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GLOBAL ECONOMICS

**SCOTIA FLASH**

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**Contributors**

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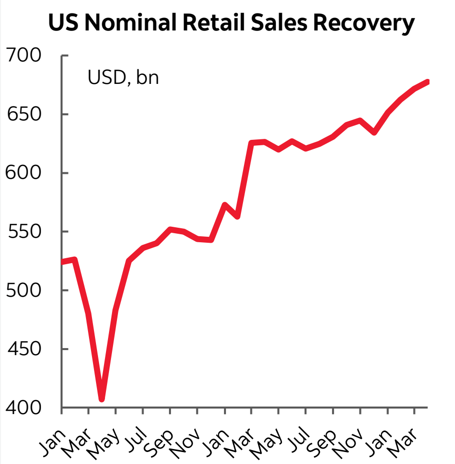
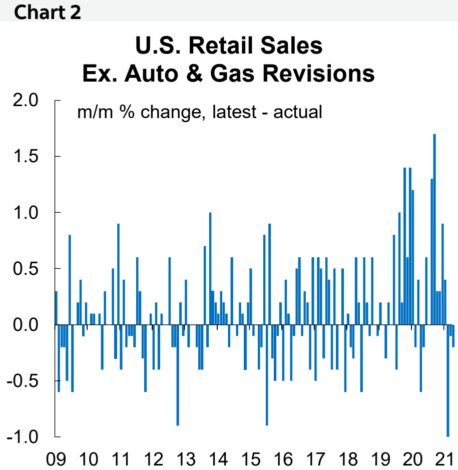
**Chart 1**




Sources: Scotiabank Economics, US Census Bureau.

**Chart 2**




Source: Scotiabank Economics, U.S. Census Bureau.

# Consumers and Industry are Driving a Strong US Economy

While they don't discount forward-looking uncertainties, a pair of top shelf US macroeconomic indicators point to greater than expected strength in the US economy as it transitioned from Q1 into Q2. The US consumer and industrial conditions indicate rather vibrant conditions.

## US RETAIL SALES

**US retail sales, m/m % change, April, headline / ex-autos / ex-autos&gas / control group:**
Actual: 0.9 / 0.6 / 1.0 / 1.0
Scotia: 1.0 / 0.0 / na / na
Consensus: 1.0 / 0.4 / 0.7 / 0.7
Prior: 1.4 / 2.1 / 1.2 / 1.1 (revised up from 0.5 / 1.1 / 0.2 / -0.1)

Attention any forecasters tempted to write-off the US consumer in 2022: with the helping hand of annual revisions plus added momentum, they'rrreeee baaaaccckkk! It turns out that the soft patch was just a statistical mirage. Go **here** for the full release. Chart 1 shows that the pandemic has been left in the dust. Strong jobs, high cash balances, solid wage gains, high home equity and pent-up demand for services and some durables plus perhaps slowly easing supply side constraints are the upsides you don't hear as much about compared to the impact of higher borrowing costs.

Prior revisions played a major role in saving the day. That's not uncommon with this report. Check out chart 2 that shows monthly revisions to m/m changes in core retail sales (ex-autos and gas) over time and how they can be massive in both directions. There is a slight bias toward positive revisions over time (56% of the revisions since 2009). This time around the culprit was advance annual retail sales revisions.

Even on the back of those revisions the numbers were still stronger than expected. Headline sales roughly met expectations (+0.9% m/m, consensus 1%) but core sales ex-autos and gas were up by 1% (consensus 0.7%). This translates into a solid real gain given that CPI was up 0.3% m/m and core CPI was up 0.6% during April.

Key is the retail sales control group which is how this gets factored into consumption within GDP. The RSCG was up by 1% m/m and revised up from -0.1% m/m in March to +1.1% m/m. Presto, what weakness!!

Furthermore, what the upward revisions do is to remove an inflation-adjusted (real) decline in March and indicate that real sales were instead roughly flat in terms of headline but up pretty strongly in terms of real core sales

US nominal retail sales were up 14.4% q/q SAAR in Q1 (chart 3). They are tracking a further 10% q/q SAAR gain in Q2 based only on April and the Q1 avg while assuming May and June are flat in order to focus the math upon what we know so far.

These are huge numbers and remember that retail sales don't capture most of the services spending that has been recovering post-omicron.

Chart 4 breaks down the retail sales gain in April by category. Chart 5 does this on a weighted contribution basis to show which categories played the biggest weighted roles in driving total retail sales higher. Chart 6 shows the cumulative recovery in retail sales by category to show that all are now posting higher sales than before the pandemic in nominal terms, although the bottom categories would still be lower in real terms.

## US INDUSTRIAL OUTPUT ALSO BEATS

**US industrial production, April, m/m % change SA:**
Actual: 1.1
Scotia: 0.2
Consensus: 0.5
Prior: 0.9

US industrial output was up by 1.1% m/m in April (consensus 0.5%). ISM-manufacturing's production subindex was a head fake in signalling slower output growth.

In fact, manufacturing output was up by 0.8% m/m in April, matching March's gain after February's 1.3% m/m rise. US industrial output accelerated over the past three months compared to the prior three months.

Mining output was up by 1.6% m/m. Utilities output was up 2.4% m/m.

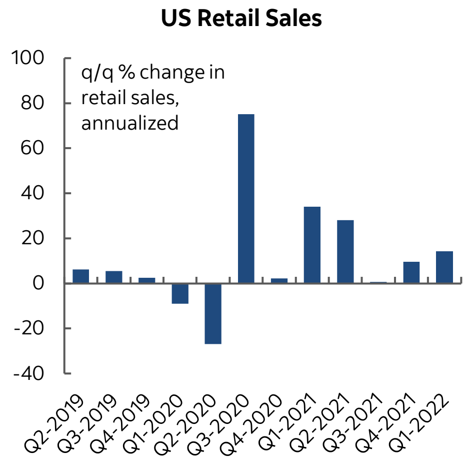
There was high breadth across components (consumer goods, business equipment, construction, materials etc). Chart 7 provides the more detailed breakdown of which sectors drove higher industrial output last month with mining, utilities and autos the three leaders.

Given that producer prices were up by 0.5% m/m in April with PPI ex-food and energy up 0.4%, the industrial output gains generally outpaced inflation and therefore signal higher volumes of activity.

Capacity utilization climbed to 79% which is the highest since December 2018 and only 0.9 ppts below the pre-pandemic peak in August 2018 (Chart 8).

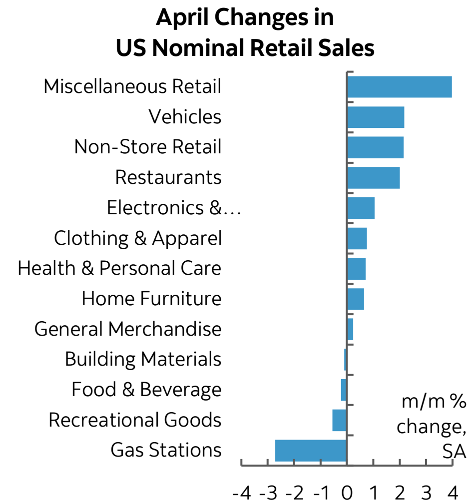
US industrial output was up 7.7% q/q SAAR in Q1 and is tracking another 8.1% q/q rise in Q2.

**Chart 3**



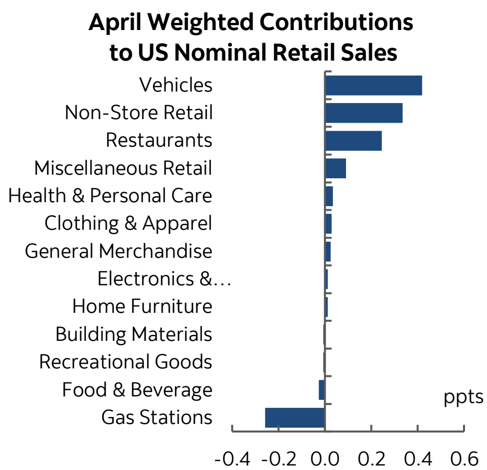

Sources: Scotiabank Economics, Census Bureau.

**Chart 4**



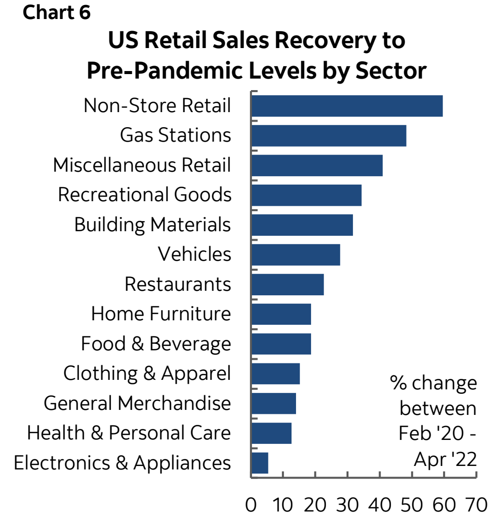

Sources: Scotiabank Economics, US Census Bureau.

**Chart 5**



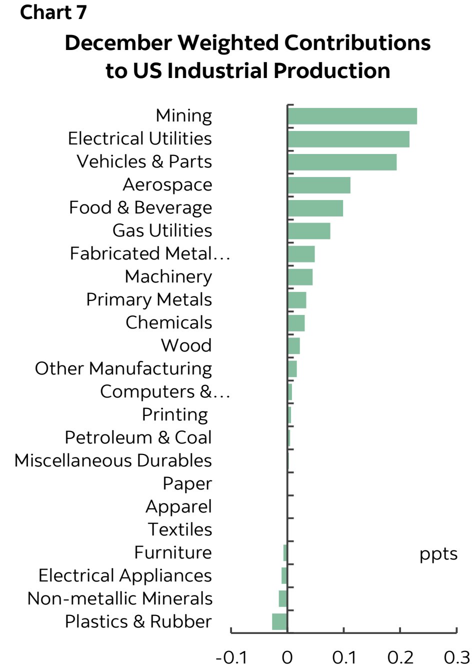

Sources: Scotiabank Economics, US Census Bureau.

**Chart 6**



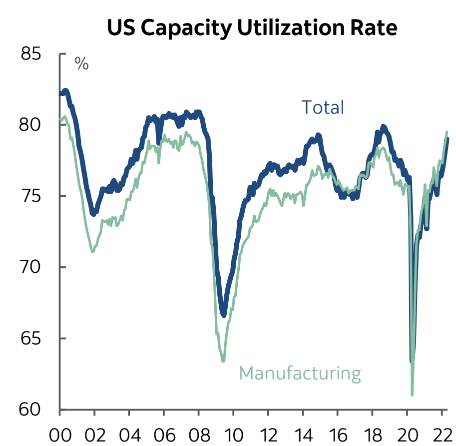

Sources: Scotiabank Economics, US Census Bureau.

**Chart 7**




Sources: Scotiabank Economics, US Federal

**Chart 8**




Sources: Scotiabank Economics, BEA.