Daiwa Capital Markets

U.S. Data Review

- Retail sales: an adjustment to spring burst; still above pre-pandemic trend
- Industrial production: manufacturing continuing to catch up; mining improves further

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Retail Sales

Total retail sales fell 1.1 percent in July, noticeably softer than the expected decline of 0.3 percent. Results in the prior two months were revised upward, which effectively lightened the downside surprise, but the level of activity was still shy of expectations. While sales disappointed in July, we hesitate to call this a weak report. Recovery rebate checks in March had driven activity well above pre-Covid trends, which suggested an adjustment at some point. We saw a possibility that the accumulated pool of savings from government support in the past year would continue to fuel activity for some time, but the latest results suggest a gradual easing toward normal activity (chart). Many observers will emphasize the spread of Covid as the driving force behind the decline, but the still-elevated level of sales suggest that its influence thus far was not pronounced.

Retail Sales -- Monthly Percent Change

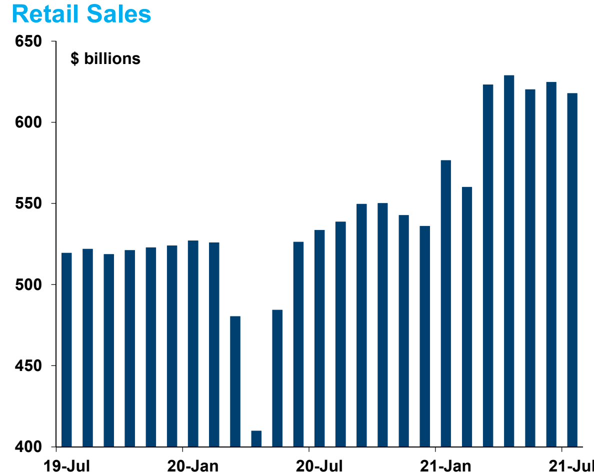
	Mar-21	Apr-21	May-21	Jun-21	Jul-21
Total	11.3	0.9	-1.4	0.7	-1.1
Ex.-Autos	9.8	-0.1	-0.4	1.6	-0.4
Ex.-Autos, Ex.-Gas	9.8	0.1	-0.7	1.3	-0.7
Retail Control*	9.4	0.5	-0.2	1.5	-0.6
Autos	17.0	4.4	-4.6	-2.2	-3.9
Gasoline	10.1	-1.4	1.8	3.6	2.4
Clothing	23.9	-1.4	3.8	3.7	-2.6
General Merchandise	13.1	-2.4	-2.9	1.7	-0.1
Nonstore**	5.4	0.1	-1.2	0.2	-3.1

** 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

As widely expected, the auto component led the decline in sales with a drop of 3.9 percent, which marked the third consecutive decline and was slightly larger than the average retreat of 3.4 percent in the prior two months. We view this softness as more the result of supply shortages than weakness in demand. Ex-autos sales eased slightly from their elevated level (off 0.3 percent), with several key categories contributing to the decline (clothing, sporting goods, furniture). Perhaps most notable, the normally strong non-store component fell 3.1 percent, marking the second decline in the past three months (and a feeble increase in the other month). The results in non-store activity suggest that a fading response to fiscal support rather than the spread of Covid was the more important influence on sales.

Some categories posted gains in July. Sales at gasoline service stations rose 2.4 percent. Higher prices undoubtedly played a role, but we also suspect that individuals were driving more than in the recent past. The miscellaneous category rose 3.5 percent, continuing an irregular upward trend. Activity at food-service and drinking places (i.e. restaurants and bars) rose 1.7 percent, marking the fifth consecutive advance and the sixth in the past seven months. This hard-hit area might be considered fully recovered, as activity is now 8.9 percent above the pre-pandemic high in January 2020.

Retail Sales



Source: U.S. Census Bureau via Haver Analytics

Industrial Production

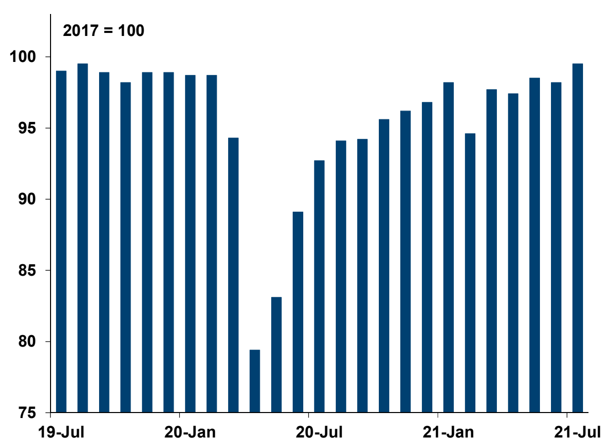
The industrial production index rose 0.9 percent in July, exceeding the expected increase of 0.5 percent. Results in prior months showed mixed revisions, with the net change leaving the index 0.1 percent firmer than previously believed. The combined results pushed the headline index close to the pre-pandemic peak in February 2020 (now only 0.2 percent below).

The manufacturing component led the advance in July with an increase of 1.4 percent. The auto component stood out with a gain of 11.2 percent, suggesting that manufacturers were dealing with the shortage of semiconductors. However, supply shortages were not resolved entirely, as production was still 3.6 percent below the level in January of this year (when chip shortages were less of an issue) and 6.9 percent below the reading in July 2020, the best of the current expansion. While the auto component stood out, other activity also was firm, as shown by an increase of 0.7 percent in manufacturing production ex-autos. The strength was broadly based, with 16 of the 19 non-auto industries reporting gains. Overall, manufacturing production in July for the first time moved above the pre-pandemic high in February 2020 (0.8 percent above; chart, left).

Mining activity also contributed to the gain in the headline index, with production advancing 1.2 percent. The mining index has traced an upward trend since June of last year, but improvement has been gradual, regaining only 60 percent of the ground lost during the recession (chart, right). Output is still 9.4 percent below the pre-Covid peak.

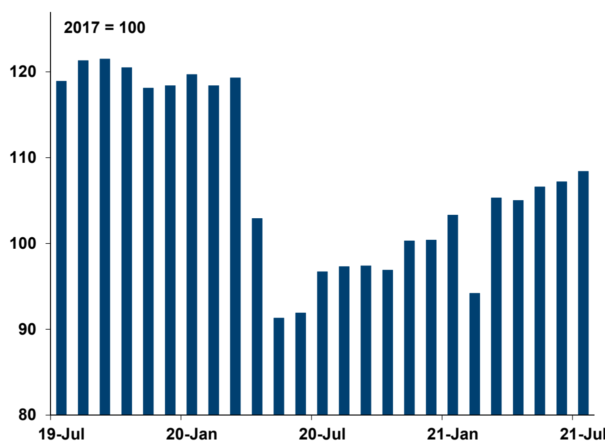
Utility output fell 2.1 percent, but shifts in this sector are nearly always a reflection of changes in weather and temperatures rather than economic fundamentals. (Temperatures in July returned to normal levels after above-average readings in June, leading to a drop in cooling services.)

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics