

Economic Landscape

March 2023

MANUFACTURING

- The February ISM manufacturing PMI registered 47.7%, up 0.3 percentage point from January as manufacturing marks a fourth consecutive month of modest contraction. New orders (47.0%) and production (47.3%) readings remain below the breakeven as activity appears to be slowing. The Employment index softened (49.1%) but comments from the survey respondents indicate no appetite for big layoffs as sentiment about the second half of the year remains positive. The ISM Prices index ended a four-month streak of falling price readings, advancing 6.8 percentage points to 51.3% in February.
- Industrial production was unchanged in February following an upwardly-revised increase of 0.3% in January. Factory output ticked up 0.1% in February with modest increases in durable (+0.1%) and nondurable (+0.2%) manufacturing. Mining production declined 0.6%, while utilities output rose 0.5%. The capacity utilization rate was flat at 78.0% from January to February, remaining 1.6 percentage points below the 1972-2022 average.

LABOR MARKETS

- Job growth remained robust in February as payrolls rose by 311,000. Private sector industries with notable gains include leisure and hospitality (+105,000); retail trade (+50,000); professional and business services (+45,000); health care (+44,000); and construction (+24,000), while government payrolls increased by 46,000. Revisions to December and January employment figures, however, reflect a combined 34,000 fewer jobs than previously reported. The official unemployment rate rose to 3.6% and the labor force participation rate edge up to 62.5%. Average hourly earnings rose 0.2% and year over year are up 4.6%.
- The January JOLTS shows the number of job openings have declined to 10.8 million. Levels of hiring and separations were little changed overall, though within separations the number of layoffs and discharges increased by 241,000 and the number of quits decreased by 207,000. The quits rate fell slightly to 2.5%.

PRICES

- The headline Consumer Price Index increased 0.4% in February, in line with consensus. Energy prices fell 0.6% as big drops in prices for fuel oil (-7.9%) and natural gas (-8.0%) outweighed upturns in gasoline (+1.0%) and electricity (+0.5%). The food index rose 0.4%, with grocery prices (+0.3%) posting the smallest increase in almost two years. However, prices for food away from home increased 0.6% potentially reflecting ongoing service sector pressure tied to labor markets. This is also evident in core consumer prices (+0.5%), as the 0.8% rise in shelter was identified as the dominant factor in the monthly increase. For the 12 months ending in February, CPI advanced 6.0% and core CPI rose 5.5%.
- The Producer Price Index edged 0.1% lower in February, reflecting declines in prices for final demand goods (-0.2%) and services (-0.1%). Lower food and energy prices account for much of the decline in the goods index, while services declined on trade margins and prices for transportation and warehousing services. U.S. import prices ticked 0.1% lower in February as the 4.9% decrease in import fuel prices more than offset the 0.4% rise in nonfuel prices including consumer goods; foods, feeds, and beverages; capital goods; and automotive vehicles. Export prices increased 0.2% for the month led by a 1.0% gain in agricultural prices.

SALES

- Sales at U.S. retailers fell by 0.4% in February following the 3.2% gain in the prior month. Gas station sales declined 0.6% while sales at motor vehicle and parts dealers dropped 1.8%. Excluding gas and auto, sales were flat in February. Sales increased at electronics & appliance stores (+0.3%); grocery stores (+0.6%); and online retailers (+1.6%), but declined in home furnishings stores (-2.5%); home improvement stores (-0.1%); clothing stores (-0.8%); department stores (-4.0%); sporting goods, hobby, music, & book stores (-0.5%); and bars and restaurants (-2.2%).

TURN AND FACE THE STRANGE

Congressional testimony from Chairman Powell earlier this month strongly signaled to markets that the Fed was set to move more aggressively on interest rates. The banking crisis triggered just days later changed those expectations. Tighter financial conditions and lingering banking sector concerns should mean smaller, and possibly fewer, rate hikes left in this cycle.

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