

U.S. Data Review

- CPI: high-side surprises in headline and core
- Retail sales: a slow January; downward revisions in Nov & Dec

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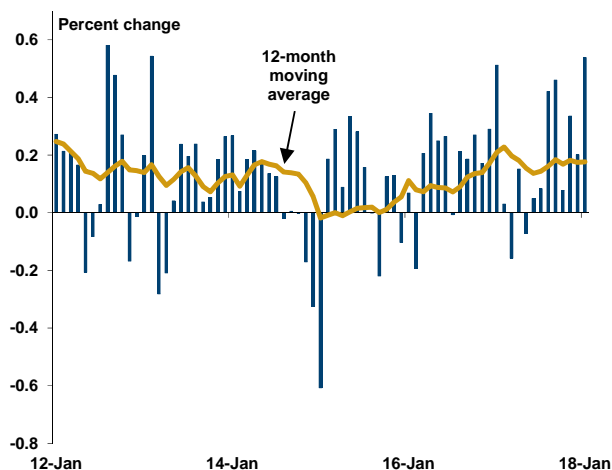
CPI

The consumer price index jumped 0.5 percent in January, firmer than the expected increase of 0.3. Energy prices were expected to increase, but the rise of 3.0 percent was firmer than the 1.8 percent we expected. The core component also provided a surprise with an increase of 0.3 percent (versus consensus of 0.2 percent). The increase in core prices almost rounded up to 0.4 percent (0.349 percent when calculated with more precision).

Several factors contributed to the surprise in the core component. Apparel prices stood out with an increase of 1.7 percent. Apparel prices often swing widely from month-to-month, and the latest increase followed three consecutive monthly declines that took the index value to its lowest level in more than six years. Thus, the jump in apparel prices can be viewed as noise rather than genuine price pressure. However, other items contributed as well. Rent of primary residence, which had shown signs of easing (growing more slowly) in some earlier months, was on the firm side again in January (and December). Medical care also showed an above-average increase. The miscellaneous area stood out with an increase of 0.4 percent, up from an average of 0.1 percent in the prior six months.

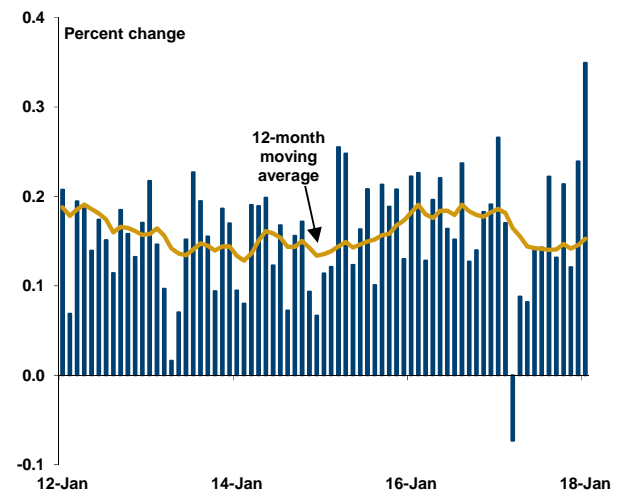
The latest monthly changes, while sizeable, altered the year-over-year shifts only slightly. The headline measure remained at 2.1 percent (even a tad slower if calculated with more precision: 2.071 percent versus 2.109 percent). The year-over-year change in the core component was steady at 1.8 percent, although a bit firmer with less rounding (1.821 percent versus 1.776 percent).

Headline CPI



Source: Bureau of Labor Statistics

Core CPI



Source: Bureau of Labor Statistics

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Retail Sales

While the CPI surprised on the high side, retail sales were softer than expected, dropping 0.3 percent rather than increasing 0.2 percent. Excluding autos, a flat reading trailed the expected increase of 0.5 percent. In addition, results in the prior two months were revised lower, with both the headline number and ex-autos adjusted downward by the equivalent of 0.4 percent. Excluding both autos and gasoline (to eliminate the influence of two volatile areas), the

decline of 0.2 percent in January was well shy of the consensus increase of 0.3 percent, and results in the prior two months were revised lower by the equivalent of 0.5 percent.

Retail Sales -- Monthly Percent Change

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Total	2.0	0.7	0.8	0.0	-0.3
Ex.-Autos	1.3	0.5	1.2	0.1	0.0
Ex.-Autos, Ex.-Gas	0.8	0.5	1.0	0.0	-0.2
Retail Control*	0.7	0.5	1.1	0.0	0.0
Autos	4.8	1.4	-1.0	-0.1	-1.3
Gasoline	6.0	0.2	3.4	0.3	1.6
Clothing	0.5	0.9	0.6	-1.2	1.2
General Merchandise	0.9	0.2	0.5	0.3	0.2
Nonstore**	1.1	0.1	3.9	0.5	0.0

* Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.

** Primarily online and catalog sales; also includes sales by fuel-oil dealers.

Source: U.S. Census Bureau

The auto component was expected to decline because of an easing in sales of new vehicles (less replacement demand in the aftermath of the hurricanes), and the decline of 1.2 percent was close to expectations. Surprises occurred elsewhere. The building supply category stood out with a decline of 2.4 percent, a drop that can perhaps be explained by the influence of heavy storms. Health and personal-care stores and sporting goods stores posted slow results for the second consecutive month. The declines in the health-related area raised the possibility of an easing in the upward drift that had been in place; the declines at sporting goods stores reinforced the downward trend.

Results at nonstore retailers (primarily online and internet) appeared soft, showing no change in January (actually down slightly: -0.042 percent) and downward revisions equivalent to 1.0 percent in the prior two months. However, results in November were quite strong (up 3.9 percent), and thus the recent pauses did little damage to the firm underlying trend.

In general, the report indicated that the holiday shopping season was less vigorous than previously believed and that individuals were not especially active in January. However, with strong results in November, we would still view the holiday shopping season as favorable, and the results in January, while slow, were not weak enough to suggest a pullback by consumers.