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There is not much terribly new information from this morning's US releases that were generally on the softer side. Analysis follows for inflation, consumption, incomes, the saving rate and ISM-manufacturing. I think ISM is settling into a path of more moderate growth that simply unwinds the overshoot provided by stimulus. There is a strong argument to be made for pent-up consumption demand through the saving rate evidence and the role played by harsher than usual weather and shutdown effects in temporarily depressing consumption.

At the margin, the data does nothing to further inform what is already an expected H1 pause and at this point is not inconsistent with our expectation for a return to Fed rate hikes later this year. After Q4 GDP growth that solidly beat expectations at 2.7%, a strong consumer sector remains a very decent base case to play a significant role in driving a return to hiking with modest upside pressure expected for inflation over H2-onward.

US Core PCE Unchanged, Saving Rate Points To Pent-Up Consumer Demand

United States, Personal Income / Consumption, % m/m, December:
Actual: 1.0 / -0.5
Consensus: 0.3 / -0.3
Scotia: 0.3 / -0.4
Prior: Unrevised from 0.2 / 0.4

United States, PCE / core PCE deflators, y/y % change, December:
Actual: 1.7 / 1.9
Consensus: 1.7 / 1.9
Scotia: 1.6 / 1.9
Prior: Unrevised from 1.8 / 1.9

- The broad outlines of this set of figures contained few surprises on balance. Weakness in consumption is explainable while the saving rate suggests pent-up spending demand and core inflation remained unchanged and near the Fed's 2% policy goal.
- Real consumption fell by 0.6% which matches expectations imputed from yesterday's GDP accounts such that there is no new information being revealed here. Nominal spending fell by 0.5% and so all of the decline was due to lower volumes.
- Because incomes were up by 1% m/m in December and consumption was soft, the saving rate shot much higher. All the way to 7.6% from 6.1% the prior month. Americans saving 7.6% of their paycheques??! The frugal American consumer? Imagine that. Sudden shocks to the saving rate like this one are almost always an indication of transitory factors that get unwound in subsequent periods. In this case I think that's weather and shutdown effects. The saving rate is almost four times higher than it bottomed at in 2005 when the cycle was getting to an end. There is nowhere near the same household finance dynamic this time around; in fact, it's the opposite with very strong financial conditions for households.

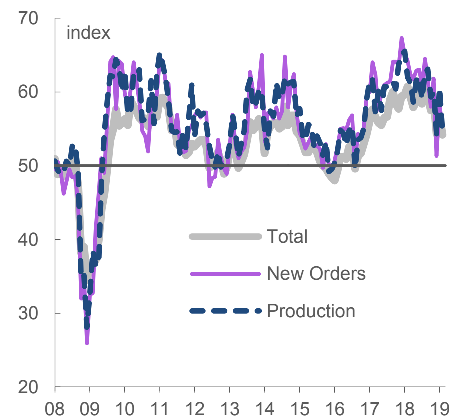
- This release included income growth for January ahead of later consumption figures with the mismatch driven by the effects of the government shutdown on data collection and dissemination. January's personal income dipped by 0.1% m/m which isn't terribly surprising after the magnitude of the jump in December which was the largest gain since December 2012.
- Core PCE inflation bang on 1.9% unchanged while headline ticked down one move to 1.7% and by less than CPI drifted lower. The inflation figures matched expectations.

US ISM Disappoints But Still Signals Moderate Growth

ISM-manufacturing, February:
Actual: 54.2
Scotia: 55.0
Consensus: 55.8
Prior: 56.6

- ISM-manufacturing disappointed consensus expectations with softer growth being signalled. The underlying details broadly supported the softer headline.
- Overall, I think the likely path forward points toward continued moderate growth in the manufacturing sector after a temporary acceleration that began prior to the US election in November 2016 and was temporarily juiced by the Tax Cuts and Jobs Act of early last year and the US$300 billion spending bill from just over one year ago. Reversing that temporary acceleration does not mean recession, versus a return to more normal growth. Potential upside could come as the global economy stabilizes and if a trade truce can be struck between the US and China.
- The headline reading is the lowest since November 2016—ironically the month of the US election as the rise has now been fully reversed.
- The new orders book decelerated to 55.5 from 58.2. This was driven by a softer domestic order book as new export orders picked up to 55.3 (53.8 prior).
- Employment decelerated to 52.3 (55.5 prior).
- Prices paid stabilized at 49.4 (49.6 prior).

US ISM Manufacturing



Sources: Scotiabank Economics, ISM.