March 11, 2019

US Retail Sales Should Mean Nothing To The Fed

United States, Retail Sales, % Change headline/ex-autos/ex-auto-gas, m/m, January:

Actual: 0.2 / 0.9 / 1.2

Scotia: -0.3 / 0.2 / na

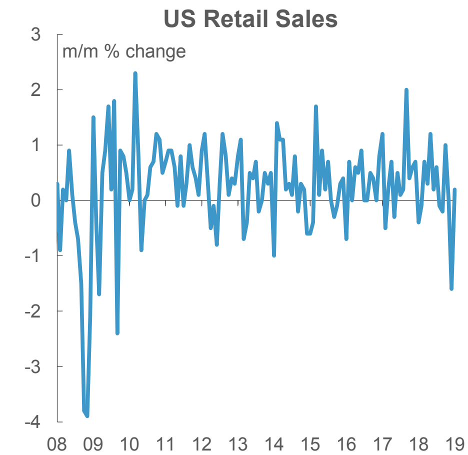
Consensus: 0.0 / 0.3 / 0.6

Prior: -1.6 / -2.1 / -1.6 (revised from -1.2 / -1.8 / -1.4)

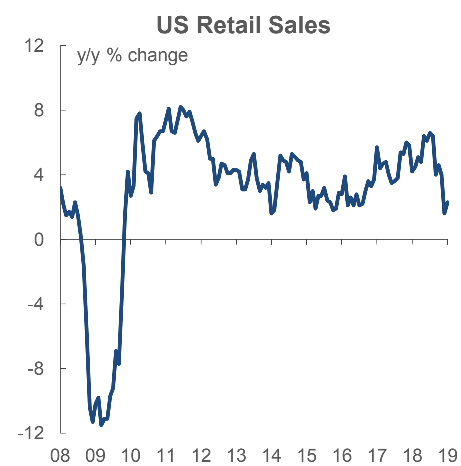
- An improved retail sales picture in January is dented by mild downward revisions. Tracking still points to a weak first quarter. I would continue to counsel looking through the December and January figures as year-end influences were distorted by weather, the government shutdown and the partial impact upon markets and confidence. About all one can say is that the US consumer isn't dying off just because of the dip in December and how that set negative momentum into Q1. Underlying conditions still offer robust drivers of consumption growth including record low debt payments as a share of income. The personal saving rate ended 2018 at 7.6% by spiking a lot higher in December as weather, the shutdown and a confidence hit to markets had consumers squirrelling away the income growth. Confidence has since mended significantly. Wage gains are at about a decade high. Event risk must still be monitored including trade policy and Brexit at the forefront such that we're not out of the woods yet in terms of confidence by any stretch. The next steps in the outlook will be driven by political risks and we remain moderately constructive in this regard. To get easing from this picture assumes no rebound is in the cards and the worst outcomes for political risks that would all seem to be highly premature to simply assume.
- **There are no implications to the Fed beyond what is already priced into markets by way of existing the Fed's existing 'patient' stance.** There were no signals in Chair Powell's remarks that he was incrementally influenced by Friday's nonfarm disappointment and greater than expected acceleration in wage gains that one shouldn't simply forget. He continued to describe the US economy as facing a solid outlook. Further, the Fed is presumably smart enough to realize that shutdown and weather effects make the December-January data unreliable. I expect the revised dot plot to likely continue to show one or two hikes over the 2019–2020 horizon with a tightened clustering of opinions.
- Key is that the retail sales control group was up 1.1% which is what flows through total consumption in the GDP accounts. During the prior month, the retail control group was revised to a worse -2.3% m/m (-1.7% previously).
- The broad takeaway is that the shutdown and weather (harsher than usual storms in parts of the country during December, very cold Jan) distorted the sales picture in both Dec and January but at least things appeared to stabilize in January.
- Much of the weakness across components was known into the report that offer up a few more positive signals. Autos and parts fell 2.4% m/m which was already mostly known by way of the auto sales figures. Furniture sales fell 1.2%. Electronics were off 0.3%. Sales of building materials climbed by a whopping 3.3% m/m. Food and beverage sales were up 1.1% while health/ personal care products were up 1.6%. Clothing sales fell 1.3%. Gas stations fell 2.0% due to already known gas price movements. Sporting goods sales were up 4.8% which reverses much of the prior month's plunge.

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com



Sources: Scotiabank Economics, US Census Bureau.



Sources: Scotiabank Economics, US Census Bureau.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.