Daiwa Capital Markets

U.S. Data Review

- Retail sales: sluggish start to Q4
- PPI: decline in October led by a drop in energy prices

Lawrence Werther
Daiwa Capital Markets America
212-612-6393
lawrence.werther@us.daiwacm.com

Retail Sales

- Retail sales dipped 0.1 percent in October, marginally better than the expected decline of 0.3 percent. Additionally, results in the prior month were revised higher, with the level of activity 0.1 percentage point firmer than initially believed, somewhat easing the soft tone of the latest report. While this report provides only a partial view of consumer outlays in October (outlays for goods) -- with a more complete view coming November 30th via the Personal Income and Consumption Report from the Bureau of Economic Analysis – it suggests a restrained start to spending in Q4.

Retail Sales -- Monthly Percent Change

	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Total	0.2	0.6	0.7	0.9	-0.1
Ex.-Autos	0.1	0.8	0.8	0.8	0.1
Ex.-Autos, Ex.-Gas	0.2	0.8	0.2	0.8	0.1
Retail Control*	0.4	0.9	0.2	0.9	0.2
Autos	0.5	-0.3	0.3	1.1	-1.0
Gasoline	-0.6	0.3	6.7	1.0	-0.3
Clothing	0.2	1.2	1.0	-0.8	0.0
General Merchandise	-0.1	1.0	0.3	0.4	-0.2
Nonstore**	0.8	1.7	-0.2	1.4	0.2

** 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

- One positive element in the report emerged in the gasoline component. Although nominal sales at gasoline service stations dipped 0.3 percent in October, the change appears to have been influenced only by lower prices. Adjusting nominal sales by the gasoline component of the CPI, which fell 5.0 percent in October, suggests a real increase of a similar magnitude. Thus, consumers drove more amid lower prices at the pump.

- In contrast to sales at gasoline stations, activity at automobile and parts dealers fell 1.0 percent. Price effects were less likely at play in this category in October (the new vehicle component of the CPI dipped 0.1 percent). More plausibly, elevated interest rates on loans for new car purchases and tighter lending standards slowed sales activity. Additionally, a recent uptick in auto loan delinquencies suggests that a subset of consumers are struggling to pay for previous big-ticket purchases. This could have a broader constraining effect on activity in coming months.

- The so-called retail control grouping increased 0.2 percent, a restrained result. (This excludes activity at auto and parts dealers, gasoline stations, and building materials stores, and correlates with consumer spending in the GDP accounts.) Results across categories varied widely. For example, sales at health and personal care stores rose 1.1 percent, continuing on its firm upward trend, while activity at electronics and appliance stores advanced for the third consecutive month (+0.6 percent), although the trend in this area is unimpressive. In contrast, sales at furniture stores fell 2.0 percent, the fourth consecutive monthly decline, and activity at sporting goods stores tilted lower with a dip of 0.8 percent.

- All told, the latest retail report was far from dire, with several bright spots emerging amid a generally restrained performance. However, it strongly implies that real consumer spending in Q4 will fall well short of the brisk Q3 performance (growth of 4.0 percent, annual rate, recorded in the GDP accounts).

PPI

- The headline PPI fell 0.5 percent in October, while prices excluding food and energy were unchanged from those in the prior month (charts, below). The results were softer than the consensus expectation of a pickup of 0.1 percent in the headline and 0.3 percent excluding food and energy. On a year-over-year basis, growth in the headline PPI slowed to 1.3 percent in October from 2.2 percent in the prior month and a cycle peak of 11.7 percent in March 2022. Prices excluding food and energy rose 2.4 percent year-over-year, down from 2.7 percent in the prior month and the recent peak of 9.7 percent also in March of last year.

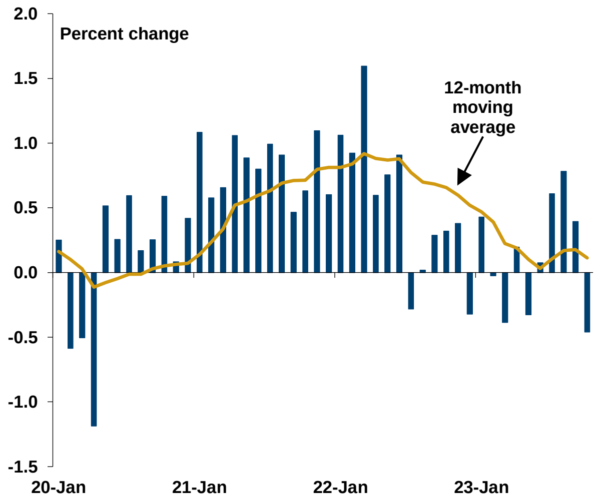
- Energy prices dropped 6.5 percent in October, resuming their softening trend after four consecutive monthly increases. On a year-over-year basis, energy prices dropped 9.4 percent.

- Food prices have swung widely in 2023 thus far, moving in a range of -2.3 percent to 0.7 percent, although the results broadly signal that the recent bout of food inflation has subsided. The latest reading, a dip of 0.2 percent, translated to a year-over-year decline of 2.3 percent. During the period of significant pressure in food prices, the year-over-year increase peaked at 16.3 percent in April 2022.

- Price changes excluding food and energy were consistent with a broader environment of slowing inflation. Goods prices ex. food and energy rose 0.1 percent in October (+2.0 percent year-over-year, unchanged from the September inflation rate), while service prices were flat month-to-month (+2.6 percent year-over-year, down from 2.9 percent in September). Construction costs dipped 0.4 percent (+0.7 percent year-over-year, down from +3.7 percent in September).

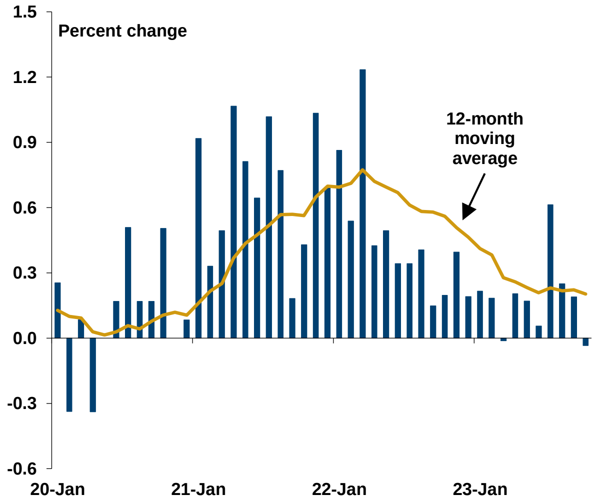
- The PPI is less important than measures of consumer prices when assessing the inflation environment, but it is still a useful indicator. Results in recent months suggest that cost pressure at the producer level is abating as supply chains have improved and restrictive monetary policy has constrained aggregate demand.

PPI



Source: Bureau of Labor Statistics via Haver Analytics

PPI ex. Food & Energy



Source: Bureau of Labor Statistics via Haver Analytics