Daiwa Capital Markets

U.S. Data Review

- Retail sales: households remain active
- Industrial production: weather-related utility increase, modest gains in mfg. & mining
- Consumer sentiment: modest correction in June; still elevated

Michael Moran
Daiwa Capital Markets America
212-612-6392
michael.moran@us.daiwacm.com

Retail Sales

Retail sales rose 0.5 percent in May, close to the expected increase of 0.6 percent. The auto sector was firm and contributed to the advance, although the increase of 0.7 percent was lighter than the jump of 2.0 percent suggested by strong sales of new vehicles. Sales excluding autos rose 0.5 percent, slightly better than the expected increase of 0.4 percent. Activity ex-autos and ex-gasoline also rose 0.5 percent versus the expectation of 0.4 percent.

Retail Sales -- Monthly Percent Change

	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Total	0.8	-0.3	1.8	0.3	0.5
Ex.-Autos	1.4	-0.3	1.4	0.5	0.5
Ex.-Autos, Ex.-Gas	1.8	-0.7	1.1	0.3	0.5
Retail Control*	1.5	-0.2	1.2	0.4	0.5
Autos	-1.8	-0.2	3.2	-0.5	0.7
Gasoline	-1.7	3.6	3.6	2.1	0.3
Clothing	-0.9	-1.4	2.1	-0.2	0.0
General Merchandise	0.5	-0.3	1.2	0.8	0.7
Nonstore**	5.0	1.1	1.1	0.5	1.4

** 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

Results for May were favorable when viewed in isolation, but they were even better in light of upward revisions in the prior two months. The combined adjustments left the level of sales in April 0.6 percent higher than previously believed. The level of sales ex-autos in April was 0.5 percent firmer than previously believed and ex-autos and ex-gasoline 0.4 percent firmer.

Gains in May were broadly based. Nonstore retailers (mostly catalog and online) do well in most months, and they were especially firm in May (up 1.4 percent). General merchandise stores also did well with an increase of 0.7 percent that reinforced an upward trend. Sporting goods stores rose for the fifth consecutive month, perhaps suggesting an end to a downward trend that began in mid-2016. Eating and drinking places (i.e. restaurants and bars) also rose for the fifth consecutive month with an increase of 0.7 percent. This area experienced a lull in the closing months of last year, but it now seems back on track.

There were some soft spots. Sales at clothing stores were flat. This area has been jumping around in recent months, leaving minimal net gains. Activity at furniture stores rose only modestly (0.1 percent), although it is doing better on average than slow results in the latter half of last year. Sales at building-supply stores have been trending sideways in recent months, and the increase of 0.1 percent in May did not meaningfully alter that pattern.

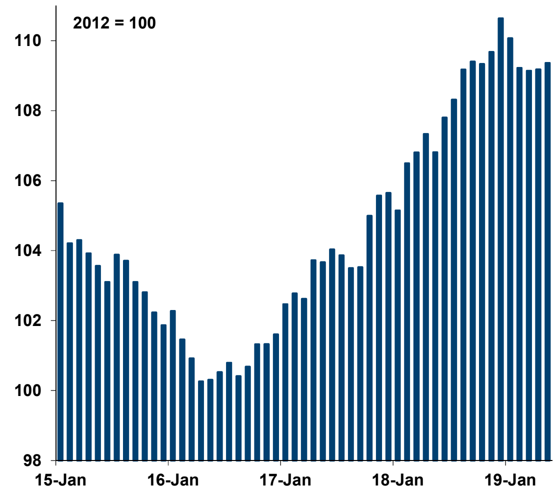
Despite the soft spots, the report overall was favorable. Two summary statistics support the view of firm activity. The so-called retail control, a measure that correlates well with consumer spending in the GDP accounts, rose 0.5 percent. In addition, sales at stores dealing mainly with discretionary items rose 0.6 percent. Both measures were revised upward, with their levels in April 0.3 percent firmer than previously believed.

Industrial Production

The industrial production index rose 0.4 percent in May, exceeding the expected increase of 0.2 percent. Much of the advance reflected a jump of 2.1 percent in the utility sector, where swings in activity are nearly always driven by vagaries in the weather. Both heating-degree days and cooling-degree days were above average in May, and thus some households were running furnaces and others air conditioners.

The manufacturing and mining sectors are more important for assessing the economic environment. Increases in these sectors were only moderate in May, but they were better than we had expected. Modest employment growth in the factory sector and slow order flows suggested little gain in manufacturing activity, but output rose 0.2 percent. A drop in the rotary rig count raised the possibility of a decline in mining activity, but total production rose 0.1 percent, led by a gain of 0.8 percent in oil and gas extraction (efficiency gains outweighing a drop in rig operation). Although results in May were better than expected, the recent performance in manufacturing and mining has not been impressive. The manufacturing sector has lost ground since December, and mining activity has been flat on average. Combined production in these two areas has dropped since the end of last year (chart).

Industrial Production: Manufacturing & Mining*



** A weighted average index of the manufacturing and mining components of industrial production. Weights are calculated based on 2018 industry group shares from the Federal Reserve's industrial production and capacity utilization report.*

Source: Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

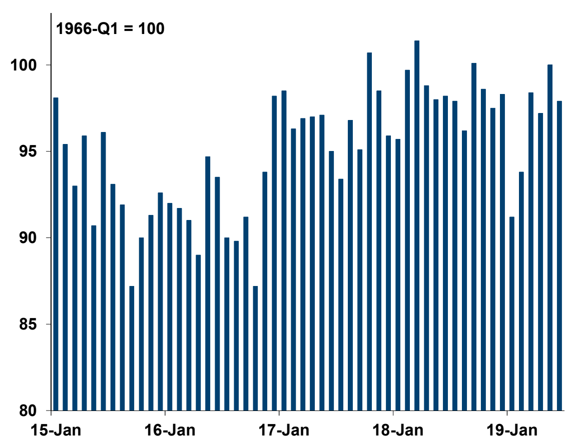
Consumer Sentiment

The consumer sentiment index fell 2.1 percent in early June, essentially matching the expected drop of 2.0 percent. Volatility in the equity market and the potential economic fallout from tariffs probably influenced attitudes. Although the index moved lower in June, it remained at a respectable level -- comfortably within the recent range and elevated relative to historical standards. The measure was only slightly below the average from last year (index value of 97.9 in early June versus an average of 98.4 in 2018; chart).

The drop in June was led by the expectations component, which fell 5.2 percent. This component surged to a surprisingly high level in the prior month, the strongest in more than 15 years, and seemed due for a correction. The new observation was still firm despite the sharp decline. In fact, the latest index value of 88.6 was above the average of 88.2 from last year. The current conditions index rose 2.3 percent, although the increase occurred from the low portion of the recent range. The new level of the index remained below the average from last year (112.5 in June versus 114.3 in 2018).

The long-term measure of inflation expectations published with the report fell 0.4 percentage points to 2.2 percent. The new reading represented a record low, although several other observations were close at 2.3 percent.

Consumer Sentiment



Source: University of Michigan via Haver Analytics