

# Economic Landscape

February 2021

## MANUFACTURING

- Manufacturing activity remained red hot through the end of 2020. The January PMI slipped 1.8 percentage points to 58.7%, due to more moderate growth in new orders, production, and new export orders. Supplier deliveries continued to slow due to capacity constraints and labor shortfalls. The forces of supply and demand continue to push prices higher, and the ISM Prices Index rose 4.5 percentage points to 82.1%, its highest level since April 2011.
- Industrial production continues to recover, rising 0.9% in January. Factory output advanced by 1.0% for the month despite a decline motor vehicle production due to a global semiconductor shortage. Mining output increased 2.3% driven by gains in oil and gas well drilling and extraction. The output of utilities fell 1.2% in January after surging by 4.9% in the prior month. The capacity utilization rate increased 0.7 percentage points to 75.6%, a rate 4.0 percentage points below the 1972-2020 average but only 0.1% lower than one year ago.

## LABOR MARKETS

- US payrolls rose by a modest 49,000 jobs in January but is below its February 2020 level by 9.9 million. Job gains in professional and business services (+97,000) and in both public (+85,500) and private education (+33,900) were offset by losses in leisure and hospitality (-61,000), retail trade (-37,800), in health care (-29,600, almost entirely in home health care and nursing/personal care facilities), and in transportation and warehousing (-27,800). Revision to the employment data for November and December reflect a combined 159,000 fewer jobs than previously reported. The official unemployment rate fell from 6.7% in December 2020 to 6.3% in January.

## PRICES

- The headline Consumer Price Index increased 0.3% in January. Energy prices rose 3.5% for the month largely due to gasoline (+7.4%) and fuel oil (+5.4%). Consumer food prices increased 0.1% in January with grocery prices edging 0.1% lower and food away from home up 0.3%. Excluding energy and food, the core CPI was flat. Over the past 12 months, both CPI and core CPI rose 1.4%.
- Producer prices increased 1.3% in January following a 0.3% gain in December. Service prices rose 1.3% for the month across broad categories, while prices for goods advanced 1.4%. U.S. import prices also gained 1.4% in January, as import fuel prices surged 7.4% and nonfuel prices rose 0.8%. Prices for U.S. exports increased 2.5% led by a 6.0% gain in agricultural prices; prices for nonagricultural exports rose 2.2%.

## SALES

- January stimulus checks certainly appeared to stimulate consumer spending, as retail sales increased by 5.3% and all major categories showed gains. Auto sector sales rose 3.1% leaving sales ex-auto up 5.9% for the month. After falling in December, there were big rebounds in sales at electronics and appliance stores (+14.7%); department stores (+23.5%); nonstore retailers (+11.0%); and bars and restaurants (+6.9%). Overall, retail sales were 7.4% above January 2020 levels.

## STAY ON TARGET

*As the distribution of the COVID vaccines slowly improves across the U.S., so does the outlook for the domestic economy. Bond yields have risen right along with that optimism, as well as in anticipation of faster inflation. Fed Chairman Jerome "Jay" Powell, however, made it clear in his Congressional testimony that the Fed will remain very accommodative because the economy still has a long way to go to achieve the full employment and inflation goals.*

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