Economic Landscape

April 2021

MANUFACTURING

- The ISM manufacturing index surged to 64.7% in March, up 3.9 percentage points from the prior month, and the highest reading since December 1983. New orders, production, and employment grew at an accelerated pace. Supply chain constraints including raw materials and parts availability, logistics issues, and tight labor conditions slowed supplier delivery performance and pushed up order backlogs. The ISM Prices Index remained elevated at 85.6%.
- Industrial production % increased by 1.4% in March following a 2.6% decline in February. Factory output rose 2.7% for the month as semiconductor shortages continue to constrain motor vehicle and parts production. Mining output rose 5.7% in March on rebounding oil and gas extraction. As February's freeze gave way to more temperate March weather, utilities output plummeted by 11.4%. Capacity utilization increased by 1 percentage point to 74.4%, a level 5.2 percentage points below the 1972-2020 average.

LABOR MARKETS

- The U.S. economy added 916,000 jobs in March as pandemic-related restrictions began to ease in parts of the country. Job growth was broad based, with notable gains in leisure and hospitality (+280,000); public and private education (+190,000); construction (+110,000); professional and business services (+66,000); manufacturing (+53,000); and transportation and warehousing (+48,000). Additionally, January & February were better than we thought, as monthly revisions reflect a net 156,000 more jobs than previously reported. The official unemployment rate fell to 6.0% in March, and the labor force participation rate edged up to 61.5%.

PRICES

- The Consumer Price Index rose 0.6% in March, the most since a 0.8% rise in June 2009. Energy prices rose 5.0% on the month with gasoline prices jumping 9.1% on the month. Food prices rose 0.1%, though grocery prices were mostly driven higher by fruit and vegetables (+1.0%); prices for food away from home edged higher as easing restrictions on restaurants were met with consumers' appetites for dining out. Core consumer prices rose 0.3% for the month with gains in shelter, vehicle insurance, recreation, household furnishings, used cars and trucks, and personal care. The headline CPI has increased 2.6% year over year, while core CPI is up 1.6%.
- The Producer Price Index for final demand increased 1.0% in March as goods prices rose 1.7% and services gained 0.7%. Core prices - which exclude foods, energy, and trade – increased 0.6% in March. Year over year, PPI for final demand is up by 4.2%. U.S. import prices climbed 1.2% in March with fuel prices rising 6.3% and nonfuel import prices up 0.8%. Prices for U.S. exports advanced 2.1% for the month as agricultural exports increased 2.4% and prices for nonagricultural exports rose 2.0%. For the twelve months ending in March, import prices gained 6.9% and export prices advanced 9.1%.

SALES

- Retail sales roared backed in March with an increase of 9.8% following a 2.7% drop in February. Sales at motor vehicle and parts dealers rose 15.1% in March, leaving sales ex-auto with a broad-based gain of 8.4%. The largest one-month percentage increase was at sporting goods, hobby, musical instrument, & book stores, up 23.5% in March. Home-related spending was strong with sales higher at furniture stores (+5.9%); electronics & appliance stores (+12.1%); and home improvement stores (+12.1%). Clothing store sales rose 18.3% for the month and have more than double from the year ago level. Better weather and fewer restrictions led to a 13.4% gain in sales at bars and restaurants, though the increase in dining out probably accounts for the more modest gain in grocery store sales (+0.5%).

BASE JUMPING

The base effect is responsible for some of the added heft in current inflation measures because the "base" measure goes back to year-ago levels and the start of the pandemic, when prices plunged due to the lockdown and related business closures. Base effects aside, prices have been accelerating in the short run. Lower credit card balances and higher personal savings have supported strong consumer demand, in turn contributing to higher prices in the wake of ongoing supply-chain constraints. However, as the economy more fully reopens and goods and services become more readily available, inflation expectations should begin to ease.

First Commonwealth Advisors