U.S. Data Review

- Retail sales: striking weakness in December
- Industrial production: better than retail sales, but also soft

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Retail Sales

Retail sales tumbled 1.9 percent in December, notably softer than the expected dip of 0.1 percent. Analysts were looking for a soft headline figure because of likely declines in the auto and gasoline components, and these areas did indeed decline, but the surprises occurred in notable weakness in other areas. In addition to the sharp decline in December, results in the prior two months were revised lower. The adjustments were modest (amounting to -0.1 percent overall, -0.2 percent ex-autos, and -0.3 percent ex autos and gasoline), but they added to the soft tone of the report.

Retail Sales -- Monthly Percent Change

	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Total	1.2	0.7	1.8	0.2	-1.9
Ex.-Autos	2.2	0.6	1.8	0.1	-2.3
Ex.-Autos, Ex.-Gas	2.2	0.3	1.6	-0.1	-2.5
Retail Control*	2.3	0.3	1.5	-0.4	-2.7
Autos	-2.7	1.2	1.7	0.2	-0.4
Gasoline	1.7	3.5	3.5	2.2	-0.7
Clothing	0.0	2.0	1.0	1.2	-3.1
General Merchandise	3.5	-0.3	1.6	-1.2	-1.5
Nonstore**	5.9	-0.4	3.8	-1.5	-8.7

** 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

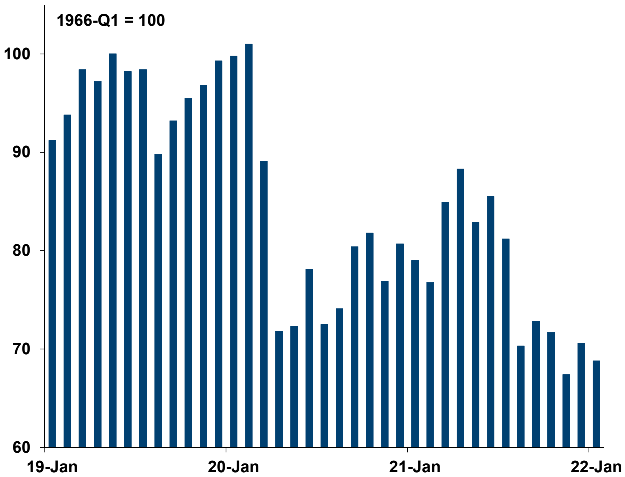
The decline outside of autos and gasoline was sizeable (off 2.5 percent) and broadly based. Nonstore retailers (primarily online and catalog) stood out with a drop of 8.7 percent, but this area had plenty of company on the soft side. Electronic and appliance stores posted their second consecutive decline (-2.9 percent in December after a drop of 9.7 percent in November), as did general merchandise stores (-1.5 percent in December and -1.2 percent in November). Activity in the sporting goods and hobby sector fell 4.3 percent, and clothing stores contributed to the overall retreat with a decline of 3.1 percent. Restaurants and bars had been holding their own, but they fell 0.8 percent in December.

The report was unambiguously weak, but a few areas managed to advance. Building supply stores added to their recent upward drift (up 0.9 percent in December), as did the miscellaneous category (1.8 percent). Sales at health-care related establishments rose moderately (0.5 percent), although the recent trend remained sideways.

We have been expecting good support from consumers. Today’s report leads us to question that view, although we would not abandon an optimistic outlook. The December weakness might reflect a knee-jerk response to Omicron that will be reversed when the spread of the new variant dissipates. We also wonder about possible revisions, as these results are at odds with high-frequency data on payment card transactions, which showed strong activity through December 21 (latest available). With dented confidence, we would still put households in the plus column.

The latest reading on the University of Michigan consumer sentiment index might add to doubts about a favorable outlook, as the measure fell 1.8 index points to 68.8 in early January. The latest value, like several others in recent months, was below the recession low of 71.8 in April 2020 (chart). However, this index has been soft throughout the recovery and has not been a good guide to consumer activity.

Consumer Sentiment



Source: University of Michigan Survey Research Center via Haver Analytics

Industrial Production

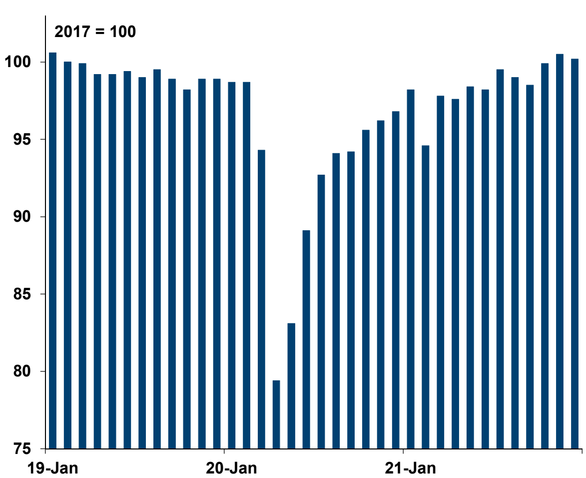
Total industrial activity fell 0.1 percent in December, softer than the expected increase of 0.2 percent. The growth of production in November was revised upward (0.7 percent rather than 0.5 percent), but results in the four months before that were revised lower. The downward adjustments from July to October dominated, leaving the level of production in November 0.3 percent lighter than previously believed.

Some of the decline in December was the result of a 1.5 percent retreat in the utility sector, but this drop was driven by warmer-than-normal temperatures rather than economic fundamentals. Much of the net downward revision in prior months was the result of softer activity (most likely weather-related) in the utility sector.

Manufacturing activity slipped 0.3 percent in December. The auto sector made a sizeable contribution to the drop (off 1.3 percent), but other areas also were down on balance (off 0.2 percent ex-autos). Despite the drop in December, the manufacturing sector can still be viewed as advancing, as growth totaled 4.9 percent in the fourth quarter (annual rate) and production climbed 3.5 percent in the past year (chart, left).

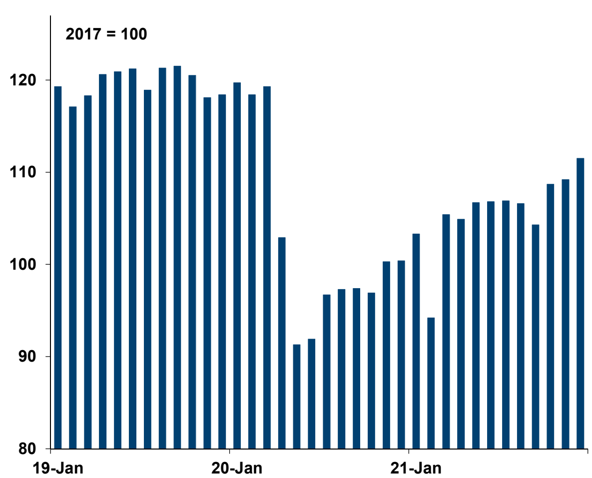
Mining activity has quickened recently, including an increase of 2.0 percent in December. This advance completed a favorable quarter for mining (up 15.6 percent, annual rate) and left growth in the past 12 months at 11.0 percent. Mining activity, though, fell sharply in the recession and improved only slowly during much of the recovery period. Thus, mining activity is still well shy of pre-pandemic levels (chart, right).

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics