

U.S. Data Review

- Retail sales: cautious spending by consumers
- PPI: food and energy prices drop; deceleration in prices ex. food & energy
- Industrial production: softness in manufacturing and mining

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Retail Sales

- Retail sales fell 1.1 percent in December, a touch softer than the consensus estimate of -0.9 percent. In addition, results in the prior two months were revised lower, with the combined adjustments leaving the level of activity in November 0.6 percent lighter than previously believed.

Retail Sales -- Monthly Percent Change

	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Total	0.7	-0.2	1.1	-1.0	-1.1
Ex.-Autos	0.2	-0.1	1.0	-0.6	-1.1
Ex.-Autos, Ex.-Gas	0.9	0.4	0.7	-0.5	-0.7
Retail Control*	0.8	0.6	0.6	-0.2	-0.8
Autos	2.9	-0.5	1.5	-2.6	-1.2
Gasoline	-5.0	-4.0	3.3	-1.6	-4.6
Clothing	1.0	1.0	-0.4	-0.8	-0.3
General Merchandise	0.3	1.1	-0.3	-0.2	-0.8
Nonstore**	0.6	-0.1	1.0	0.1	-1.1

* 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

- Much of the softness in December came in the auto and gasoline components (off 1.2 percent and 4.6 percent, respectively). The declines were well

anticipated because of a drop in sales of new cars and light trucks and because of lower gasoline prices. Activity elsewhere also was soft, with sales excluding autos and gasoline down 0.7 percent. December marked the second consecutive decline in activity excluding autos and gasoline, suggesting cautious spending by individuals.

- The retreat in sales excluding autos and gasoline was broadly based, with most major categories posting declines. Sales at furniture stores stood out with a decline of 2.5 percent in December after a drop of 2.2 percent in the prior month, but it had plenty of company on the soft side. Several categories posted declines in the neighborhood of 1.0 percent, including nonstore retailers (mostly online) and restaurants, areas that had been doing well. No category registered a solid gain, nor was any area moving along a meaningful upward trend; activity was flat to down across the board.
- One positive note might be mentioned: sales at gasoline service stations, while down considerably in nominal terms (off 4.6 percent), probably advanced after adjusting for inflation, as the CPI showed a drop of 9.4 percent in gasoline prices in December. Still, the report in total was a weak one.

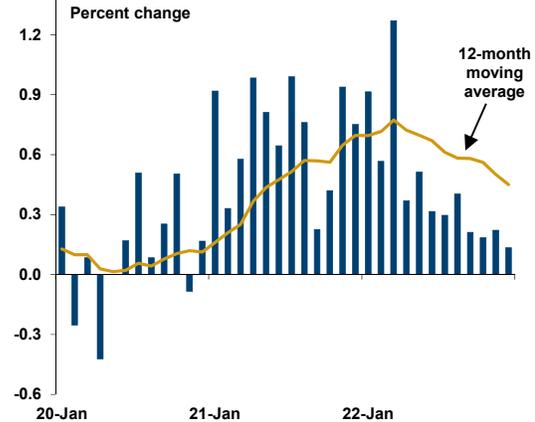
PPI

- The headline PPI declined 0.5 percent in December, while prices excluding food and energy increased 0.1 percent. The latest report suggested a slowing in inflation at the producer level after a surge in prices earlier in the year.
- Prices of food and energy played a key role in constraining the headline measure, with a plunge of 7.9 percent in energy standing out on the soft side. Food prices fell 1.2 percent, but the drop followed a surge of 3.3 percent in November, leaving a pronounced upward trend.

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- Prices of goods excluding food and energy carried a favorable tone in the latest month, increasing 0.2 percent, the sixth consecutive restrained reading and a marked contrast to an average of 0.8 percent in the first half of the year. Prices of consumer goods posted a moderate increase (0.3 percent) after a surge of 0.6 percent in the prior month, and while the increase in capital goods prices matched the firm average of 0.4 percent in the prior five months, it was notably slower than the average of 0.9 percent in H1. Prices paid by government entities rose modestly (0.1 percent).
- Some areas that showed restrained price changes should be interpreted cautiously. The construction category carries a distinct seasonal pattern (firm in the first month of a quarter, with soft readings in the following two months). This pattern held in December, with construction prices showing no change. Prices of core goods destined for export, which don't influence domestic inflation, also were restrained (up 0.1 percent in December, and average declines of 0.4 percent in the prior six months). Changes in this area likely represent price cuts by exporters to maintain market share and offset the strong foreign exchange value of the dollar.
- On balance, a favorable report. Some areas of restraint could be discounted as special factors, but others signal easing in underlying price pressure.

PPI Ex. Food & Energy

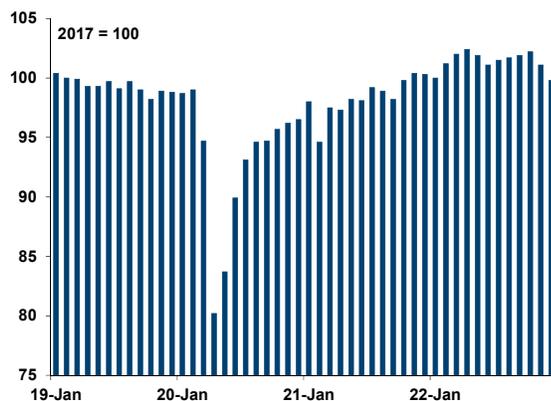


Source: Bureau of Labor Statistics via Haver Analytics

Industrial Production

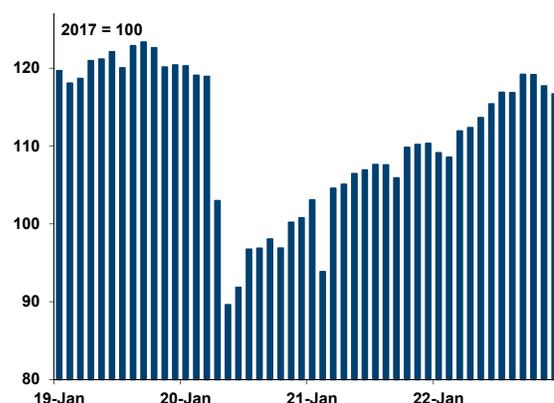
- The industrial production index fell 0.7 percent in December, notably softer than the expected dip of 0.1 percent. The manufacturing and mining components both registered poor performances with declines of 1.3 percent and 0.9 percent, respectively. The utility sector partially offset the weakness in manufacturing and mining with an increase of 3.8 percent, but changes in utility production are nearly always a function of the weather rather than economic fundamentals.
- Weakness in manufacturing was broadly based, with 17 of 20 industrial categories posting declines. Among the 17 industries that lost ground in December, 15 registered declines of 1.0 percent or more; five registered declines of 2.0 percent or more. Not only was manufacturing activity in December soft, but results for November were revised noticeably lower, now showing a decline of 1.1 percent rather than a drop of 0.6 percent. Sizeable consecutive declines perhaps suggest that the manufacturing sector has turned a corner.

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics