

U.S. Data Review

- Retail sales: sharp decline in February; payback for January surge; still strong
- Industrial production: sharp decline, primarily reflecting adverse weather

Michael Moran

Daiwa Capital Markets America
 212-612-6392
 michael.moran@us.daiwacm.com

Retail Sales

Retail sales fell 3.0 percent in February, much sharper than the expected drop of 0.5 percent. However, we would not view this as a weak report. The change occurred from upwardly revised results in January, with growth in the prior month 2.3 percentage points stronger than previously believed (7.6 percent versus 5.3 percent; December was revised lower, but modestly so, still leaving a net shift of 1.9 percentage points). In addition, the change could be viewed as a natural (and partial) offset to stimulus-related strength in January. The new reading on the headline measure was in line with pre-January results, as were essentially all components (for example, see the chart below on sales excluding autos and gasoline).

Retail Sales -- Monthly Percent Change

| | Oct-20 | Nov-20 | Dec-20 | Jan-21 | Feb-21 |
|---------------------|--------|--------|--------|--------|--------|
| Total | -0.1 | -1.3 | -1.3 | 7.6 | -3.0 |
| Ex.-Autos | -0.2 | -1.2 | -2.1 | 8.3 | -2.7 |
| Ex.-Autos, Ex.-Gas | -0.2 | -1.1 | -2.9 | 8.5 | -3.3 |
| Retail Control* | -0.2 | -1.3 | -3.1 | 8.8 | -3.3 |
| Autos | 0.1 | -1.6 | 1.8 | 5.0 | -4.2 |
| Gasoline | 0.0 | -1.7 | 7.5 | 5.9 | 3.6 |
| Clothing | -3.6 | -6.1 | 2.5 | 6.0 | -2.8 |
| General Merchandise | -1.4 | -1.1 | -2.4 | 10.4 | -5.4 |
| Nonstore** | 2.0 | -1.6 | -8.2 | 16.8 | -5.4 |

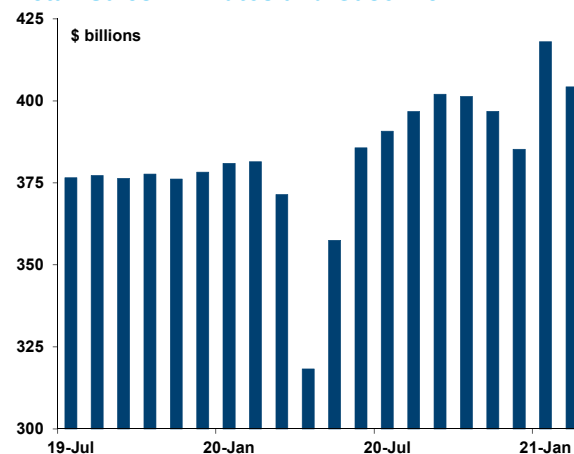
* Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.

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

Source: U.S. Census Bureau via Haver Analytics

The breadth of decline was remarkable, as all categories except gasoline service stations fell, and the increase of 3.6 percent at gasoline stations was no doubt largely driven by higher prices. In all cases, though, activity was well maintained despite sharp declines. As with the headline figure, most drops occurred from upwardly revised readings, and the new totals were in line with pre-January sales. We should also take challenging weather into account when evaluating the February results, as severe storms most likely dampened activity. We can also look forward to potentially strong results in March and April, when the new round of \$1,400 stimulus checks will most likely stir activity.

Retail Sales Ex. Autos and Gasoline



Source: U.S. Census Bureau via Haver Analytics

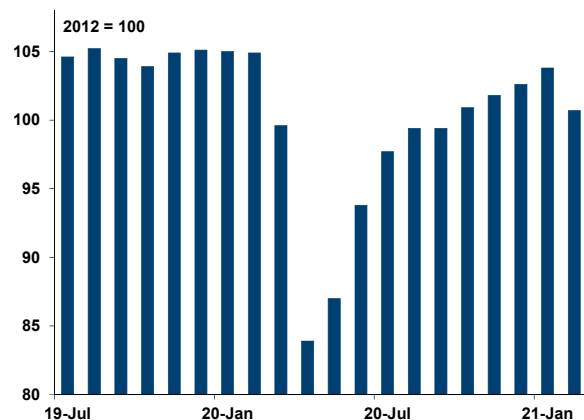
Industrial Production

Industrial production tumbled 2.2 percent in February, much softer than the expected increases of 0.3 percent. Unusually cold temperatures led to a surge of 7.4 percent in utility output, but declines of 3.1 percent in manufacturing activity and 5.4 percent in mining output more than offset the influence from the utility sector. The softness in manufacturing and mining largely reflected the influence of severe weather, as the Federal Reserve estimated that manufacturing activity would have dipped 0.5 percent if weather had been normal, while mining output would have increased 0.5 percent.

The estimated dip of 0.5 percent in manufacturing activity in normal weather could be viewed as the result of another special factor: weak auto production because of a shortage of semiconductors. This disruption to the supply chain led to a drop of 8.3 percent in auto production, easily the softest component of the manufacturing sector. While the auto sector stood out, the challenging weather led to widespread softness in manufacturing, as 17 of 20 industries eased in February.

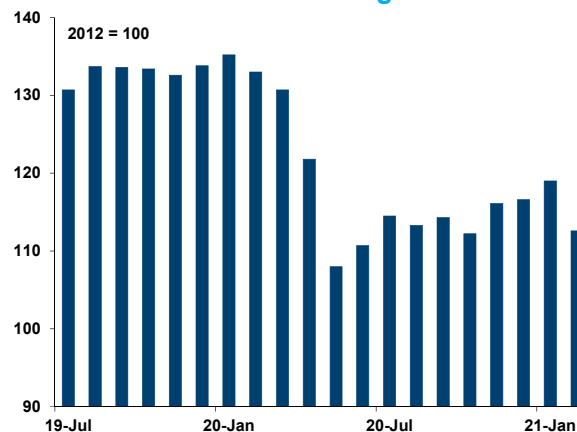
As shown in the left chart, manufacturing had been performing well before the disruptions in February. With normal weather and repair to the semiconductor supply chain, activity should soon return to pre-pandemic levels. The mining sector still has considerable ground to cover to return to pre-pandemic levels (chart, right), but with petroleum prices up, progress should quicken.

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics