U.S. Data Review

- Retail sales: lackluster performance in February after weather-related disruptions in the prior month
- PPI: pressure in February led by a jump in energy prices

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Retail Sales

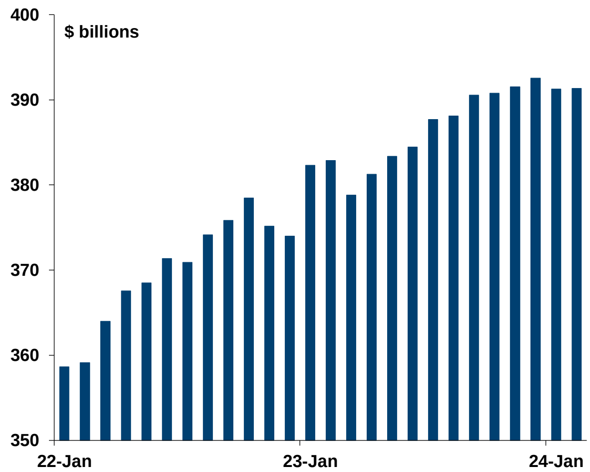
- Retail sales rose 0.6 percent in February versus the Bloomberg median expectation of a jump of 0.8 percent. In addition, results in the prior two months were revised lower; sales in December 2023 increased 0.1 percent (versus 0.4 percent first reported), and activity in January 2024 fell 1.1 percent from the downwardly adjusted estimate rather than 0.8 percent. In level terms, retail activity in January totaled $696.7 billion, 0.5 percent lower than the preliminary estimate of $700.3 billion.
- In February, sales at automobile and parts dealers rose 1.6 percent, an expected development after new vehicle sales increased to 15.8 million (annual rate) from a weather-disrupted pace of 14.9 million in January (which coincided with a drop of 2.1 percent in the auto component of the retail report).
- Activity at gasoline stations rose 0.9 percent in February, but the results were likely influenced by higher prices. Adjusting nominal sales by the gasoline component of the CPI (which surged 3.8 percent in February) implied a drop of 2.8 percent in real activity.
- Results excluding autos and gas were uninspiring (+0.3 percent) with mixed performances across categories. Activity at building materials, garden equipment & supply dealers jumped 2.2 percent. However, the change followed a plunge of 4.3 percent in January and activity has been unimpressive in the aggregate since early last year. Sales at electronics and appliance store also recorded favorable near-term results, increasing 1.5 percent after a jump of 2.8 percent in January, although this area has trended sideways from a longer-term perspective. Other areas were decidedly soft: sales at furniture stores fell 1.1 percent, activity at clothing stores eased 0.5 percent, and the value of transactions at nonstore retailers (mostly online outlets) dipped 0.1 percent after a decline of 0.3 percent in January. The stalling in online sales in particularly interesting as this area had trended sharply higher in the prior year and one-half.
- All told, a mixed performance from consumers in February. Auto sales increased, but activity excluding autos, gasoline, and building materials (the retail control) – which correlates with consumer outlays for nondurable goods in the GDP report – was flat (chart). The results help inform our expectation of growth of real consumer spending of approximately 1.5 percent in Q1, well below the 3.0 percent (annual rate) pace in 2023-Q4.

Retail Sales -- Monthly Percent Change

	Oct-23	Nov-23	Dec-23	Jan-24	Feb-2
Total	-0.3	0.0	0.1	-1.1	0
Ex.-Autos	-0.1	-0.1	0.1	-0.8	0
Ex.-Autos, Ex.-Gas	0.1	0.3	0.2	-0.8	0
Retail Control*	0.1	0.2	0.3	-0.3	0
Autos	-1.0	0.3	0.2	-2.1	1
Gasoline	-1.7	-3.7	-0.8	-1.4	0
Clothing	-0.1	1.2	1.4	-0.8	-0
General Merchandise	0.0	-0.2	0.7	0.0	0
Nonstore**	-0.3	0.4	1.3	-0.3	-0

** 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 Control*

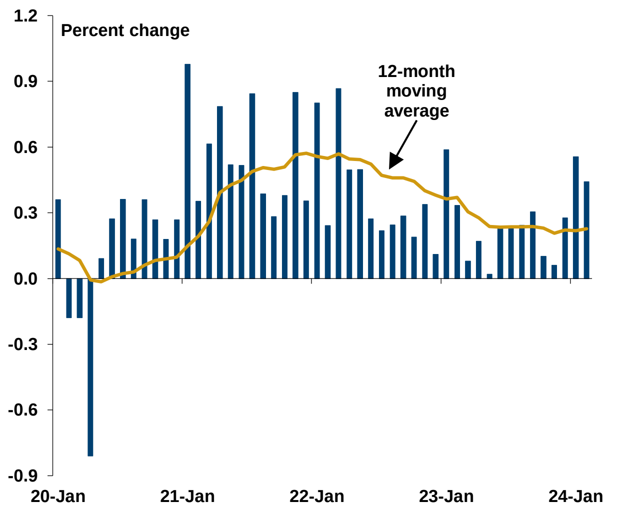


** Retail sales excluding sales from food service providers, motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.*
Source: U.S. Census Bureau via Haver Analytics

PPI

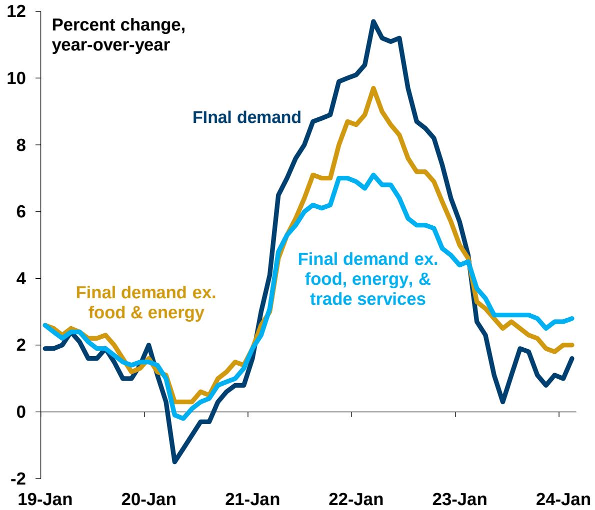
- The headline PPI increased 0.6 percent in February and prices excluding food and energy rose 0.3 percent, both exceeding the consensus expectations of advances of 0.3 percent and 0.2 percent, respectively. The shifts equated to year-over-year changes of 1.6 percent for the headline measure (versus +1.0 percent in January and a cycle peak of +11.7 percent in March 2022) and 2.0 percent for prices excluding food and energy (which matched the January increase but remained well off the cycle peak of +9.7 percent in March 2022). The core PPI, which excludes food, energy & trade services, jumped 0.4 percent after a surge of 0.6 percent in the prior month (+2.8 percent year-over-year versus +2.7 percent in January and a cycle peak of 7.1 percent; charts below). The results, along with a firm CPI print earlier this week (where both the headline and core rose 0.4 percent), suggest that progress on inflation may be stalling.
- Much of the pressure in the PPI in February occurred in the energy component, which surged 4.4 percent after falling in the previous four months. The energy component eased 3.8 percent year-over-year versus a contraction of 9.2 percent in January.
- The final demand foods component jumped 1.0 percent in February after dipping 0.3 percent the prior month. Food prices increased modestly on a year-over-year basis (+0.3 percent), well below the cycle peak of 16.3 percent in April 2022.
- Goods prices excluding food and energy advanced 0.3 percent for the second consecutive month, a pickup from the average of 0.2 percent per month in 2023. Goods prices excluding food and energy rose 1.6 percent year-over-year, matching the January observation but slower than the 1.9 percent reading in December and well below the cycle peak of 10.2 percent in April 2022.
- The service index rose 0.3 percent in February after a jump of 0.5 percent in January (+2.3 percent year-over-year). The trade services component, which is a measure of wholesale and retail margins, slipped 0.3 percent. In contrast, transportation and warehousing-related services jumped 0.9 percent and “other” services rose 0.5 percent.
- The final demand construction index has been subdued since late 2022. This measure was flat month-to-month in February after a pickup of 0.2 percent in the prior month. On a year-over-year basis, the index slipped 1.1 percent (versus -1.0 percent in January and a peak of +23.1 percent in July 2022).
- Although some areas in the PPI were favorable in February, we are most inclined to monitor the final demand index that excludes food, energy and trade services (the “core” measure; see above). The latest year-over-year change of 2.8 percent was not signaling a broad reacceleration in price pressure, but it did suggest a stalling in recent progress, possibly preventing the FOMC from gaining further confidence that prices are moving sustainability back to two-percent and shifting back expectations for when a pivot may occur.

PPI Ex. Food, Energy, & Trade Services*



** Prices received by domestic producers of good and services excluding food, energy, and trade services.*
Source: Bureau of Labor Statistics via Haver Analytics

PPI Inflation



Source: Bureau of Labor Statistics via Haver Analytics