

U.S. Data Review

- Retail sales: losing momentum; a few bright spots, but generally soft
- Industrial production: strong manufacturing activity; mining on the mend
- Consumer sentiment: concern about the virus

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Retail Sales

Retail sales fell 0.7 percent in December, noticeably weaker than the expected drop of 0.3 percent. In addition, results in the prior two months were revised lower, with the level of activity in November 0.3 percent lower than previous believed. December brought the third consecutive retreat, with the cumulative change over this period totaling 2.1 percent. Much of the weakness can be viewed as an offset to unusual strength during the summer when fiscal support stirred activity and drove sales well above the underlying trend. A reversion to trend was likely at some point. Even with declines in the past three months sales are above the pre-virus levels early in the year and are still above any long-term trend line that one might draw (see the chart on sales ex autos and gasoline). At the same time, the report carried some signs of emerging weakness, which is a concern at a time when the spread of the virus is accelerating and the distribution of vaccines is proceeding slowly.

Retail Sales -- Monthly Percent Change

	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Total	1.4	1.7	-0.1	-1.4	-0.7
Ex.-Autos	1.5	1.4	-0.2	-1.3	-1.4
Ex.-Autos, Ex.-Gas	1.5	1.3	-0.2	-1.3	-2.1
Retail Control*	1.4	1.3	-0.2	-1.5	-2.3
Autos	1.1	3.1	0.1	-1.5	1.9
Gasoline	0.8	1.8	0.0	-1.6	6.6
Clothing	2.8	15.4	-3.6	-6.1	2.4
General Merchandise	-0.5	3.2	-1.4	-1.3	-1.2
Nonstore**	4.6	-2.0	2.0	-1.6	-5.8

* Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.

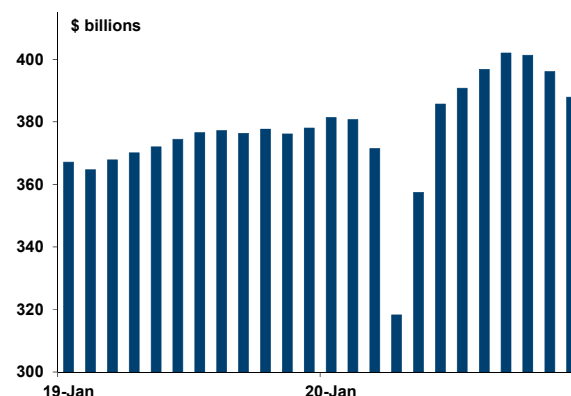
** Primarily online and catalog sales; also includes sales by fuel-oil dealers.

Source: U.S. Census Bureau via Haver Analytics

A few areas did well in December. Sales of motor vehicles were firm, with a gain of 1.9 percent more than offsetting a drop in the prior month and reestablishing an upward trend. Building-supply stores remained on a strong path, and the miscellaneous category also is continuing to advance. On the soft side, sales at nonstore retailers (mostly online vendors) fell for the second consecutive month, with the drop of 5.8 percent standing out. However, this area was unusually strong and the latest declines could be viewed as moderate corrections. Naturally, eating and drinking placed did poorly because of the acceleration in the spread of the virus. Electronic and appliance stores have declined sharply in the past two months, and now seem to be in a soft patch. General Merchandise stores fell for the third consecutive month. After a strong rebound in the summer, sales at general merchandise stores are only slightly above their pre-virus level.

The report was disappointing, and most observers will sound alarms. However, it is easy to overstate the degree of weakness. After the surge in the summer, some retreat at some point was to be expected. The spread of the virus is raising questions about the outlook, but if President-Elect Biden can get his rescue package through Congress, the support should keep the economy on track.

Retail Sales Ex. Autos & Gasoline



Source: U.S. Census Bureau via Haver Analytics

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Industrial Production

While retail sales were softer than expected, industrial production provided a high-side surprise with a jump of 1.6 percent (versus an expected gain of 0.5 percent). Some of the advance was the result of a surge in utility output (up 6.2 percent), which nearly always is a function of temperature swings rather than economic fundamentals. However, manufacturing activity also was strong (up 0.9 percent), and the mining sector did well with a gain of 1.6 percent.

The increase in manufacturing occurred despite a drop of 1.6 percent in the auto industry. Activity elsewhere rose 1.1 percent. The gains were broadly based, with 15 of 20 major industries advancing. Many industries posted increases of more than 1.0 percent. Manufacturing output has now increased for eight consecutive months and regained 87 percent of the ground lost in the spring.

With prices of crude oil well below levels earlier in the year, a pullback in fracking activity has restrained the mining component, but conditions have improved some in recent months. Mining output has increased in three of the past four months and in five of the past seven. Still, the recovery has been only moderate, as mining activity has recouped only 35 percent of the decline in the spring and summer months.

Industrial Production: Manufacturing

