Economic Landscape

April 2023

MANUFACTURING

- The ISM manufacturing index registered 46.3% in March, marking the fifth consecutive month of contraction and the lowest index level since May 2020. The report reflected broad weakening across the sector as new orders, production, and employment were all in contraction. On the slightly brighter side, the indices for prices paid and supplier deliveries also dropped suggesting that the weaker demand is pushing prices down and enabling supply chains to repair.
- Industrial production increased by 0.4% in March, due to the 8.4% surge in utilities output from higher demand for heating as the transition from a mild February temperatures gave way to a seasonably colder March. Mining production fell 0.5% on lower oil and gas extraction and support activities. Factory output decreased 0.5% across a broad range of durable and nondurable manufacturing industry groups. In March, the capacity utilization rate rose to 79.8%, a rate that is 0.1 percentage points above the 1972-2022 average.

LABOR MARKETS

- Job growth may be slowing in the U.S. economy, but it is not collapsing, as nonfarm payrolls increased by 236,000 in March. The labor force participation rate trended modestly upward to 62.6%, posting the highest level since the pandemic. The official unemployment rate remains range bound, ending the quarter at 3.5%. In March, industries with notable job gains included leisure and hospitality (+72,000); government (+47,000); professional and business services (+39,000); healthcare (+34,000); and social assistance (+17,000). Average hourly earnings rose by 0.3% in March, but have slowed to an annual pace of 4.2% compared to the 5.9% for March 2022.
- Job openings fell to 9.9 million in February, the first time available positions fell below 10 million in nearly two years. Hiring declined modestly (-164,000) to 6.2 million, while total separations were nearly unchanged at 5.8 million. Within separations, layoffs declined slightly (-215,000) while quits edged higher (+146,000) with the quits rate ticking up to 2.6%.

PRICES

- The Consumer Price Index edged 0.1% higher in March, slightly cooler than expected. Energy prices declined by 3.5% following a 0.6% drop in February. The food index was unchanged in March, as grocery prices fell 0.3% (the first decrease since September 2020) while restaurant prices increased 0.6%. Core consumer prices rose 0.4% in line with expectations, led by a 0.6% increase in the shelter index. Year over year, headline CPI has advanced 5.0%, down notably from the June 2022 cycle peak of 8.9%. Core CPI has increased 5.6% over the last year, representing a more modest decline from the 6.6% peak last September.
- The Producer Price Index for final demand fell 0.5% in March following a flat reading in February. More than half of the March decline can be attributed to the 1.0% drop in goods prices, which includes a 6.4% decrease in energy prices. Service prices were 0.3% lower in March, reflecting declines in trade margins (-0.9%) and transportation and warehousing services (-1.3%). U.S. import prices fell 0.6% in March with declines in fuel prices (-2.9%) and nonfuel imports (-0.5%). Export prices decreased 0.3% for the month.

SALES

- Despite a strong start to the year, retail sales fell for a second consecutive month, down 1.0% in March. Auto sector sales fell 1.6% for the month, leaving sales ex-auto down 0.8% reflecting broad weakness that include declines at gas stations (-5.5%); furniture stores (-1.2%); home improvement stores (-2.1%); clothing stores (-1.7%); and department stores (-2.5%). Online sales rose 1.9% in March, while gains were more modest at health & personal care stores (+0.3%) and bars & restaurants (+0.1%).

REBEL WITHOUT A PAUSE

Labor markets have remained strong but payroll and wage growth are clearly losing momentum. While overall economic activity is showing some evidence of softening, core inflation measures likely remain too high for the Fed's comfort. As we approach the May FOMC meeting, markets are pricing in another quarter point rate hike but tighter credit conditions could mean that the May increase is the final one before the policy pause.

First Commonwealth Advisors