U.S. Data Review

- Retail sales: record decline, by a wide margin
- Empire manufacturing index: desperately soft
- Industrial production: broad-based retreat

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Retail Sales

There was no doubt that the report on retail sales for March would be weak, but there was extreme uncertainty about the degree of weakness: estimates ranged from unchanged to -24 percent. The outcome was in the middle portion of this range, with a drop of 8.7 percent. The decline represented a new record, eclipsing the drop of 6.5 percent in January 1987, which was triggered by a plunge in vehicle sales because of a change in tax laws that eliminated the deductibility of sales taxes in figuring federal obligations.

Retail Sales -- Monthly Percent Change

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Total	0.2	0.0	0.8	-0.4	-8.7
Ex.-Autos	-0.2	0.5	0.7	-0.4	-4.5
Ex.-Autos, Ex.-Gas	-0.2	0.4	0.9	-0.2	-3.1
Retail Control*	-0.3	0.3	0.6	-0.2	-3.5
Autos	1.6	-1.8	0.8	-0.5	-25.6
Gasoline	0.6	0.9	-0.3	-2.9	-17.2
Clothing	-0.1	2.8	-1.1	-1.6	-50.5
General Merchandise	0.1	0.1	0.5	-0.1	6.4
Nonstore**	-0.4	-0.5	0.3	0.7	3.1

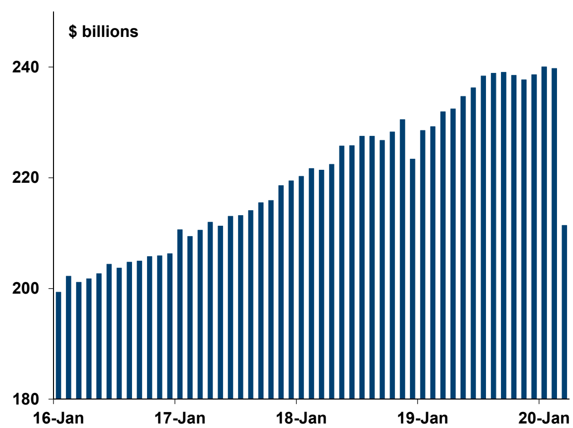
** Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.*

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

Source: U.S. Census Bureau via Haver Analytics

Changes among the components were in line with what one might expect in response to a pandemic. Activity at food stores and health-care stores surged (up 25.6 percent and 4.3 percent, respectively). On-line vendors also had a strong month (up 3.1 percent). The performance in the on-line area was far above the norm, but other months have registered similar or stronger gains. A jump of 6.4 percent at general merchandise stores represented a mild upside surprise, but the advance seemed concentrated in warehouse clubs and superstores, reflecting efforts to stock up on essential items. Most other areas posted dismal results. The softness is best summarized by spending at stores dealing mainly with discretionary items. Activity in this grouping fell 11.8 percent (chart).

Retail Sales: Discretionary Items*



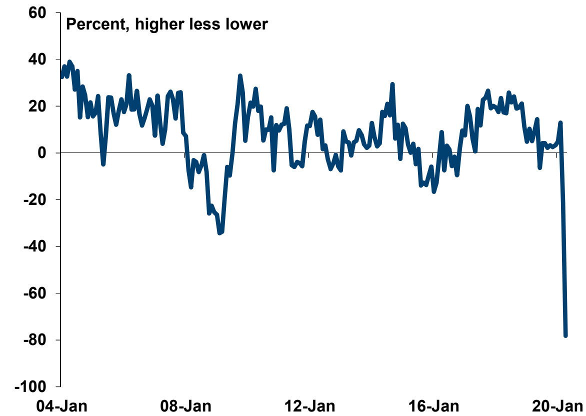
** Discretionary items include sales from the following types of stores: furniture and home furnishing; electronics and appliance; clothing and accessory; sporting goods, hobby, book, and music; general merchandise; food services and drinking places; and nonstore retailers, which include online sales as well as fuel oil dealers. These stores deal primarily with items whose purchase could be postponed.*

Source: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Empire Manufacturing

We don't put much weight on the regional manufacturing indexes published by Federal Reserve banks because of their extreme volatility, but we don't ignore them either; occasionally, they offer a germ of insight. The latest observation from the New York Fed (the Empire index for April) showed pronounced weakness, as the measure plunged to -78.2 from -21.5 in the prior month and 12.9 in February. (The index can range from -100 to +100 a recent, with zero representing the neutral area that separates expansion from contraction. As a practical matter, the index historically has ranged from -40 to +40.) The latest reading easily represents a record low, exceeding the February 2009 observation of -34.3. If the latest observation were converted to an ISM-basis (0 to 100; 50 neutral), the April tally would equal 10.9. Shocking.

Empire State Mfg Survey: Headline Index*



** The share of respondents indicating that conditions are better than those in the previous month less the share indicating that conditions are worse.*

Source: Federal Reserve Bank of New York via Haver Analytics

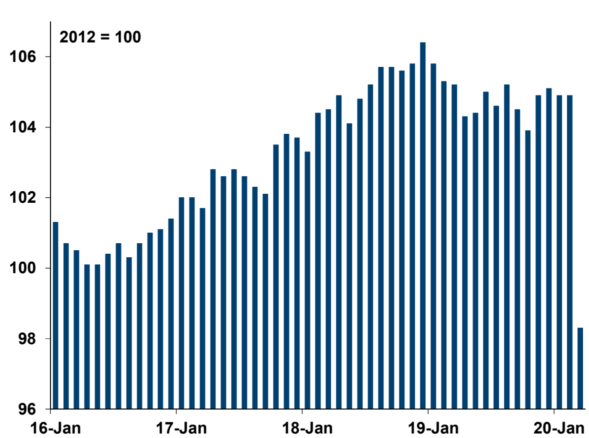
Industrial Production

The change in industrial production in March (off 5.4 percent) was in the middle portion of the wide range of expectations (-10.0 to +2.0 percent). All three major components contributed to the drop: manufacturing activity fell 6.3 percent, the mining component was off 2.0 percent, and utility production declined 3.9 percent.

The retreat in the manufacturing sector was broad based, as all 20 major industries published in the report contracted. The auto industry posted a striking decline (off 28.0 percent), but other areas also were notably weak, as shown by a decline of 4.5 percent ex-autos. Only one industry posted a decline of less than one percent (food and beverage was off 0.8 percent). Most industries (17 of 20) fell by 2.0 percent or more.

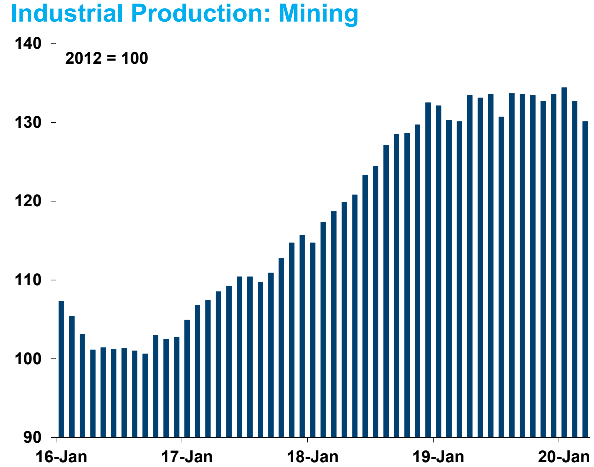
In the mining sector, the extraction of oil and natural gas declined moderately (off 1.2 percent), while other areas fell 6.7 percent. The decline in utility output, as usual, was driven by shifts in temperatures (warmer-than-normal in March, and therefore little demand for heating services).

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics