

U.S. Data Review

- Retail sales: solid activity
- Industrial production: stalling

Lawrence Werther
Michael Moran

Daiwa Capital Markets America
lawrence.werther@us.daiwacm.com
michael.moran@us.daiwacm.com

Retail Sales

- Headline retail sales were firmer than the consensus expectation in October (up 1.3 percent versus 1.0 percent projected). The auto and gasoline components contributed noticeably (up 1.3 percent and 4.1 percent, respectively), but other areas also were strong, showing a combined increase of 0.9 percent. In addition to favorable results in October, results for August and September were revised upward, with combined activity 0.3 percent better than first reported.

Retail Sales -- Monthly Percent Change

	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Total	1.0	-0.4	0.7	0.0	1.3
Ex.-Autos	1.1	-0.1	0.2	0.1	1.3
Ex.-Autos, Ex.-Gas	0.9	0.2	0.9	0.6	0.9
Retail Control*	1.0	0.2	0.8	0.7	0.9
Autos	0.6	-2.0	2.9	-0.3	1.3
Gasoline	2.7	-2.2	-5.0	-3.7	4.1
Clothing	0.7	-0.4	1.0	1.0	0.0
General Merchandise	2.3	-0.4	0.3	0.8	-0.2
Nonstore**	0.3	1.7	0.6	0.6	1.2

* 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

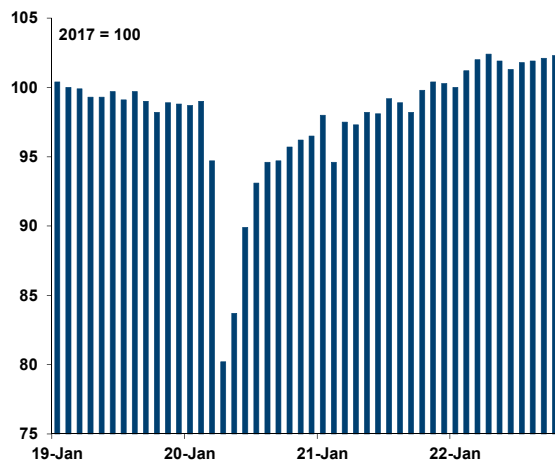
- The increase in the auto component marked the second solid gain in the past three months, with the improvement offsetting more than half of a soft patch in the spring and early summer.
- Sales at gasoline service stations surged 4.1 percent after dropping 10.5 percent combined in the prior three months, with the recent swings heavily influenced by price changes, although nominal results have been firmer than gasoline prices as measured in the CPI, suggesting gains in real terms. Real increases seemed strong from July through September, but the advance in October was probably modest (gasoline in the CPI rose 4.0 percent, only a touch lighter than the increase in retail spending).
- The increase of 0.9 percent excluding autos and gasoline was joined by upward revisions in the prior month, with the level of activity in September 0.6 percent stronger than first indicated. Sales at restaurants stood out on the firm side, with an increase of 1.6 percent adding to the sharp upward trend in 2022. Activity at nonstore retailers (up 1.4 percent; mostly online sales) is continuing to move along an irregular but strong upward trend. Sales at general merchandise and health and personal care stores ticked higher.
- Outlays for food rose 1.4 percent. Rapid inflation in this area has hurt consumers for much of the current recovery, but inflation has slowed a bit recently. In the latest month, the food at home category of the CPI increased 0.4 percent, implying a solid gain in real outlays for food.
- All told, an impressive report. Despite higher borrowing costs and rapid inflation, consumers remain active.

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. brokerdealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.

Industrial Production

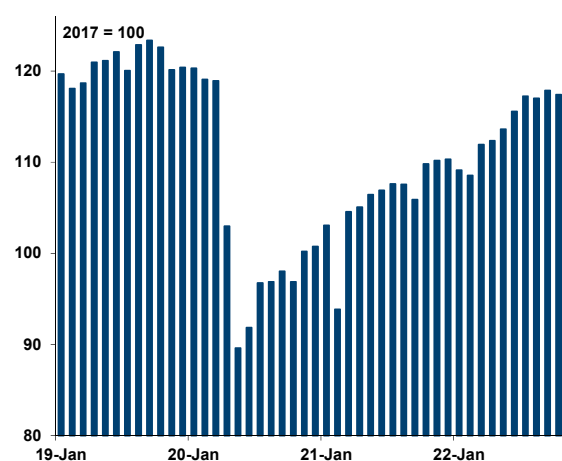
- The industrial production index dipped 0.1 percent in October, softer than the expected increase of 0.1 percent. In addition, results in prior months were revised lower, with the adjustments leaving the level of production in September 0.3 percent lighter than previously believed.
- The manufacturing component posted a small gain in October (0.1 percent), but results in prior months were revised noticeably downward. Cumulative adjustments in the prior five months left production in September 0.7 percent lighter than previously believed. After losing ground in May and June, manufacturing activity has increased only modestly in the four months since then, and production in October was still a touch below the May level (chart, left).
- The small increase in manufacturing activity in October was concentrated in the auto sector (up 2.0 percent). Activity elsewhere was flat.
- Mining activity fell 0.4 percent, led by a drop of 0.9 percent in oil and gas extraction that offset a respectable gain in other mining activity. The trend in mining activity might still be described as upward, but it has hesitated in the past few months (chart, right).
- Utility output fell 1.5 percent in October, but changes in this sector are nearly always driven by shifts in the weather and temperatures rather than economic fundamentals.

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics