Daiwa Capital Markets

U.S. Data Review

- Retail sales: surprising drop in nonstore (on line) sales; also soft elsewhere
- Industrial production: favorable mining, but soft manufacturing

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Retail Sales

Retail sales fell 0.2 percent in April, weaker than expected increase of 0.2 percent. The two volatile components of the report -- autos and gasoline -- had largely offsetting influences, as the auto component fell 1.1 percent (influenced by a drop in sales of new vehicles) while gasoline sales rose 1.8 percent (most likely driven by higher prices). The direction of movement in these areas was expected, although the magnitudes of the changes were on the light side (we had penciled in a drop of 1.5 percent in auto sales and an increase of 5.0 percent at gasoline service stations).

Retail Sales -- Monthly Percent Change

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Total	-1.6	0.8	-0.3	1.7	-0.2
Ex.-Autos	-2.1	1.4	-0.3	1.3	0.1
Ex.-Autos, Ex.-Gas	-1.7	1.8	-0.7	1.1	-0.2
Retail Control*	-1.8	1.5	-0.2	1.1	0.0
Autos	0.4	-1.8	-0.2	3.2	-1.1
Gasoline	-5.9	-1.7	3.6	3.3	1.8
Clothing	-1.3	-0.9	-1.4	2.1	-0.2
General Merchandise	-1.7	0.5	-0.3	0.7	0.2
Nonstore**	-4.5	5.0	1.1	1.0	-0.2

** 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 via Haver Analytics

Sales excluding autos and gasoline fell 0.2 percent, a contrast to the expected increase of 0.3 percent. A drop of 0.2 percent in the nonstore category contributed importantly (primarily internet and catalog), as this area in recent years has typically posted gains in the neighborhood of 1.0 percent. Other areas also lacked vigor, as shown by a drop of 0.2 percent in sales excluding autos, gasoline, and nonstores. Activity at building supply stores was quite soft (off 1.9 percent), and sales at electronic and appliance stores were disappointing as well (down 1.3 percent. The April declines in these two areas followed sluggish results in the prior few months. Clothing stores posted a drop of 0.2 percent, continuing a choppy pattern that has left an unimpressive trend. The report contained only a few bright spots. Sales at general merchandise stores rose 0.2 percent, adding slightly to an upward drift. Activity at restaurants rose 0.2 percent, adding to a jump of 1.0 percent in the prior month and possibly signaling an end to a lull evident from September through February.

The soft tone of the report also was evident in two sub-indexes we monitor: retail control and discretionary purchases. The retail control figure, a measure that correlates well with the nondurable component of consumer spending in the GDP report, was flat in April. Discretionary purchases (furniture, clothing, restaurant meals, sporting goods) rose only 0.1 percent.

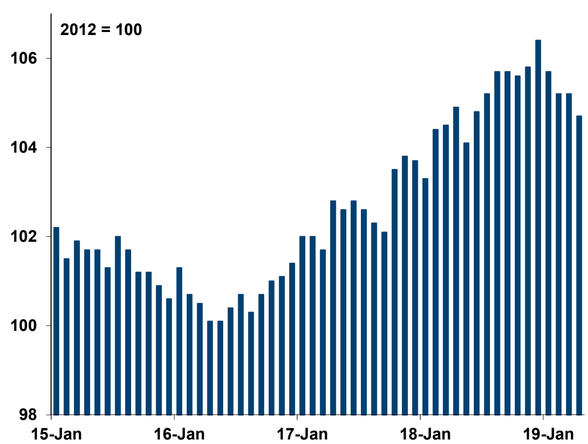
Industrial Production

Analysts were expecting a soft report on industrial production, but results were even softer than expected, (off 0.5 percent versus the consensus estimate of no change). Part of the softness was the result of a drop of 3.5 percent in the utility area, but this decline was largely expected because of warmer-than-normal temperatures. The big disappointment occurred in the manufacturing sector, where activity fell 0.5 percent. The mining sector provided a positive surprise with an increase of 1.6 percent. Downward revisions to the prior several months added to the soft tone of the report. Results in March were revised upward, but January and February and November involved downward adjustments that more than offset the upward revision in March.

The sometimes volatile auto component contributed to the decline in manufacturing sector with a drop of 2.6 percent, but other areas also were slow, as shown by a decline of 0.3 in manufacturing ex-autos. The softness was broad based, as only seven of 20 major industries posted increases. Several registered declines of more than 0.5 percent. April represented the fourth consecutive month of slow activity in manufacturing, as production in the first three months of the year was flat or down (chart, left).

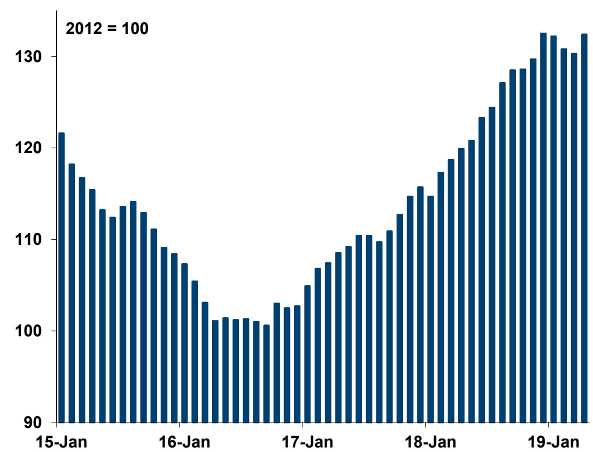
The pickup in mining activity largely offset declines in the prior three months and returned activity close to the peak in December (chart, right). The trend last year was quite firm, but activity now seems to be stabilizing.

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics