

U.S. Data Review

- Retail sales: pause in February
- PPI: food prices drop; energy prices ease; continued deceleration ex. food & energy

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Retail Sales

- Retail sales eased 0.4 percent in February, matching the expected decline. The latest result followed a burst in the opening month of the year, and thus some softening was widely expected. The January/February results in total suggest that consumer spending remains on track in early 2023 after hitting a soft patch late last year.
- A portion of the softness in February came from the auto and gasoline components (off 1.8 percent and 0.6 percent, respectively). The drop in the auto component was anticipated because of a decline in sales of new cars and light trucks previously reported by auto manufacturers. The easing in gasoline prices was not necessarily expected, as average retail gasoline prices rose modestly in February. Adjusting for inflation using the component of the CPI (which rose 1.0 percent in February) suggests that all of the decline in the gasoline component reflected a drop in real activity. We are not particularly concerned, however, as discretionary outlays remained on solid footing (see below).

Retail Sales -- Monthly Percent Change

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
Total	1.1	-1.1	-0.8	3.2	-0.4
Ex.-Autos	1.0	-0.8	-0.6	2.4	-0.1
Ex.-Autos, Ex.-Gas	0.7	-0.7	0.0	2.8	0.0
Retail Control*	0.6	-0.5	-0.1	2.9	0.0
Autos	1.5	-2.2	-1.8	7.1	-1.8
Gasoline	3.3	-1.4	-5.2	-1.0	-0.6
Clothing	-0.4	-0.2	-0.4	2.9	-0.8
General Merchandise	-0.3	-0.2	0.5	4.3	0.5
Nonstore**	1.0	-0.9	-0.4	1.8	1.6

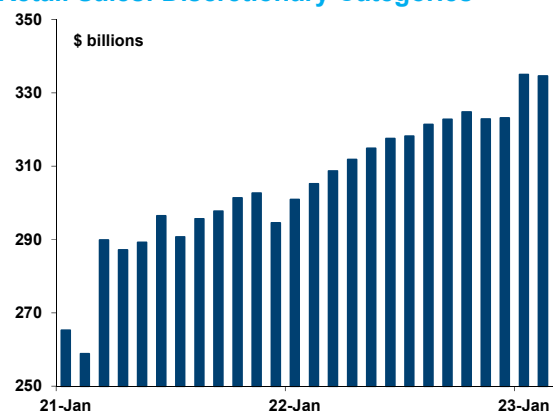
* Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.

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

Source: U.S. Census Bureau via Haver Analytics

- Sales excluding autos and gasoline were reported as unchanged (off marginally with less rounding; -0.015 percent) in February after a jump of 2.8 percent in the prior month. Sales were mixed across categories, with several areas posting large declines and others advancing. On the soft side, activity at restaurants (-2.2 percent) and miscellaneous outlets (-1.8 percent) fell, but the drops followed strong readings in January. Activity at general merchandise stores, in contrast, increased 0.5 percent. The pickup followed a burst in January that pushed the level of activity well above other recent readings. Sales at nonstore retailers (mostly online) also posted good results for the second consecutive month (+1.6 percent in February) after drifting lower in late 2022.

Retail Sales: Discretionary Categories*



* Discretionary areas are categories of spending that could be postponed. They include sales at: furniture and home furnishing stores; electronics and appliance stores; clothing and accessory stores; sporting goods, hobby, book and music stores; general merchandise stores; food service and drinking places; and nonstore retailers.

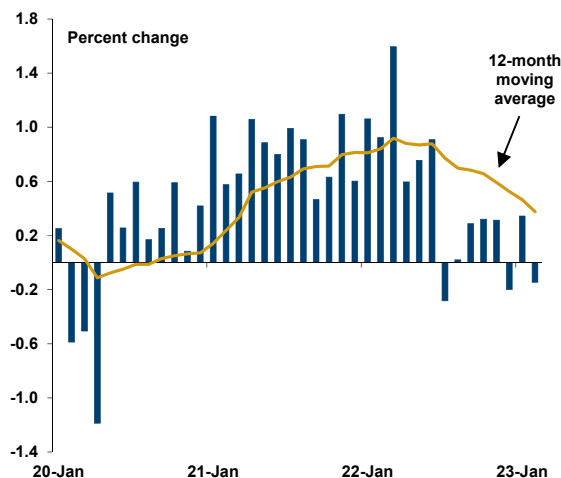
Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

- We monitor a series of categories that provide insight into discretionary purchases by consumers (i.e. those that could be postponed if budgets were tight). Sales in this grouping wiggled lower in February, but results in the prior month had jumped above the underlying trend (chart, prior page).

PPI

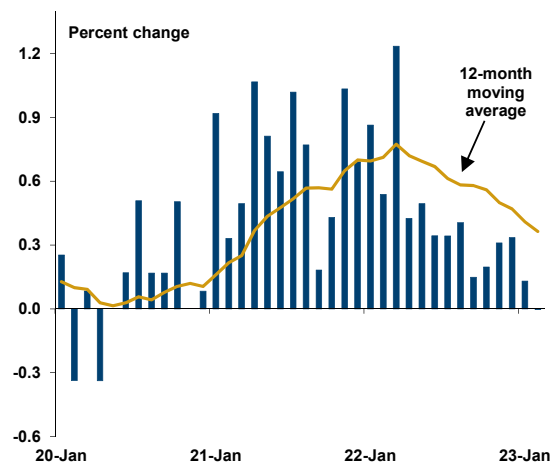
- The producer price index slipped 0.1 percent in February, while prices excluding food and energy were unchanged from the January level. The results suggested easing in price pressure at the producer level and they contrasted notably with the expected increase of 0.3 percent in the headline and 0.4 percent in prices excluding food and energy.
- Prices of food stood out on the soft side in February, dropping 2.2 percent after registering a decline of 1.1 percent in the prior month. Prices of eggs fell 41.3 percent, suggesting an element of random volatility was at play. Other food items were mixed: prices of fresh fruit and beef eased, while prices of grains rose. Pressure in food prices at the consumer level has eased somewhat, registering an increase of 0.4 percent in February after readings of approximately 1.1 percent per month in the summer of 2022, but they have not matched the pronounced recent declines in the food component of the PPI.
- Energy prices dipped 0.2 percent after wide swings in recent months (including a jump of 5.2 percent in January that followed a drop of 6.3 percent in December). On balance, energy prices have moved irregularly lower after peaking last summer.
- Prices of goods excluding food and energy slowed from a high-side reading of 0.6 percent in January, but the increase exceeded the average of 0.2 percent in the prior six months combined. Prices of capital goods posted a below-average increase after a jump in January, but consumer goods posted a firm advance for the second consecutive month. The construction category rose modestly (+0.1 percent), but this area carries a distinct seasonal pattern (firm in the first month of a quarter, with restrained readings in the following two months). This was the case again, as the pickup in February followed a jump of 1.8 percent in January.
- Service prices eased for the second consecutive month, but this area is often volatile. Prices of trade and transportation & warehousing services fell. Services prices excluding those volatile categories rose 0.3 percent, a bit slower than the average of 0.4 percent in the previous six months.
- This was, on balance, a mostly favorable report on inflation. Some areas of restraint would be discounted as special factors (the drop in prices of eggs, and restrained growth in construction costs), but other areas implied some easing in underlying price pressure.

PPI



Source: Bureau of Labor Statistics via Haver Analytics

PPI Ex. Food & Energy



Source: Bureau of Labor Statistics via Haver Analytics