US Economic Research 15 May 2020



U.S. Data Review

· Retail sales: broad and deep weakness

Industrial production: a manufacturing-led decline

· Consumer sentiment: a surprising increase

Michael Moran

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

Retail Sales

Analysts were expecting a terrible report on retail sales (a decline of 12.0 percent). It was worse, with activity declining 16.4 percent. The breadth of the decline was as striking as the magnitude, as only nonstore retailers (i.e. on-line activity) posted an advance; the other 12 categories of stores were in sharp retreat. Online activity was quite strong, posting a gain of 8.4 percent after an advance of 4.9 percent in March, but this strength represented a modest offset to weakness elsewhere. Food stores, despite a drop of 13.1 percent, still performed well, as the drop occurred from an elevated level in March stirred by frenetic buying in

Retail Sales -- Monthly Percent Change

tun ouros monun,	,	e onang	•		
	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Total	0.1	0.8	-0.4	-8.3	-16.4
ExAutos	0.5	0.8	-0.5	-4.0	-17.2
ExAutos, ExGas	0.4	1.0	-0.2	-2.6	-16.2
Retail Control*	0.3	0.7	-0.1	-2.9	-17.2
Autos	-1.6	8.0	-0.4	-25.7	-12.4
Gasoline	1.2	-0.6	-2.9	-16.5	-28.8
Clothing	2.8	-0.6	-1.6	-49.4	-78.8
General Merchandise	0.1	0.5	-0.1	7.1	-20.8
Nonstore**	-0.3	0.9	1.2	4.9	8.4

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

Source: U.S. Census Bureau via Haver Analytics

the early stages of the pandemic. Similarly, the decline of 15.2 percent at health-care stores pushed activity from well above normal in March to noticeably below normal in April, but the level was not shockingly low. Other areas were decidedly weak.

Restaurants and bars naturally saw dreadful results (off 29.5 percent in April and 50.5 percent in the past two months), but this was not the softest area. Individuals stayed away from clothing stores, which fell 89.3 percent in the past two months. Sales at furniture stores and at electronics and appliance stores were almost as weak (off 67.4 percent and 64.9 percent in the past two months, respectively). Sporting goods stores also had a rough time, falling 49.0 percent in the past two months.

The breadth and depth of the weakness was striking, but in a sense, it is not surprising. If stores are closed and the economy nearly shut down, retail activity is going to tumble.

Industrial Production

The decline of 11.2 percent in industrial production was close to the expected drop of 12.0 percent. All three major components contributed to the decline (manufacturing -13.7 percent, mining -6.1 percent, utilities -0.9 percent).

Within manufacturing, all 20 of the major industries included in the report posted declines (chart, next page). The retreat was led by the auto sector with a decline of 71.7 percent. After a drop of 30.0 percent in the prior month, activity in the auto sector is essentially frozen. The aerospace industry (i.e. aircraft) also struggled, with a decline of 21.6 percent following a drop of 8.9 percent in March and dips in the prior two months. The broadbased retreat in manufacturing pushed activity below the trough registered during the financial crisis (1.8 percent softer).

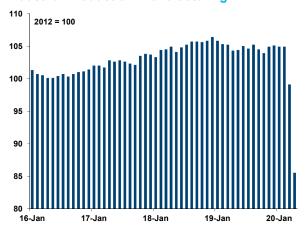
This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. brokerdealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.

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



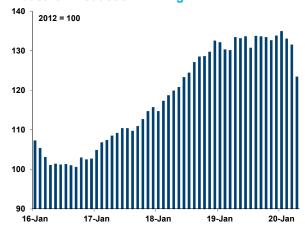
Industrial Production: Manufacturing

US



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics

Depute low oil prices, mining activity is holding up reasonably well. Output has declined for three consecutive months, but the adjustments in February and March were moderate (-1.4 percent and -1.1 percent, respectively), and as a result, total production has not registered the same marked contraction seen in other sectors of the economy (chart).

Consumer Sentiment

The news today was not entirely bad, as the index of consumer sentiment published by the University of Michigan Survey Research Center posted an increase of 2.6 percent, a contrast to the expected decline of 5.3 percent (chart). The index has declined 27.0 percent from its elevated level in February, but it is still above readings seen in the early years of the latest expansion and above most readings during the financial crisis.

The shifts in the components of the headline index were mildly surprising, as the current conditions index rose 11.7 percent despite the dismal economic setting. The expectations component, in contrast, fell 3.4 percent. The expectations component had been holding up better than the current conditions component, but they have now posted similar-sized declines from pre-virus readings.

Consumer Sentiment



Source: University of Michigan Survey Research Center via Haver Analytics