Economic Research

- U.S. Data Review
- Retail sales: Soft in February after a firm January; modest on balance even before virus effect
- Industrial production: utility-led increase; manufacturing & mining soft

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

Retail Sales

Retail sales fell 0.5 percent in February. Analysts were not looking for strong results, but the outcome was softer than the expected increase of 0.2 percent. Results in the prior two months showed a net upward revision (January level 0.2 percent firmer than previously believed), but the report in total still disappointed.

The gasoline component accounted for some of the softness (off 2.8 percent), which was probably influenced by lower prices. Also, some areas gave back unusually good gains in the prior month or two (building materials, clothing), which

Retail Sales -- Monthly Percent Change

0-+ 40

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Total	0.3	0.2	0.0	0.6	-0.5
ExAutos	0.2	-0.2	0.5	0.6	-0.4
ExAutos, ExGas	-0.1	-0.2	0.4	0.7	-0.2
Retail Control*	0.0	-0.3	0.3	0.4	-0.1
Autos	1.1	1.6	-1.8	0.8	-0.9
Gasoline	2.0	0.6	0.9	-0.4	-2.8
Clothing	-0.2	-0.1	2.8	-1.4	-1.2
General Merchandi	se 0.4	0.1	0.1	0.5	-0.1
Nonstore**	-0.7	-0.4	-0.5	0.2	0.7

N---- 40

D-- 40

17 March 2020

* 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.

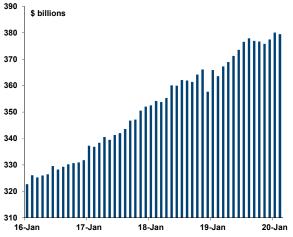
Source: U.S. Census Bureau via Haver Analytics

might be viewed as random volatility. Still, the report hinted at cautious spending by households. Consumer spending in Q4 was mediocre (1.7 percent growth versus an average of 2.9 percent in the first three quarters of last year), and the past two months suggest a similar performance. The moderate underlying trend in household activity is apparent in retail sales excluding autos and gasoline, which has increased in the past six months, but not robustly (chart).

The moderation in consumer spending has partly been the result of slower activity in online shopping. So-called nonstore retailers (primarily online and catalog) registered a solid increase in December (0.7 percent), but it rose only modestly in January (0.2 percent), and it declined in the final four months of last year. The level of activity in February was still below the peak in August.

The results for February were unimpressive, but March undoubtedly will be worse because of the virus.

Retail Sales Ex. Autos & Gasoline



Source: U.S. Census Bureau via Haver Analytics

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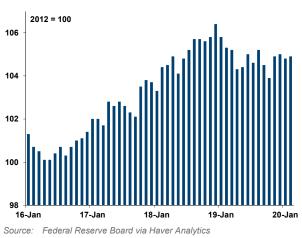
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Industrial Production

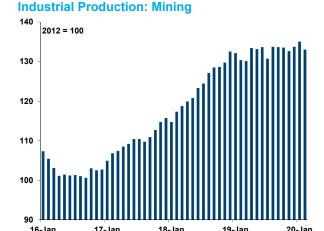
The industrial production index rose 0.6 percent in February, firmer than the expected gain of 0.4 percent. However, most of the growth was the result of a 7.1 percent jump in utility output, where changes are nearly always the result of swings in temperatures. In this instance, February was warmer than normal, but by less so than in January. Thus, heating demand rose on a seasonally adjusted basis and utility output rose from a low level in the prior month.

Manufacturing output rose 0.1 percent, but the increase was less than the gain of 0.4 percent we were expecting. The employment report showed a solid increase in manufacturing payrolls along with a longer workweek. Usually, such developments result in strong production increases. The February results left little net change in the past several months and a downward tilt from the level of activity in late 2018 (chart, left).

Mining output fell 1.5 percent, a contrast to our forecast of an advance of 0.4 percent. An increase in employment in the mining sector, as well as a small increase in the rotary-rig count, led us to look for a gain, but the results disappointed. Fracking activity apparently slowed, as the extraction of oil and natural gas fell 0.7 percent. This area faces even greater challenges in March because of the recent decline in price of crude oil. Most of the weakness in mining occurred elsewhere, as mining ex-oil and gas fell 5.8 percent. The month-to-month changes since last spring have left little net change in mining output. Activity is elevated relative to historical standards, but it has stopped growing.







Source: Federal Reserve Board via Haver Analytics