February 14, 2020

Weather Partly Disrupted US Retail Sales and Industrial Output

- **Retail sales grew roughly in line with expectations**
- **Weather may have slightly dampened sales through a hit to clothing**
- **Still, we ask why is trend growth in retail sales volumes so weak?**
- **Industrial output fell, but also partly due to weather's impact on utilities**
- **Boeing's troubles dominated areas of weakness in industrial output**

US, Retail Sales, Headline / Ex-Autos / Ex-Auto-Gas, m/m %, January:
Actual: 0.3 / 0.3 / 0.4
Scotia: 0.4 / 0.3 / na
Consensus: 0.3 / 0.3 / 0.3
Prior: 0.2 / 0.6 / 0.5 (revised from 0.3 / 0.7 / 0.5)

Retail sales posted a decent but not great month to start the year. The pace of gains wasn't spectacular by any means, but breadth was decent. Furthermore, the tally was held back somewhat by better than usual weather for a month of January that hit clothing sales, as well as by lower gas prices. Still, however, the trends remain puzzlingly soft as explored further in this note.

Chart 1 depicts the weighted contributions to monthly sales growth by category of retailer. Restaurants and building materials were the biggest contributors to the overall gain in retail sales. Clothing and apparel was the biggest detractor.

The retail sales control group (RSCG) was flat and revised down to +0.2% m/m from the previously estimated +0.5% for December. This category removes food services, building materials, auto dealers and gas stations and is closely used as input to estimating total consumption in the GDP accounts. January's flatness in this reading was partly distorted by weather as argued shortly, but it's still disappointing as the trend has been quite soft.

On this latter point, the control group was flat in January, up 0.2% in December, down 0.2% in November, flat in October and down 0.4% in September. That's an extended period of softness. Chart 2 shows the connection between the RSCG and total consumption, both in real terms and how the magnitude of the decline in the RSCG overstated consumption softness in Q4 but got the direction right. That said, the downward revision to the RSCG points to a mild downward revision to January's total consumer spending tally and consumption's contribution to Q4 GDP.

Ten out of fourteen sectors were higher. In unweighted percentage terms, the biggest gains were in building materials (2.1% m/m), miscellaneous (2.3%), eating and drinking establishments (1.2%), furniture (0.6%), general merchandise stores (0.5%), autos and parts (0.2%), food and beverage stores (0.2%), sporting goods (0.1%) and non-store retailers (0.3%). Note that 'miscellaneous' includes florists, office supplies and gift stores, used merchandise stores and other miscellaneous categories.

Sales fell at clothing and accessories stores (-3.1%), gas stations (-0.5%), electronics stores (-0.5%) and health/personal care stores (-0.4%).

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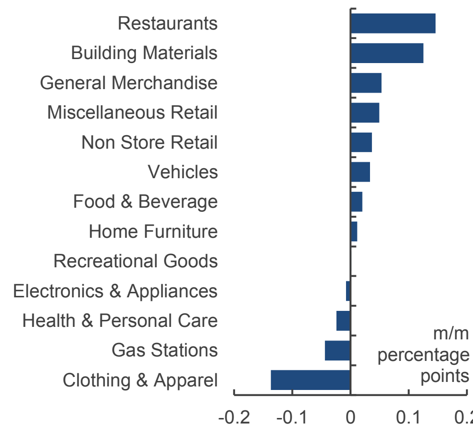
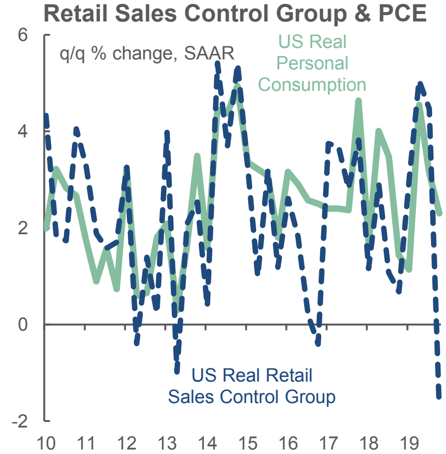
January US Retailer Contributions to Nominal Retail Sales



Sources: Scotiabank Economics, US Census Bureau.

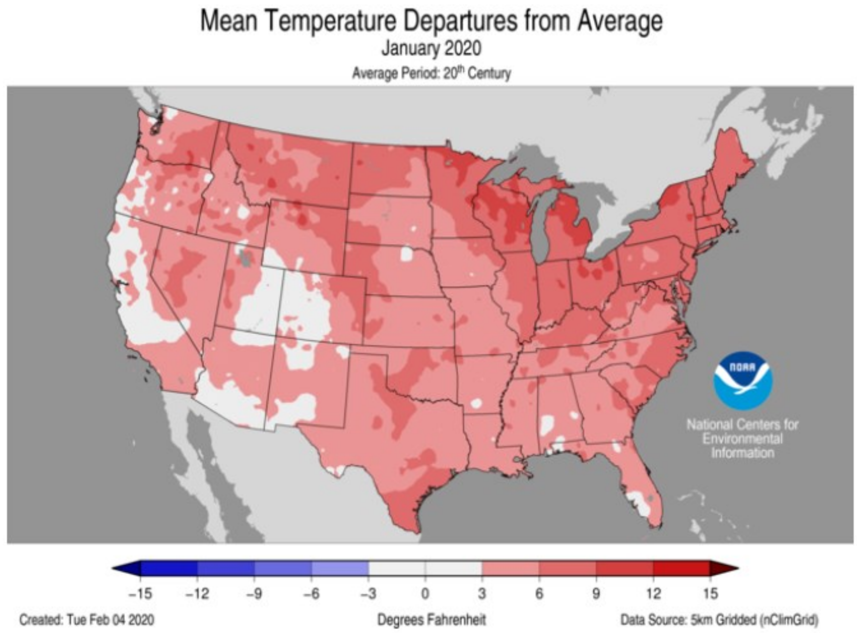
Retail Sales Control Group & PCE

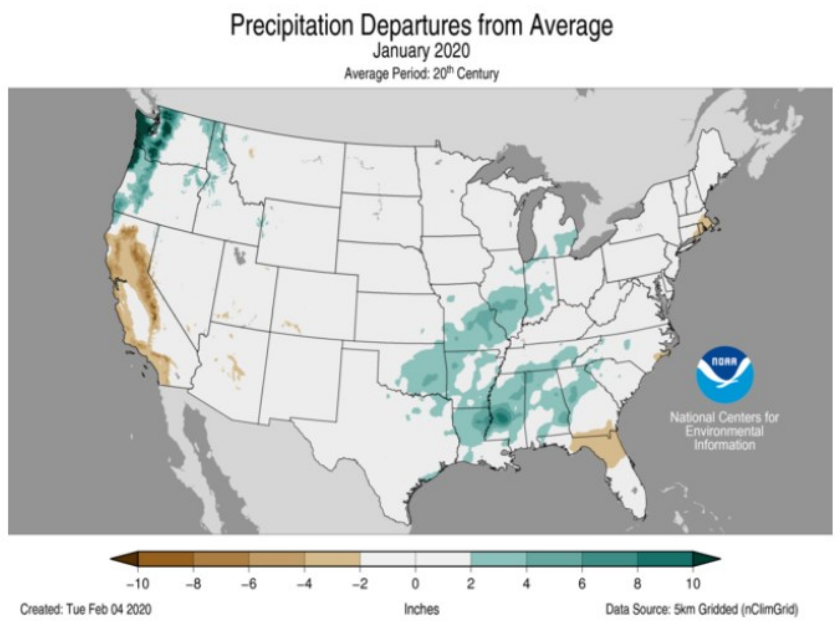


Sources: Scotiabank Economics, BEA, US Census.

If not for lower gas prices and weather's likely effect, sales might have been higher. Excluding the decline in gas station sales and clothing stores would have added another 0.15% m/m to total retail sales growth in January.

We can't tell for certain – not least of which because the first pass at the retail figures don't break down clothing and accessories sales – but it's reasonable to argue that weather hit sales of winter clothing. Enter charts 3 and 4 that demonstrate how January was a milder than normal month of January and generally average to below average in terms of precipitation except in parts of the very northwest and southeast.





Sales volumes were up fairly mildly given CPI. Headline and core real sales were up by around 0.2% m/m, but again, this was partly held back by weather's impact on clothing sales.

The dollar value of sales is tracking a modest 1.8% q/q growth rate in 2020Q1 at a seasonally adjusted and annualized rate (SAAR) based solely up the Q4 average and January's results while assuming the rest of the quarter is flat in order to focus upon the effects of what we know. That is identical to the 1.8% growth in Q4 over Q3 (SAAR).

This raises somewhat of a puzzle. In inflation-adjusted terms, retail sales are basically not growing. Yet consumers say they are upbeat in confidence surveys (including this morning's UoM sentiment expectations gauge), their cash flow metrics are all quite solid as noted in the morning note, and measures of household finances are robust as also observed with charts in the morning note.

So why has there been no sales growth in inflation adjusted terms? One possibility is the unequal distribution of the strength in household finances. The other is that actions speak louder than words and so not driving spending growth is perhaps a more useful guide to how people actually feel than the confidence surveys. Lingering effects of uncertainty from trade wars, uncertainty toward the outcome of the US election, and sundry forms of headline risk may be driving cautious spending. Another possibility is that this cycle is getting long in the tooth and consumers have bought a lot of what they wish to have. Yet another possibility is the role of aging demographics with consumers quite content to horde the proceeds of improved finances as they enter retirement and/or given uncertainty over how their retirement finances may pan out including funding risks to social security and medical care. Last (maybe) is that perhaps this is transitory and pent-up demand is waiting to be unleashed in future. I suspect it's a combination of these factors that will result in ok but not great trend consumption growth. Ordinarily if one dangled strong finances before US consumers, they'd have found every reason to spend that. Not this time, and so caution continues to have merit toward the US consumer sector.

US Industrial Production Held Back By Boeing, Weather

US industrial production, m/m % change SA, January:
Actual: -0.3
Scotia: 0.0
Consensus: -0.2
Prior: -0.4 (revised down from -0.3)

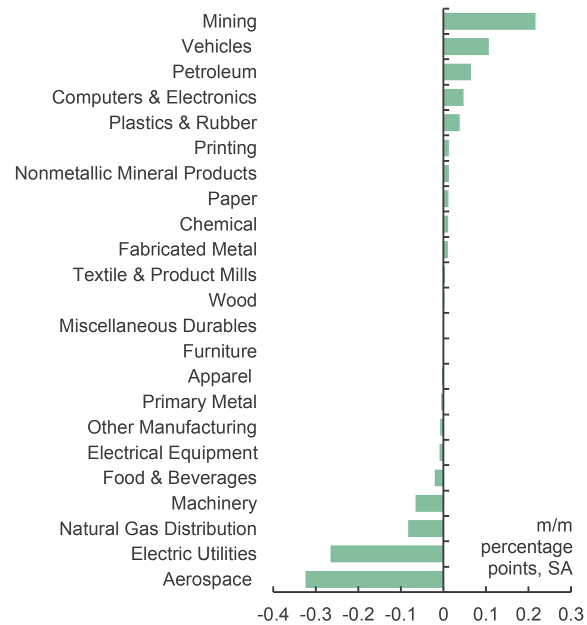
US industrial production was a bit better than the headline suggests. Warmer than usual weather continued to wallop utilities.

Chart 5 shows the weighted contributions to output growth in January. Mining and autos played the biggest roles in driving gains, but Boeing's troubles and warmer than usual weather made aerospace and utilities the biggest drag effects.

Overall breadth was soft. Manufacturing output was down 0.1% m/m and revised down to 0.1% from 0.2% previously for December.

Utilities output was down 4%, but likely for the same weather-related reason noted above in the retail sales recap. As far as disappointments go, that's a good form. Natural gas utilities' output was down 7.5% m/m after a prior drop of 12.7%, confirming that this is a bad weather report for them, but good for homes and businesses! Taking the utilities decline out of the picture would have resulted in a 0.1% m/m rise in industrial output given the 10.2% weight on utilities.

January Weighted Contributions to US Industrial Production by Industry



Sources: Scotiabank Economics, US Federal Reserve.

Autos and parts were up 2.4%, but take that out and the rest was down 0.3%. Machinery output fell 1.1%, computers/electronics were up 0.8%, mining was up 1.2%, consumer goods output was down 0.5%, business equipment output fell by 2.6%, materials were flat but up a little ex-energy that fell 0.3%.