

Economic Landscape

May 2021

MANUFACTURING

- While the manufacturing economy continued to expand at a robust pace, the ISM manufacturing index nonetheless fell from 64.7% in March to 60.7% in April. Overall demand grew as new orders remained strong, new export orders accelerated, customer inventories were drawn down, and order backlogs expanded. Employment and production moderated as hiring challenges and supply shortages curbed potential growth. The ISM Prices Index rose 4 percentage points to 89.6% as suppliers wield their pricing power.
- Industrial production advanced 0.7% in April following a 2.4% increase in March. Utilities output rose 2.6% in April as temperatures cooled from an unseasonably warm March. Mining production gained 0.7%. Factory output increased 0.4% in April, despite a 4.3% decline in motor vehicle assemblies largely attributable to the semiconductor shortage. The capacity utilization rate registered 74.9%, a level 4.7 percentage points below the 1972-2020 average.

LABOR MARKETS

- Job growth disappointed with April employment rising by 266,000, well short of the expected 1 million. The biggest payroll gains for April were notched in leisure and hospitality (+331,000), while employment also increased in other services (+44,000); local government education (+31,000); social assistance (+23,000); and financial activities (+19,000). Payrolls declined in April in temporary help services (-111,000); transportation and warehousing (-74,100); manufacturing (-18,000); and retail trade (-15,000). The official unemployment rate edged up to 6.1%, and the participation rate improved modestly to 61.7%. Five of the six largest states by population continue to have considerably higher unemployment rates in April than the national level: California (8.3%), Texas (6.7%), New York (8.2%), Pennsylvania (7.4%), and Illinois (7.1%) – with Florida (4.8%) the exception.

PRICES

- Consumer prices jumped 0.8% in April, pushing the headline CPI up 4.2% over the last 12 months. Food prices rose 0.4% in April reflecting increases in both grocery and restaurant prices. Energy prices ticked lower in April following 10 consecutive months of gains. Core CPI advanced 0.9% in April, led by a 10.0% increase in prices for used cars and trucks. The price indexes for shelter, airfares, recreation, vehicle insurance, and household furnishings also contributed to the increase in core prices.
- The Producer Price Index rose 0.6% in April with matching 0.6% increases for both final demand goods and services. Excluding foods, energy, and trade services, core PPI rose 0.7%. U.S. import prices came in 0.7% higher in April with the index for fuel imports up 0.5% while nonfuel prices rose 0.7% driven by industrial supplies (+2.4%) and foods, feeds, and beverage prices (+2.0%).

SALES

- Following a 10.7% increase in March, retail sales were essentially unchanged in April. Auto sector sales increased by 2.9%, leaving sales ex-auto 0.8% lower in April. Sales did advance at electronics and appliance stores (+1.2%); grocery stores (+0.6%); health and personal care stores (+1.0%); and restaurants and bars (+3.0%) but contracted at furniture stores (-0.7%); home improvement stores (-0.4%); gas stations (-1.1%); clothing stores (-5.1%); sporting goods, hobby, musical instrument, and book stores (-3.6%); department stores (-1.9%); and online retailers (-0.6%).

LOVE OF LABOR

Demand for goods and services remains strong as COVID vaccine progress allows the economy to more fully reopen and consumers are able to spend. Supply chain constraints like the material and parts shortages pushed prices higher over the past few months, and low base comparisons further inflate inflation perceptions. Despite the near-term acceleration in inflationary pressures, Fed officials have steadily communicated their commitment to keep rates low as they focus on maximizing employment. The weak April jobs numbers serves to validate their stance, and uneven job growth in the coming months will keep them patient. Employment recovery is never linear, as the cycle of posting positions, hiring, and onboarding employees takes time and many potential job seekers are still trying to balance their individual challenges such as childcare, schools reopening, and commuting versus remote work opportunities.

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