Economic Landscape

May 2023

MANUFACTURING

- The ISM April manufacturing index registered 47.1%, marking the sixth straight month of contraction. New orders, production, and new export orders remained in contraction territory in April, albeit at a slower pace than the prior month. Both the Employment Index and the Prices Index shifted from contraction to expansion in April, suggesting some ongoing challenges in bringing inflation under control.
- Following two consecutive months unchanged, industrial production increased 0.5% in April. Factory output rose 1.0% led by a sharp upturn (+9.3%) in auto sector production. Mining production advanced 0.6% on stronger oil and gas extraction, while utilities output declined by 3.1%. Capacity utilization was 79.7% in April, in line with the 1972-2022 average.

LABOR MARKETS

- U.S. payrolls increased by 253,000 in April with notable job gains in professional and business services (+43,000); health care (+40,000); leisure and hospitality (+31,000); social assistance (+25,000); and financial activities (+23,000). Employment figures were revised lower for February and March, reflecting a combined 149,000 fewer jobs than previously reported. The official unemployment rate edged down to 3.4% in April, while the labor force participation rate was essentially unchanged at 62.6%. Average hourly earnings rose by $0.16 in April, and year over year have increased by 4.4%.
- The number of job openings fell (-384,000) to 9.6 million in March while hires remained steady at 6.1 million. Total separations rose by 91,000 and within separations the number of layoffs rose by 248,000. Quits declined by 129,000 in March and the quits rate ticked down to 2.5%.

PRICES

- The headline Consumer Price Index rose 0.4% in April following a 0.1% increase in March. The food index was flat in April with grocery prices down 0.2% while prices for food away from home rose 0.4%. The consumer energy index increased by 0.6% as the 3.0% rise in gasoline prices more than offset declines in natural gas (-4.9%), fuel oil (-4.5%), and electricity (-0.7%). Excluding food and energy, core CPI increased 0.4% in April. Shelter continues to be the largest contributor to both the all items and core indices and rose 0.4% for the month. Prices also increased for used cars and trucks (+4.4%). Over the past twelve months, CPI is up 4.9% and core CPI is up 5.5%.
- In April, the Producer Price Index for final demand increased 0.2% putting PPI up 2.3% year over year. In April, service prices rose 0.3% while goods prices advanced 0.2%. Prices for U.S. import rose 0.4% for the month, mostly due to higher fuel import prices. U.S. export prices increased 0.2% in April reflecting gains for both agricultural and nonagricultural exports.

SALES

- Retail sales rose 0.4% in April, but the underlying details reveal a mixed bag. Auto sector sales increased 0.4%, but gas station sales were down 0.8% leaving sales less auto and gas with a solid 0.6% gain. Sales were lower at furniture stores (-0.7%); electronics and appliance stores (-0.5%); grocery stores (-0.4%); clothing stores (-0.3%); sporting goods, hobby, etc. stores (-3.3%); and department stores. On the flip side, sales advanced at home improvement stores (+0.5%); health and personal care stores (+0.9%); online retailers (+1.2%); bars and restaurants (+0.6%); and catch-all miscellaneous retail (+2.4%).

STILL IN THE GAME

Economic activity may be slowing down, but it appears to be far from collapsing. Retail sales data suggests consumers are still spending, and housing may be stabilizing. Job openings are gradually drifting lower, but labor markets remain resilient. Even the contraction in the manufacturing sector is showing some signs of moderating. While the economy is probably heading toward a mild recession, it does not seem to be in any hurry to get there. However, there are two caveats. Additional Fed rate hikes would be unexpected, but Fed officials have not taken them off the table. Additionally, uncertainty from the current round of debt ceiling histrionics could impact investor sentiment and have near-term negative implications for consumers and businesses.

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