

Economic Landscape

June 2019

MANUFACTURING

- The pace of growth in the manufacturing sector continued to grind slower in May, as the ISM PMI decreased by 0.8 percentage points to 52.1% marking the slowest reading since October 2016. New orders and employment actually picked up from the prior month, but production and inventory activity slowed. The index for prices paid increased and several respondents referenced the adverse effects of tariffs.
- Industrial production increased by 0.4% in May after declining by 0.4% in April. Factory output rose 0.2% in May on stronger durable goods production. Utilities output increased 2.1% reflecting gains for natural gas as well as electric utilities. Mining production edged 0.1% higher as the upswing in oil and natural gas extraction was largely offset by an outsized decline in oil and gas well drilling. The capacity utilization rate rose 0.2 percentage points to 78.1% for May, but remains 1.7 percentage points below the 1972-2018 average.

LABOR MARKETS

- The U.S. economy added a disappointing 75,000 jobs in May, and revisions to March and April data reflect a combined 75,000 fewer jobs than previously reported. In May, employment rose in professional and business services (+33,000); leisure and hospitality (+26,000); health care (+15,700); social assistance (+8,300); construction (+4,000); manufacturing (+3,000); and financial activities (+2,000). Payrolls continued to trend lower in retail sales (-7,600), while government employment also contracted (-15,000). Both the official unemployment rate (3.6%) and the labor force participation rate (62.8%) were unchanged from April to May. Average hourly earnings rose by \$0.06 for the month and have increased by 3.1% over the past twelve months.
- The April JOLTS indicates that there were 7.5 million jobs available, down by 25,000 from March but 4.8% above year ago levels. Hires increased by 240,000 for the month but the level of hiring still falls well short of the available number of openings. Total separations rose by 70,000 - 21,000 of which were quits, and the quits rate remained 2.3%.

PRICES

- Consumer prices stayed tame in May as both the CPI and core CPI rose 0.1%. Food prices increased 0.3% for the month while the energy index declined by 0.6% on falling prices for gasoline, electricity, and natural gas. Year over year, CPI is up 1.8% and core CPI is up 2.0%.
- The Producer Price Index for final demand increased 0.1% in May on higher service costs. Prices for final demand services rose 0.3%, with nearly 80% of the monthly gain attributable to a 10.1% spike in guestroom rental prices. Prices for final demand goods fell 0.2% for the month primarily on lower energy costs. Producer prices are 1.8% higher than one year ago.
- U.S. import prices decreased 0.3%, and have fallen 1.5% year over year. Prices for petroleum imports declined 0.9% in May, and natural gas prices fell 6.8%. Nonfuel import prices decreased 0.3% reflecting lower prices for nonfuel industrial supplies; foods, feeds, and beverages; capital goods; and automotive vehicles.

SALES

- The picture brightened for retail sales, which rose an estimated 0.5% in May following an *upwardly revised gain of 0.3%* for April. Auto sector sales rebounded in May (+0.7%), and the rise in sales excluding the auto sector (+0.5%) was broad based with solid gains in electronics & appliance stores (+1.1%); health & personal care Stores (+0.6%); sporting goods, hobby, musical instrument, & book stores (+1.1%); nonstore retailers (+1.4%); and food & drink places (+0.7%). The report suggests consumer spending is making a positive contribution to second quarter GDP so far, and retail sales are up 3.2% year over year.

LOST THE PATIENT

While the FOMC maintained the target fed funds rate range at the June meeting, the Fed is acknowledging softer business conditions and greater uncertainty regarding the sustainability of the economic expansion. The slightly more dovish tone has increased the likelihood of a rate cut at the July 31st meeting, and the water cooler discussion has shifted from “if” to “how much”.