U.S. Data Review

- Retail sales: upside volatility in autos; activity ex-autos on track despite pockets of weakness
- Unemployment claims: both initial and continuing claims move lower from recent highs
- Industrial production: effects of Hurricane Beryl act as broad constraint on activity

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Retail Sales

Retail Sales -- Monthly Percent Change

	Mar-24	Apr-24	May-24	Jun-24	Jul-24
Total	0.5	-0.2	0.2	-0.2	1.0
Ex.-Autos	0.6	0.1	0.0	0.5	0.4
Ex.-Autos, Ex.-Gas	0.6	-0.1	0.3	0.8	0.4
Retail Control*	0.9	-0.3	0.4	0.9	0.3
Autos	-0.1	-1.0	1.1	-3.4	3.6
Gasoline	0.8	1.6	-2.2	-1.8	0.1
Clothing	-2.4	2.3	1.3	0.1	-0.1
General Merchandise	0.9	-0.9	0.1	0.2	0.5
Nonstore**	2.5	-1.3	0.5	2.2	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

- Headline retail sales jumped 1.0 percent in July, far stronger than the Bloomberg median expectation of an increase of 0.4 percent. Topline results in the previous month were revised lower, although the adjustment was modest (a dip of 0.2 percent versus a previously reported flat reading). Consumer spending appears to be holding up well despite ongoing concern that at least a subset of consumers are exercising caution amid strained budgets.

- A portion of the strength in the July report was attributable to a jump of 3.6 percent in activity at motor vehicle and parts dealers, although the move was essentially an offset to a drop of 3.4 percent in the prior month. Moreover, the sharp downside move in June (and offsetting shift) was the result of disruptions at automobile dealerships stemming from a cyber attack rather than an abrupt shift in underlying demand. Thus, new vehicle sales of 15.8 million (annual rate) in July were more reflective of the underlying pace of demand than the 15.2 million reading in the prior month. That pace is better than when chip shortages constrained inventories earlier in the current cycle but slower than the 2019 average of 17.0 million. Tight lending standards and elevated financing rates are having a discernable impact on sales.

- Activity at gasoline stations rose 0.1 percent in July – a modest shift after lower prices weighed on activity in the prior two months. Sales in May and June had fallen 4.0 percent combined, but adjusting by the gasoline component of the CPI suggested a real increase in consumption of approximately 3.6 percent. By comparison, real activity in July appears to have increased only modestly.

- Sales excluding autos and gasoline were solid at 0.4 percent, although the performance was mixed across categories. On one hand, advances of 0.3 percent at food and beverage stores and 0.8 percent at health and personal care outlets suggest that consumers spent actively on essentials. Spending in discretionary areas was somewhat constrained. While activity at general merchandise stores (+0.5 percent in July) augmented an upward trend, online spending slowed after a burst in June (+0.2 percent despite reports of favorable online traffic on Amazon Prime Day) and activity in some areas eased. For example, sales at sporting goods stores declined 0.7 percent and activity at clothing stores dipped 0.1 percent. With that said, however, the data did not suggest a broad retrenchment by consumers.

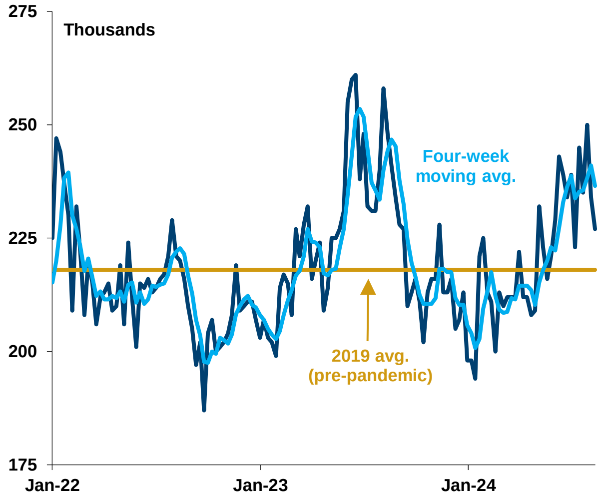
- With respect to GDP, the performance of the retail control group (sales ex autos building supplies and gasoline stations) appeared to support our current projection of moderate real consumer spending in Q3. The view could change as we see additional data on retail activity – and for outlays on services – but as for now we anticipate real consumer spending in the upper one-percent range, which implies topline GDP growth of around 1 ½ percent.

Unemployment Claims

- Initial claims for unemployment insurance dipped for the second consecutive week, falling by 7,000 to 227,000 in the week ended August 10 after previously jumping to 250,000 in the final week of July (a reading that had been the highest reading since August 2023, although other recent readings had been close). Concurrently, the four-week moving average, a measure that helps smooth out the weekly volatility in claims, eased 4,500 to 236,500. Even with improvement in the past two weeks, initial claims remained above the 2019 pre-pandemic average of 218,000 (a period when the labor market was viewed as firm) for the twelfth consecutive week – although we still broadly view the rise in claims as indicative of a labor market coming into better balance rather than signaling rapid and disorderly deterioration (chart, below left).

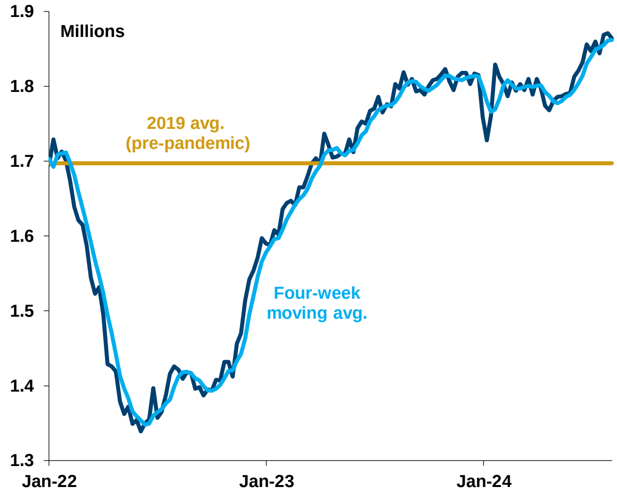
- Continuing claims also moved lower, decreasing 7,000 to 1.864 million in the week ending August 3. Conversely, the four-week moving average posted a marginal increase, rising by 1,000 to 1.862 million (chart, below right). Again, the performance since the start of the year suggests softening in the labor market but not retreat.

Initial Claims for Unemployment Insurance



Source: U.S. Department of Labor via Haver Analytics

Continuing Claims for Unemployment Insurance



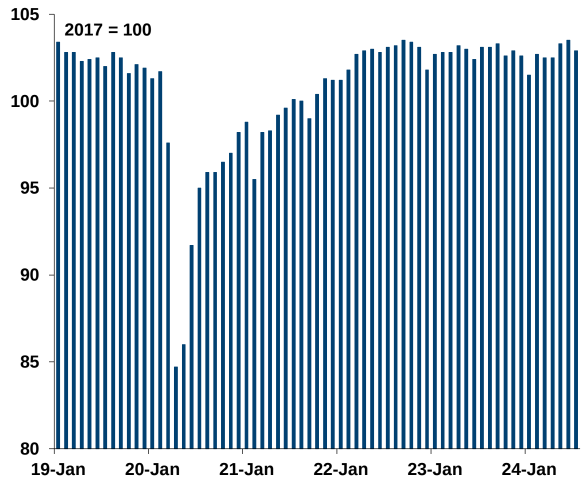
Source: U.S. Department of Labor via Haver Analytics

Industrial Production

- Industrial production fell 0.6 percent in July (-0.2 percent year-over-year; chart). The internals of the report were broadly disappointing, as manufacturing, mining, and utility output all declined. However, at least a portion of the weakness was attributable to a special factor. As noted in the Federal Reserve Board's official release, Hurricane Beryl constrained growth of industrial production by approximately 0.3 percentage point.

- Manufacturing activity decreased 0.3 percent in July (+0.1 percent year-over-year), with the report again indicating that the hurricane had a discernable impact on activity. The effect was particularly notable in motor vehicle and parts manufacturing, as activity plunged 7.8 percent to its lowest level since October 2023. At least a partial recovery in coming months should be anticipated as facilities resume production. In contrast to auto output, activity excluding autos rose 0.3 percent (+0.9 percent year-over-year), with 11 of 19 non-auto manufacturing industries recording increases in production.

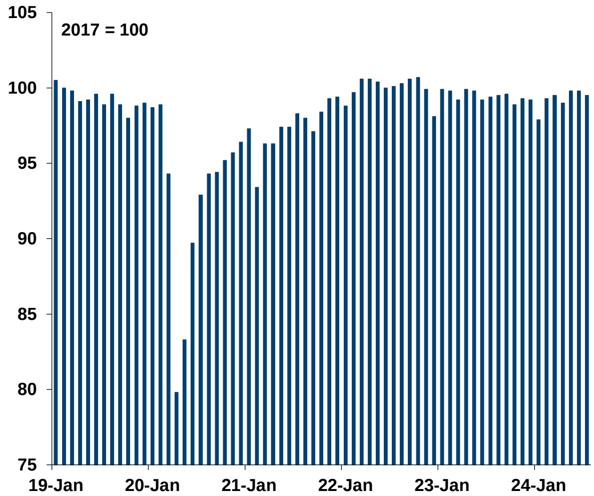
Industrial Production



Source: Federal Reserve Board via Haver Analytics

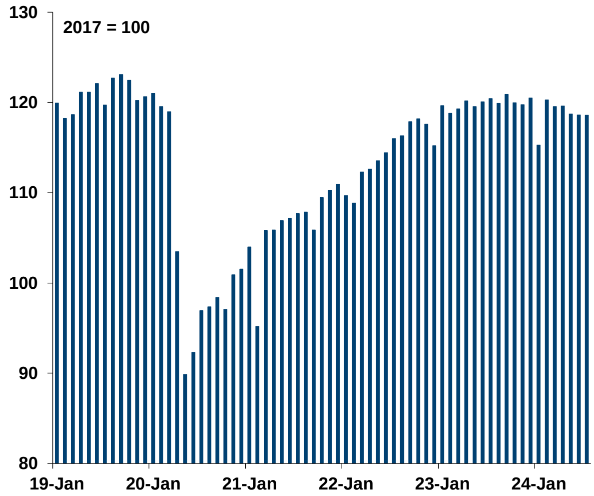
- While mining activity rounded to no change in July, it declined marginally on balance (-0.030 percent with less rounding, associated with a year-over-year decrease of 1.5 percent). Here, too, hurricane effects permeated the data. Crude oil extraction rose, but temporary shutdowns of natural gas extraction facilities associated with Beryl offset those increases. Hurricane effects aside, this component previously peaked in the fall of 2023 and has since moderated amid cooling in the prices of energy-related commodities (-1.9 percent from the cycle peak of 120.9 in September 2023; chart, below right).

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics

- Following three consecutive months of increases, utility output declined 3.7 percent in the latest month (-0.1 percent year-over-year). Keep in mind that this area is volatile on a month-to-month basis, with changes often reflecting swings in weather rather than in underlying economic conditions.