Daiwa Capital Markets

U.S. Data Review

- Retail sales: firm in to year-end
- IP: downward drift since the fall; a pickup in auto production offset weakness in manufacturing ex. autos

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Retail Sales

Retail Sales -- Monthly Percent Change

	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Total	0.7	0.8	-0.3	0.3	0.6
Ex.-Autos	0.8	0.8	-0.1	0.2	0.4
Ex.-Autos, Ex.-Gas	0.2	0.7	0.1	0.6	0.6
Retail Control*	0.1	0.6	0.1	0.5	0.8
Autos	0.3	1.1	-1.0	0.8	1.1
Gasoline	6.7	1.0	-1.7	-3.4	-1.3
Clothing	1.0	-1.2	-0.1	1.0	1.5
General Merchandise	0.3	-0.3	0.0	-0.2	1.3
Nonstore**	-0.2	1.3	-0.3	1.2	1.5

** Retail sales excluding sales from food service providers, 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

- Retail sales jumped 0.6 percent in December, firmer than the consensus expectation of a pickup of 0.4 percent. The latest reading suggests that consumers remained active in the closing month of 2023, further solidifying what was already tracking as a solid performance for Q4. As we run the numbers, growth of real consumer spending could increase in a range of 2 ¼ to 2 ½ percent, which suggests GDP growth in the upper-one-percent area.

- Sales at automobile and parts dealers registered a firm performance in December (+1.1 percent) driven by an increase in new vehicle sales (15.8 million, annual rate, in December – among the better performances in 2023, although off the high for the year of 16.1 million in June). The auto component of the retail report has drifted upward for much of 2023 after hitting an air pocket in the early months of the year.

- The gasoline component fell 1.3 percent, the third consecutive decline. Whereas drops in the previous two months reflected entirely changes in price, with real sales averaging increases of more than 3.0 percent in the October/November period, real activity appears to have declined in the latest month. Deflating nominal sales by the gasoline component of the CPI suggests that real activity eased approximately 1.5 percent in December.

- The retail control grouping, which correlates with consumer spending in the GDP accounts, jumped 0.8 percent in December. A few areas registered soft results, with drops of 1.4 percent in the health and personal care category and 1.0 percent in the furniture area standing out. Other categories recorded favorable performances. Sales at nonstore retailers (mostly online) and clothing stores both rose 1.5 percent. Additionally, sales at general merchandise outlets jumped 1.3 percent.

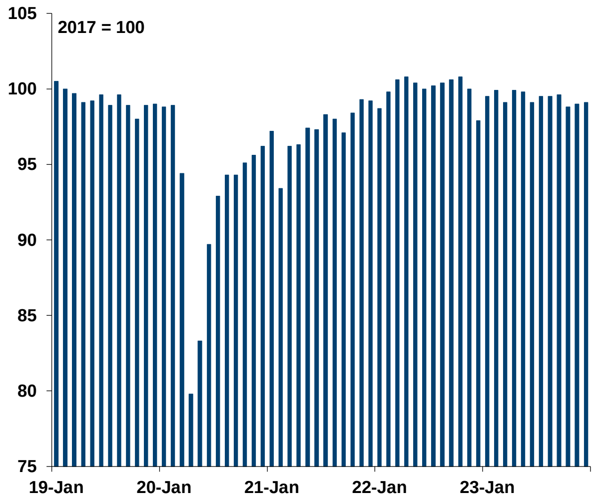
- Sales at food services and drinking places, which is the only area in the retail report that provides insight into service spending, was flat in December. However, the lackluster reading followed a brisk advance of 1.7 percent in November that added an accent to a strong performance since the spring of 2023.

Industrial Production

- Industrial production rose 0.1 percent in December versus the consensus expectation of a dip of 0.1 percent. However, results in the November were softer than previously reported and production has drifted lower on balance since September. Manufacturing production rose 0.1 percent, but the level of manufacturing production remained below that in September (the month prior to strike activity at auto plants; chart, below left). Mining activity increased 0.9 percent, but this component declined in the two prior months and has been little changed on balance in 2023 after a sharp recovery earlier in the expansion (chart, below right). Utility output fell 1.0 percent, the fourth consecutive sharp decline, but this area swings widely and changes almost always reflect shifts in weather rather than economic fundamentals. In the latest month, this was likely the case as unseasonably warm temperatures probably constrained home heating usage.

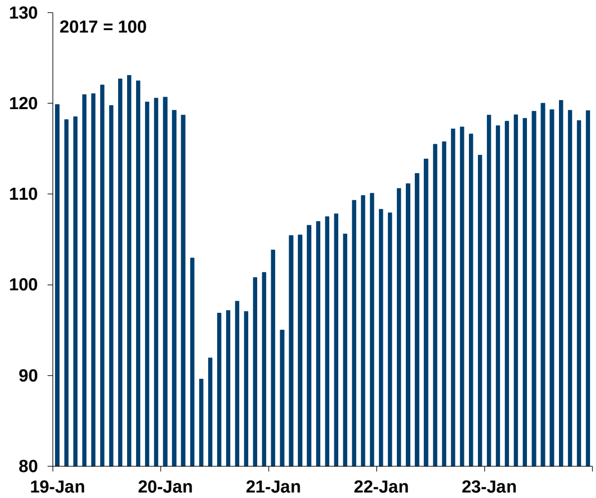
- The pickup of 0.1 percent in manufacturing activity was influenced importantly by an advance of 1.6 percent in automobile and parts production. The change followed a jump of 7.4 percent in November and represented an ongoing recovery after strikes led to a swoon of 9.9 percent in production in October. Production excluding autos slipped 0.1 percent, the third consecutive decline. In the latest month, 7 of 19 non-auto manufacturing industries registered increases in production while 10 recorded declines and 2 showed no change in activity. Factory production, broadly speaking, has struggled amid restrictive financial conditions and restrained demand.

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics