Daiwa Capital Markets

U.S. Data Review

- Retail sales: pickup in June suggests modest growth in real consumer spending in Q2
- Industrial production: softening in manufacturing and mining; downside volatility in utility output

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Retail Sales

- Retail sales increased 0.2 percent in June, a subdued performance relative to the consensus expectation of an increase of 0.5 percent.

- Sales at motor vehicle and parts dealers rose 0.3 percent. Although increases in the past three months retraced weakness earlier in the year, we suspect that high prices and tight lending standards pose key headwinds in coming months.

- Activity at gasoline service stations fell 1.4 percent. The combination of a modest change in gasoline prices and strong seasonal effect led us to expect a decline in this area, but the change was larger than anticipated. Moreover, adjusting for inflation using the gasoline component of the CPI (which increased 1.0 percent in June) suggests a larger decline in real activity -- a drop of approximately 2.4 percent. The results imply that drivers consumed less gasoline in June, a development signaling cautious spending patterns.

Retail Sales -- Monthly Percent Change

	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Total	-0.7	-0.9	0.4	0.5	0.2
Ex.-Autos	-0.5	-0.8	0.3	0.3	0.2
Ex.-Autos, Ex.-Gas	-0.4	-0.8	0.5	0.5	0.3
Retail Control*	-0.4	-0.6	0.6	0.5	0.5
Autos	-1.1	-1.3	0.9	1.5	0.3
Gasoline	-1.8	-0.9	-1.0	-2.1	-1.4
Clothing	-2.5	-1.3	0.1	0.3	0.6
General Merchandise	-0.1	-2.5	0.8	0.3	-0.1
Nonstore**	0.9	0.0	1.2	0.7	1.9

** 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 advanced 0.3 percent, dragged lower in part by a drop of 1.2 percent at building materials stores – an area that has trended lower since last fall. The retail control, which excludes activity at auto dealers, gasoline stations, and building materials outlets – and correlates with goods outlays in the consumer spending component of GDP – rose 0.5 percent. The results were solid but far from robust.

- The June results for retail sales offer mixed views on the consumer in the closing month of Q2, with data in hand suggesting modest growth in real consumer outlays well below the 4.2 percent pace in Q1 (perhaps growth of real consumption of approximately 1.0 percent). However, we receive scant evidence on outlays for services in the retail report (only sales at restaurants, which rose 0.1 percent), so the picture could evolve somewhat after the release of the income and consumption report for June (released next Friday) provides additional information on this area. On a more positive note, the back-to-back gains in the retail control do suggest positive momentum into Q3 despite challenges to the consumer from inflation and tighter access to credit.

Industrial Production

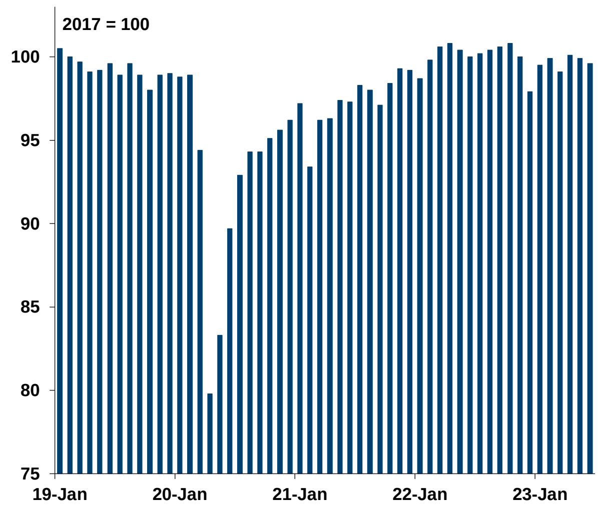
- Industrial production fell 0.5 percent in June, softer than the consensus expectation of no change. In addition, results in the prior two months were revised lower on balance with May now showing a dip of 0.2 percent rather than a pickup of 0.1 percent.

- The cyclically sensitive manufacturing sector declined 0.3 percent in June, led by a drop of 3.0 percent in the motor vehicle and parts area (chart on total manufacturing IP, left). While the shift in June was large, production previously jumped 10.9 percent in the prior two months combined and it remained above the underlying trend. Manufacturing production excluding motor vehicles dipped 0.1 percent, continuing the easing since the fall of 2022.

- Mining activity eased 0.2 percent after a drop of 1.4 percent in May. The mining area had mounted a notable recovery after dropping during the pandemic-related shutdown, but softening in energy prices in recent months has led it to stall below pre-COVID levels (chart, right).

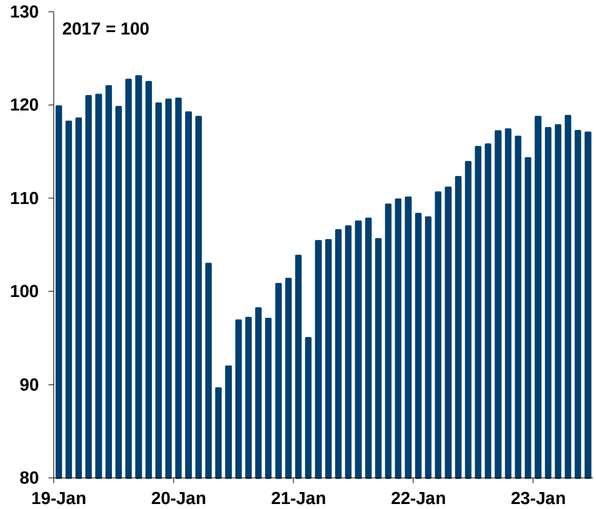
- Utility output dropped 2.5 percent in June, the fifth decline in the past six months. However, this area often swings widely and results almost always reflect shifts in weather rather than economic fundamentals. Unseasonably warm temperatures in July thus far raise the possibility of a large offsetting (upside) move in the next report.

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics