Economic Landscape

March 2021

MANUFACTURING

- Factory activity remained strong, and the PMI increased by 2.1 percentage points in March to 60.8% - the highest reading since 60.8% in February 2018 (and the highest before that goes back to May 2004 61.4%). New orders and production accelerated, employment picked up further, and inventories fell. Supply chain disruptions got worse mid-month due to the winter storms that crippled Texas and other parts of the U.S., leading to even slower delivery times. Strong demand and constrained supply pushed prices higher (ISM Prices Index up 3.9 percentage points to 86.0%).
- Industrial production declined 2.2% in February, posting the largest monthly decline since the lockdown last March and April. Factory output dropped 3.1%, with the biggest drag coming from auto assemblies. Mining production decreased by 5.4% on reduced oil and gas extraction. Not surprisingly, utilities output rose 7.4% as thermostats were turned up. The capacity utilization rate fell by 1.7 percentage points to 73.8%.

LABOR MARKETS

- Despite the winter storms, nonfarm payroll employment rose by 379,000 in February. Goods producers cut 48,000 jobs as the gain in manufacturing payrolls (+21,000) was more than offset by declines in construction (-61,000) and mining (-8,000) due to extremely cold temperatures in the Midwest and South during the survey week. The biggest gain in services were leisure and hospitality (+355,000) as some pandemic-related restrictions were rolled back. Employment also rose in temporary help services (+52,700); retail trade (+41,100); social assistance (+25,700); and health care (+19,900). Government employment fell by 86,000, with the bulk of losses in state and local education. January payrolls were revised higher (from 49,000 to 169,000) while December dropped lower (from -277,000 to -306,000), for a two-month net revision of 38,000 more jobs than previously reported. Headline unemployment ticked slightly lower to 6.2% in February.

PRICES

- The Consumer Price Index rose o.4% in February following a 0.3% increase in January. Energy prices continued to rise in February (+3.9%) led by gasoline (+6.4%); prices were also higher for electricity (+0.7%), natural gas (+1.6%), and fuel oil (+9.9%). The food index increased 0.2% for the month with gains in grocery prices (+0.3%) for produce, proteins, and bakery items. Food prices away from home rose 0.1% on increases for full service and limited service restaurants. Excluding food and energy, core CPI rose a modest 0.1% with service prices firming while core goods prices were generally softer. Year over year, headline CPI increased 1.7% and core CPI rose 1.3%.

SALES

- January retail sales were revised 2.3 percentage points higher to a gain of 7.6%, however sales fell by 3.0% in February as harsh winter storms curbed activity across much of the United States. Sales at motor vehicle and parts dealers, which were additionally impacted by supply chain disruption-related lower inventories, fell 4.2%. Excluding the auto sector, sales decreased 2.7% for the month, with declines across all major business lines except gas stations (+3.6%) and grocery stores (+0.1%). Still, overall sales were still 6.3% than in February of last year, and the latest round of stimulus should inject some life into March and/or April numbers.

TEMPORARY SETBACK

Severe winter weather last month curbed activity in an economy still dealing with the impact of the coronavirus, but it's only temporary. Along with the arrival of spring, the vaccine distribution continues to accelerate, demand remains firm, and the latest round of stimulus has been unleashed. As long as we can continue to get the pandemic under control, the U.S. economy will increasingly reopen, rehire, and recover.

FIRST Commonwealth ADVISORS