Economic Landscape

April 2022

MANUFACTURING

- The March Institute for Supply Management manufacturing index registered 57.1% suggesting that strong demand continues to drive the U.S. factory sector, although growth in new orders and new export orders was more subdued in March. Labor conditions are still tight but improving with respondents noting fewer quits and retirements in March and better hiring success. Prices accelerated sharply largely due to instability in global energy markets. Slow supplier deliveries and fading import growth reflect ongoing constraints in supply chains.
- Industrial production grew by 0.9% in March following a like gain in February. Factory output rose 0.9% for the month led by a 7.8% jump in the production of motor vehicles and parts. Utilities output increased 0.4%, as the rise in electric utilities more than offset the drop in natural gas. Mining production advanced 1.7% in March as oil and gas well drilling remained strong. The capacity utilization rate improved to 78.3%, a rate 1.2 percentage points below the longer run (1972-2021) average.

LABOR MARKETS

- U.S. labor markets remain strong, as payrolls rose by another 431,000 jobs in March. Gains were broad-based with notable additions in leisure & hospitality (+112,000); professional & business services (+102,000); retail trade (+49,000); manufacturing (+38,000); social assistance (+25,000); and construction (+19,000). The labor force participation rate rose to a cycle high of 62.4%, as more workers are rejoining the labor force, and the official unemployment rate fell to 3.6%.
- There were 11.3 million job openings in February, little changed from the prior month and representing roughly 5 million more jobs than the number of unemployed workers in February's employment report. The pace of hiring edged up to 6.7 million, while total separations were flat at 6.1 million. Within separations, there were 4.4 million quits for a quits rate of 2.9%.

PRICES

- Following a 0.8% gain in February, the Consumer Price Index increased 1.2% in March. The energy index rose 11.0% as prices soared for gasoline (+18.3%) and fuel oil (+22.3%). The index of food prices rose 1.0% in March as grocery prices increased 1.5% for the month while the cost of eating out rose 0.3%. Core prices increased 0.3% in March and are 6.5% above year ago levels. The 0.5% rise in the shelter index accounted for almost two thirds of the monthly increase in all items less food and energy. Prices also continued to rise for transportation services, medical care goods and services, new vehicles, and apparel. Over the last 12 months, the headline CPI increased 8.5% and core CPI advanced 6.5%.
- The Producer Price Index for final demand climbed 1.4% in March, led by a 2.3% rise in goods prices. Within goods, over half the gain can be attributed to a 5.7% surge in March energy prices; food prices rose 2.4%. The index for services prices increased by 0.9 driven by a gain in margins. Prices for U.S. imports surged 2.6% in March, the largest monthly increase since April 2011, mostly due to the 14.6% gain in fuel import prices. U.S. export prices rose 4.5% in March with agricultural export prices up 4.7% while nonagricultural export prices increased 4.5%.

SALES

- Retail sales rose 0.5% in March, a weak print considering sales numbers are not adjusted for inflation. Auto sector sales fell by 1.9%, leaving sales ex-auto up 1.1%. Notable sales gains registered in gas stations (+8.9%); electronics & appliance stores (+3.3%); grocery stores (+1.3%); clothing stores (+2.6%); sporting goods, hobby, musical instrument, & book stores (+3.3%); general merchandise stores (+5.4%); and bars & restaurants (+1.0%). Year over year, retail sales have increased 6.9%.

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We observed incremental improvement in the manufacturing sector, despite additional headwinds from the Russia-Ukraine conflict and COVID-related factory closures in China. However, supply chains will likely remain strained in the near term. The Fed Funds rate is well below the current level of inflation expectations reflected in the market, suggesting that monetary policy has a way to go to establish price stability. We anticipate a half point rate increase from the Fed in May, followed by consecutive rate hikes at each of the remaining six meetings in 2022.

First Commonwealth Advisors