

# Economic Landscape

May 2019

## MANUFACTURING

- Manufacturing activity moderated in April as the PMI dropped by 2.5 percentage points to 52.8%. New orders and employment grew at a much slower pace in April, while production also decelerated and new export orders contracted. The weakness in new orders and new export orders suggests continued softness in the near term. The ISM Prices Index registered 50.0% signaling no change.
- Industrial production fell 0.5% in April and revisions to prior months indicate that output declined at an annual rate of 1.9% in the first quarter. Factory production was also down 0.5% for April predominantly on weakness in durable goods. Utilities output declined 3.5% as warmer temperatures lowered demand for heating. Mining production rose 1.6% in April on gains from oil and gas extraction and coal mining. The capacity utilization rate decreased 0.5 percentage points to 75.7%, which is 2.6 percentage points below the 1972-2018 average.

## LABOR MARKETS

- U.S. payroll employment increased by 263,000 jobs in April, with notable job growth in professional and business services (+76,000); construction (+33,000); health care (+27,000); social assistance (+25,600); food services and drinking places (+25,000); and financial activities (+12,000); government payrolls rose by 27,000 in April. Net revisions to February and March employment figures account for 16,000 more jobs than previously reported bringing the average job growth for the past three months to 169,000. The official unemployment rate fell to 3.6% in April - the lowest reading since December 1969. In April, the number of unemployed declined by 387,000, but labor force participation slipped to 62.8%. Average hourly earnings rose by \$0.06 to \$27.77, and wages are up by 3.2% from one year ago.
- The March JOLTS report shows there were 7.5 million job openings, up 346,000 from February. This also marks the 13<sup>th</sup> consecutive month that the number of job openings has exceeded the number of unemployed workers. In March, there were 5.7 million hires (-35,000), while total separations declined slightly to 5.4 million (-142,000). Within separations, the number of quits edged lower (-38,000) but quits as a percentage of separations rose to 62.7% and the quits rate held steady at 2.3%.

## PRICES

- The Consumer Price Index (CPI) increased 0.3% in April following a 0.4% rise in March. The index of consumer food prices ticked lower (-0.1%), with lower food at home prices partly offset by higher prices for food away from home. The energy index advanced 2.9% for the month due to the 5.7% increase in gasoline prices; electricity prices were flat and natural gas prices fell 0.8%. Excluding food and energy, the core CPI rose 0.1% in April reflecting higher prices for shelter, medical care, and education. Year over year, headline CPI increased 2.0% and core CPI rose 2.1%.
- Producer prices gained 0.2% in April as prices firmed for both goods and services. Producer goods prices rose 0.3% with much of the increase attributable to the 5.9% rise in gasoline prices. Service prices edged 0.1% higher driven by gains in core services and transportation. The Producer Price Index for final demand has increased 2.2% over the past 12 months.
- U.S. import prices increased 0.2% in April as prices for fuel imports rose 2.5%; nonfuel prices slipped 0.1%. U.S. export prices advanced 0.2% for the month, despite a 1.5% decline in prices for agricultural exports. Nonagricultural export prices increased 0.4% in April led by gains in industrial supplies and materials as well as vehicles.

## SALES

- Retail sales retreated by 0.2% in April after posting a solid 1.7% gain in March. Sales at motor vehicle and parts dealers decreased 1.1% for the month, and sales also declined at electronics & appliance stores (-1.3%); home improvement stores (-1.9%); health & personal care stores (-0.2%); clothing stores (-0.2%); and nonstore retailers (-0.2%). In April, sales increased at gas stations (+1.8%); grocery stores (+0.2%); sporting goods, hobby, musical instrument, & book stores (+0.2%); department stores (+0.7%); and food & drink places (+0.2%). The retail sales control group, which ties closely to PCE, was flat.

## BITTER TWEET SYMPHONY

*With a sequence of tweets on May 5, 2019, President Trump brought U.S.-China trade tensions back into the spotlight by announcing intentions to raise tariffs. Effective May 10<sup>th</sup>, Chinese imports subjected to a 10% tariff under the September 2018 action are now subject to a 25% rate. In return, China announced intentions to increase the tariff rate on \$60 billion of U.S. goods beginning in June. The rising discourse roiled markets and stoked concerns about inflation. In the near term, however, it appears that the expected drag on global growth is keeping the inflationary pressures of tariffs contained. Unfortunately, that's a balance that's unlikely to be economically healthy or sustainable.*

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