

# U.S. Data Review

- Retail sales: strong support from consumers
- Productivity: surprising increase in Q2, but downward revisions in 2018
- Industrial production: softness in manufacturing and mining

**Michael Moran**

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

## Retail Sales

Retail sales jumped 0.7 percent in July, easily beating the expected increase of 0.3 percent. The volatile items -- autos and gasoline -- were in line with expectations: the auto component fell 0.6 percent as sales of new vehicles dipped, while higher prices pushed activity at service stations 1.8 percent higher. The surprise in the report occurred elsewhere, as sales growth of 0.9 percent excluding autos and gasoline exceeded the expected increase of 0.5 percent. Revisions in the prior two months were mixed, but changes in the two months combined tilted on the favorable side. For example, sales excluding autos and gasoline in May and June combined were 0.1 percent firmer than previously believed.

### Retail Sales -- Monthly Percent Change

	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Total	1.8	0.4	0.5	0.3	0.7
Ex.-Autos	1.4	0.6	0.5	0.3	1.0
Ex.-Autos, Ex.-Gas	1.2	0.5	0.6	0.6	0.9
Retail Control*	1.3	0.6	0.8	0.7	1.0
Autos	3.4	-0.4	0.4	0.3	-0.6
Gasoline	3.3	1.6	-0.2	-2.3	1.8
Clothing	2.1	-0.2	-0.1	-0.1	0.8
General Merchandise	1.5	0.6	0.2	0.1	0.6
Nonstore**	1.0	0.8	2.3	1.9	2.8

\* 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.

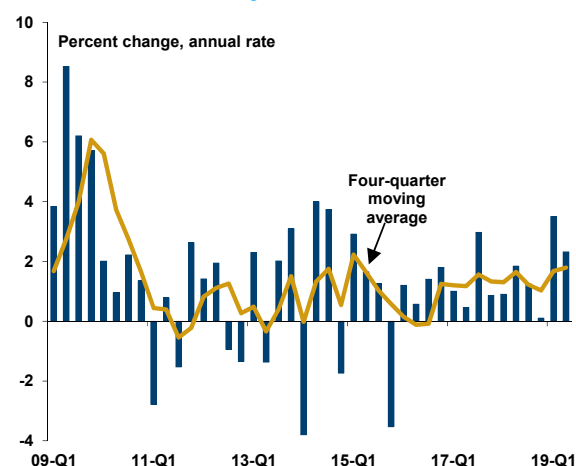
Source: U.S. Census Bureau via Haver Analytics

Sales excluding autos and gasoline in July were heavily influenced by a jump of 2.8 percent in the nonstore category (catalog and internet). This area is usually strong (0.7 to 1.0 percent is the norm), but results in the past three months have been especially firm (average of 2.3 percent). A few other areas also performed well. Activity at restaurants and bars jumped 1.1 percent, marking the sixth consecutive month of favorable results. This recent strength followed a five-month soft patch, but recent gains have reestablished a strong trend. Sales at general merchandise stores rose 0.6 percent, preserving a firm trend. Results elsewhere were nondescript, but the report in total was strong, suggesting good support to the economy from consumers.

## Nonfarm Productivity

Productivity jumped 2.3 percent in the second quarter, easily exceeding the expected increase of 1.4 percent. The increase in output in Q2 was as expected (1.9 percent), but the change in labor input provided a surprise. Figures from the employment report suggested an increase in hours worked of approximately 0.5 percent, but today's report, which includes the effects of self-employed individuals, showed a decline of 0.4 percent. Moderate growth in output achieved with less labor input translated to a firm increase in productivity.

### Nonfarm Productivity



Source: Bureau of Labor Statistics via Haver Analytics

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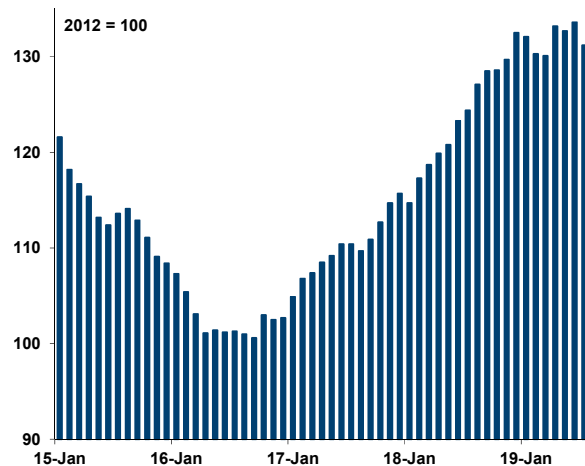
Today's report included benchmark revisions to productivity associated with the recent revisions to the GDP statistics. Productivity grew more slowly over the four quarters of last year than previously believed (1.0 percent rather than 1.7 percent). Results in prior years were revised upward and provided an offset to slower results last year. The net change in the prior several years was essentially zero, but the pattern of firmer results in earlier years and slower results last year left a different picture in the underlying trend. Previous results suggested an acceleration in the growth rate of productivity, but the new figures show a fairly steady rate (chart, prior page). The recent four-quarter average of 1.8 percent growth is in the upper portion of the range seen in the current expansion, but it does not suggest an acceleration in growth.

## Industrial Production

Industrial production fell 0.2 percent in July, softer than the expected increase of 0.1 percent. The components if IP moved in the expected directions (down for manufacturing and mining, up for utilities) but magnitudes provided surprises. Utility output, fueled by above-average temperatures and heavy usage of air conditioning, rose 3.1 percent (versus our expectation of 2.0 percent). However, manufacturing activity fell 0.4 percent, worse than our estimate of 0.1 percent, and mining activity provided the biggest surprise with a drop of 1.8 percent (versus our estimate of -0.3 percent).

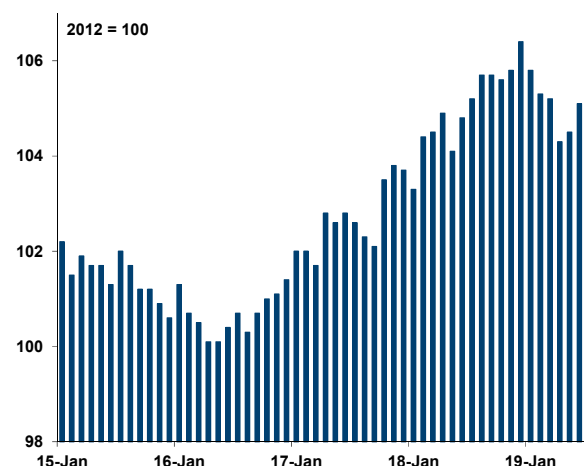
The drop in mining activity continued an up and down patters seen in the prior six months that has left little net change since late last year (chart, left). Manufacturing activity also has fluctuated, but it has lost ground on balance so far this year (chart, right). The softness in the manufacturing sector in July was broadly based, as 13 of 20 industry categories showed declines (several in excess of 1.0 percent) and two showed no change; only five industries posted gains. The trade war represents one factor hurting the manufacturing sector. In addition, many firms are most likely making an effort to contain inventories after hefty additions in the prior four quarters and uncertainty associated with the trade dispute and slow economic growth abroad.

### Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics

### Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics