

Economic Landscape

February 2022

MANUFACTURING

- The ISM PMI registered 57.6% in January suggested continued growth in the manufacturing sector but at a moderating pace. New orders and production both grew at a slower pace, while employment gained steam. Delivery times are still slow but improving, pressures from order backlogs lessened, and prices reaccelerated. Overall, demand is firm but output remains constrained by shortages of labor and manufacturing inputs.
- Industrial production advanced 1.4% led by a 9.9% surge in utilities output as frigid temperatures drove the strong increase in heating demand. Mining production rose 1.0% led by gains in oil and gas well drilling. Factory output increased a modest 0.2% in January, restrained by the 0.9% drop in motor vehicle and parts production. Capacity utilization improved to 77.6%, a rate 1.9 percentage points below the 1972-2021 average.

LABOR MARKETS

- U.S. job growth totaled 467,000 in January, more than tripling expectations. Gains were noteworthy in leisure & hospitality (+151,000); professional & business services (+86,000); retail trade (+61,000); and transportation & warehousing (+54,000). Labor force participation rose to 62.2%, the highest reading since the start of the pandemic, and the official unemployment rate edged up to 4.0%. Wage growth accelerated over the past 12 months, as average hourly earnings of production and non-supervisory employees increased by 6.9%.
- Job openings rose to 10.9 million in December, while the number of hires slipped to 6.3 million and total separations decreased to 5.9 million. Within separations, the number of quits fell slightly to 4.3 million and the quits rate was little changed at 2.9%. Quits as a percentage of total separations rose to 73.5% in December.

PRICES

- The Consumer Price Index increased 0.6% in January pushing the year-over-year rise to a scorching 7.5%. In January, the food index increased 0.9% as consumers paid more both at the grocery store (+1.0%) and dining out (+0.7%). Consumer energy prices rose 0.9% for the month as the 4.2% increase in electricity more than offset declines in gasoline (-0.8%) and natural gas (-0.5%). Core CPI advanced 0.6% reflecting broad-based gains ranging from shelter, transportations services, medical care goods and services, used cars and trucks, and apparel. Core CPI is 6.0% above year ago levels.
- In other releases, the Producer Price Index for final demand rose 1.0% in January as goods prices jumped 1.3% and prices for services gained 0.7%. The index for U.S. import prices rose 2.0% driven by a 9.3% rise in fuel import prices and a 1.4% gain in nonfuel prices. Prices for U.S. exports increased 2.9% in January with agricultural export prices up 3.0% for the month while nonagricultural prices moved 2.9% higher.

SALES

- Retail sales topped expectations, rising 3.8% in January. Auto sector sales increased 5.7% for the month, putting sales ex-auto up 3.3% on gains at furniture & home furnishings stores (+7.2%); electronics & appliance stores (+1.9%); home improvement stores (+4.1%); grocery stores (+1.2%); clothing stores (+0.7%); department stores (+9.2%); and nonstore retailers (+14.5%). Compared to January 2021, retail sales have increased 13.0%.

HIKING GEAR

Strong employment and two years of savings have help retail sales stay ahead of rising prices, but with the effects of fiscal policy support fading consumer demand can't outrun inflation forever. Fed officials have signaled that a March rate hike is imminent and that additional tightening will come at a faster pace than the prior cycle. In other words, they are focused on inflation and will stay on the hiking trail until they find the path to price stability.

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