U.S. Data Review

- Retail sales: better than expected in August; higher prices tied to tariffs had an impact, but real sales appear to have increased as well; risks remain elevated entering Q4
- Industrial production: increases in manufacturing and mining offset decline in utilities, though trend remains subdued

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Retail Sales

- Retail sales rose 0.6 percent in August from an upward-revised tally in July, exceeding the Bloomberg survey median expectation of a gain of 0.2 percent (+5.0 percent year-over-year, up from +4.1 percent in July). The value of activity at motor vehicle and parts dealers increased 0.5 percent (+5.6 percent year-over-year), a mild surprise not incorporated into our projections given that data from Wards Automotive Group indicated that sales slipped during the survey period (16.07 million, annual rate, in August versus 16.55 million in July; -2.9 percent). Putting that discrepancy aside, sales excluding autos also exceeded expectations (+0.7 percent versus the Bloomberg median of +0.4 percent; +4.9 percent year-over-year), with results across discretionary categories holding up well in late summer.

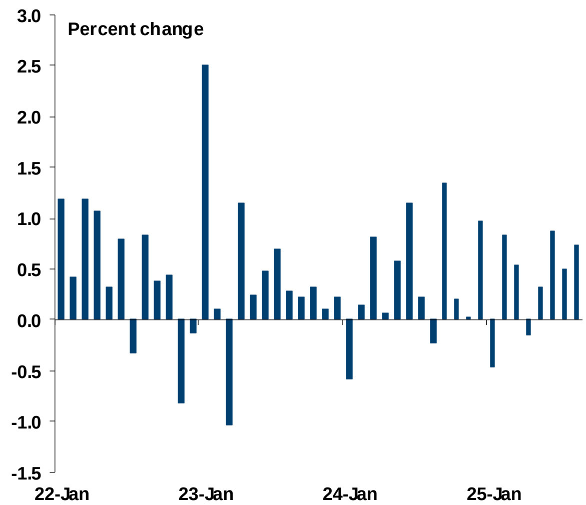
Retail Sales -- Monthly Percent Change

	Apr-25	May-25	Jun-25	Jul-25	Aug-25
Total	-0.1	-0.8	1.0	0.6	0.6
Ex.-Autos	0.0	-0.1	0.9	0.4	0.7
Ex.-Autos, Ex.-Gas	0.1	0.0	0.9	0.3	0.7
Retail Control*	-0.2	0.3	0.9	0.5	0.7
Autos	-0.7	-3.8	1.2	1.7	0.5
Gasoline	-0.4	-0.7	0.7	0.9	0.5
Clothing	0.2	0.5	1.4	1.4	1.0
General Merchandise	0.0	-0.1	0.1	0.0	-0.1
Nonstore**	0.1	0.7	1.3	0.6	2.0

** 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 retail control grouping (sales excluding auto and parts dealers, gasoline stations, and building materials, garden equipment & supply dealers), which provides monthly views into goods outlays in the GDP accounts, jumped 0.7 percent (versus +0.4 percent expected; +5.9 percent year-over-year) – which suggests aggregate consumer outlays for goods has remained on track in Q3. Part of the latest advance likely reflected higher prices tied to tariffs (core goods prices in the CPI rose 0.3 percent in August), but the latest results imply a gain in real activity as well.

Retail Sales: Control Group



Source: U.S. Census Bureau via Haver Analytics

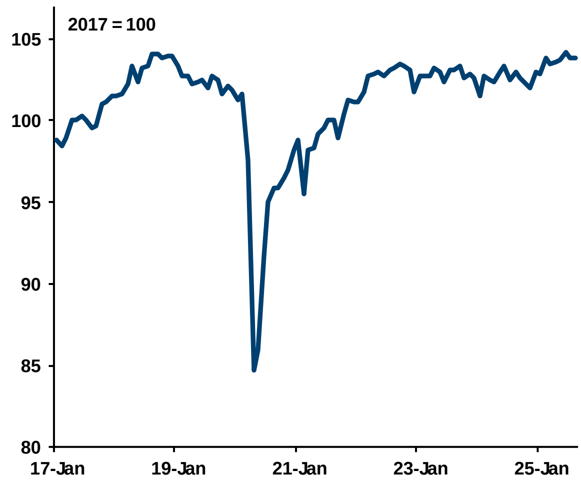
- Importantly, various categories tied to discretionary household spending were well maintained despite apparent price increases. Sales at clothing store rose 1.0 percent after a surge of 1.4 percent in July (+8.3 percent year-over-year) versus pickups of 0.5 and 0.1 percent in the apparel component of the CPI in August and July, respectively. Additionally, activity at sporting goods stores rose 0.8 percent (+4.7 percent year-over-year) versus an uptick of 0.1 percent in the matched component of the CPI (although other recent readings had been firm with respect to prices). Moreover, restaurants (the only service-related category in the report) increased 0.7 percent (+6.5 percent year-over-year), again supporting the view that consumers are not in retreat – at least for now.

- Updating our Q3 tracking estimate of GDP with the latest retail data leaves our expectations a bit firmer than previously projected. Currently, we anticipate real personal consumption expenditures to increase approximately 2.0 percent, annual rate, in Q3, up from 1.6 percent recently. That reading would contribute importantly to projected GDP growth a bit firmer than 1.5 percent. With that said, we would note that recent deterioration in the labor market could generate further concern for consumers, who have already been battered by higher prices in recent years. And, given that sentiment is already depressed, we remain vigilant regarding a possible scaling back in discretionary areas in Q4.

Industrial Production

- Following a downwardly-revised decline of 0.4 percent in the prior month, the Federal Reserve Board's measure of industrial production rose 0.1 percent in August (+0.9 percent year-over-year; chart), surpassing broad expectations in the Bloomberg economist survey. While utility output posted a sizable decline in the latest month, upside surprises for both the manufacturing and mining components (which we view as superior to utility output in discerning underly economic trends) provided an offset, leaving the composite metric modestly improved from the prior month's reading.

Industrial Production

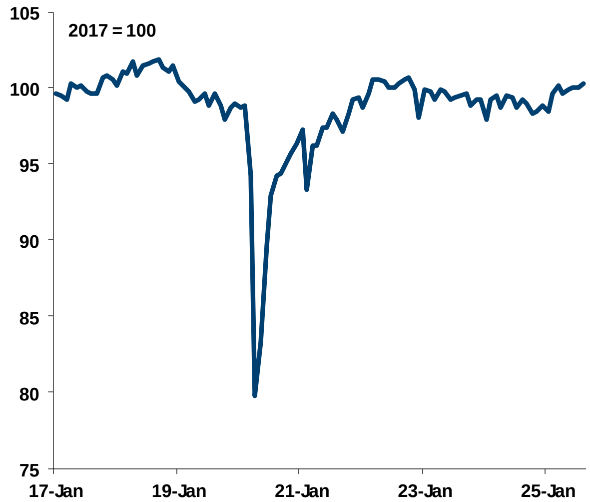


Source: Federal Reserve Board via Haver Analytics

- Looking further at the internals of the report, manufacturing -- the most critical element of the report with respect to assessing the underlying health of the economy -- rose 0.2 percent in August (+0.9 percent year-over-year), doing little to alter the prevailing sideways trend (chart, below left). Nonetheless, August's read reflected in large part a jump in auto production (+2.6 percent). Excluding motor vehicles and parts, manufacturing output growth rounded up to 0.1 percent in the latest month, with 10 of 19 non-auto manufacturing industries registering increases in production.

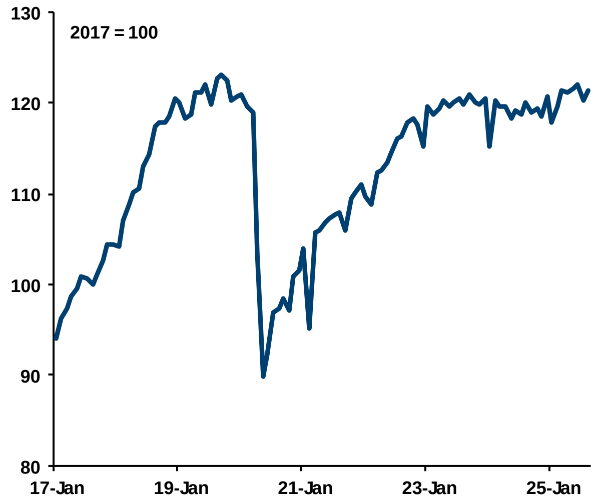
- Mining output increased 0.9 percent in August (+1.0 percent year-over-year), a partial recovery from the prior month's drop of 1.5 percent. This area had mounted a notable comeback from the COVID-related trough through early 2023, but that progress has since stalled at a pace approximately in line with levels seen in the period immediately preceding the onset of the pandemic (current index level of 121.4 versus the 2019 average of 120.8; chart, below right).

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

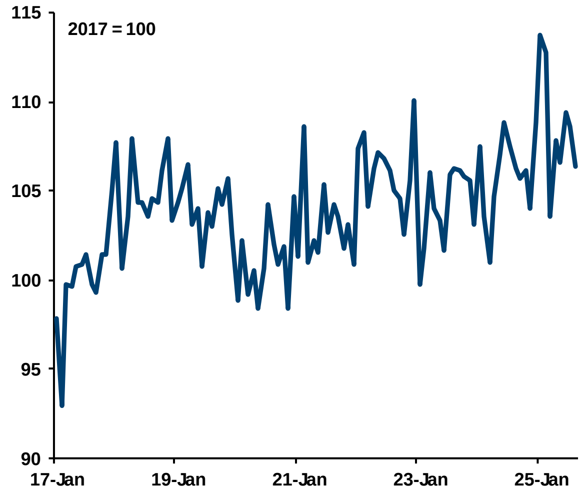
Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics

- In contrast to the other components, utility output fell 2.0 percent in August (+0.1 percent year-over-year; chart). Keep in mind that this area is volatile on a month-to-month basis (range of -8.2 to +2.6 percent in the past six months), with shifts often reflecting variation in weather rather than underlying fundamentals.
- Despite the latest increase, the trend in industrial production has been largely disappointing. Uncertainty stemming from the current administration's policy agenda (specifically trade policy and tariffs) coupled with cooling demand have contributed to a challenging environment for firms. Moreover, prices of energy commodities have remained subdued, which has contained to a degree the energy renaissance and drilling boom championed by President Trump.

Industrial Production: Utilities



Source: Federal Reserve Board via Haver Analytics