) and electricity (+0.1%). The consumer food index was unchanged from the prior month. Excluding food and energy, the core CPI increased 0.2% for the month reflecting rising prices for shelter (+0.3%) and medical care (+0.2%). Year over year, CPI increased 2.8% and core CPI advanced by 2.2%.
- In May, the Producer Price Index for final demand increased 0.5%. The index for finished goods jumped 1.0% largely driven by a 9.8% gain in wholesale gasoline prices; service prices rose 0.3% on trade margins. Price inflation is firming in earlier stages of production, as the index for intermediate processed stage goods increased 1.5% and unprocessed goods rose 2.5%.

TWO DOWN, TWO TO GO

As anticipated, the Fed raised the target federal funds rate range by 25 basis points to 1.75%-2.00%. Their updated projections suggest slightly stronger GDP growth in 2018 with expectations held steady for 2019 and beyond. The Fed sees the unemployment rate trending even lower over the next several years while inflation could run slightly above 2.00%. Given the firmer inflation and strong employment, it was no surprise that the Fed's dot plot now implies an additional rate hike this year setting the stage for both September and December.

First Commonwealth Advisors