Daiwa Capital Markets

U.S. Data Review

- Retail sales: firm activity in September
- Unemployment insurance: hurricane-related disruptions contribute to some softening in continuing claims
- Industrial production: output constrained by strikes and hurricane effects

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Retail Sales

- Retail sales increased 0.4 percent in September (+1.7 percent year-over-year), better than the Bloomberg median expectation of a gain of 0.3 percent. Additionally, the internals of the report were highly favorable (the retail control group rose 0.7 percent versus the median expectation of 0.3 percent, for example), with the results contributing positively to what had already been projected to be a strong quarter for consumer spending.

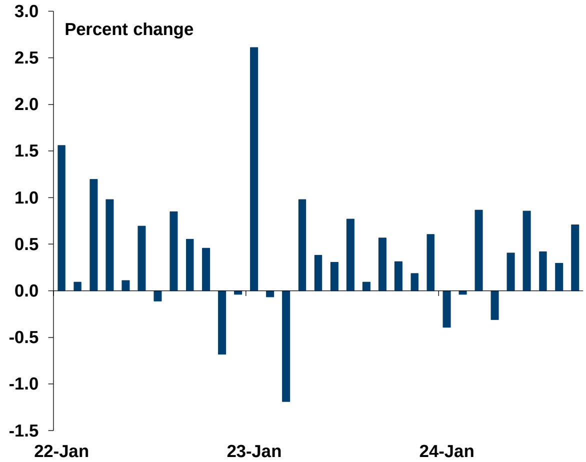
Retail Sales -- Monthly Percent Change

	May-24	Jun-24	Jul-24	Aug-24	Sep-24
Total	0.2	-0.3	1.2	0.1	0.4
Ex.-Autos	0.0	0.5	0.5	0.2	0.5
Ex.-Autos, Ex.-Gas	0.3	0.8	0.5	0.3	0.7
Retail Control*	0.4	0.9	0.4	0.3	0.7
Autos	1.1	-3.6	4.4	-0.4	0.0
Gasoline	-2.2	-2.1	0.5	-1.2	-1.6
Clothing	1.3	0.1	0.2	-0.8	1.5
General Merchandise	0.1	0.0	0.8	-0.4	0.5
Nonstore**	0.5	2.3	-0.3	1.6	0.4

** 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 at gasoline stations were among the few soft spots of the report, at least with respect to nominal activity (-1.6 percent; -10.7 percent year-over-year). However, the negative print was entirely the result of lower prices. Adjusting nominal sales by the gasoline component of the CPI suggests that real activity increased almost 2.6 percent.

Retail Sales: Retail Control*



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

- Activity at motor vehicle and parts dealers was tepid in September, rounding down to no change after a dip of 0.4 percent in the prior month (-0.3 percent year-over-year in September).

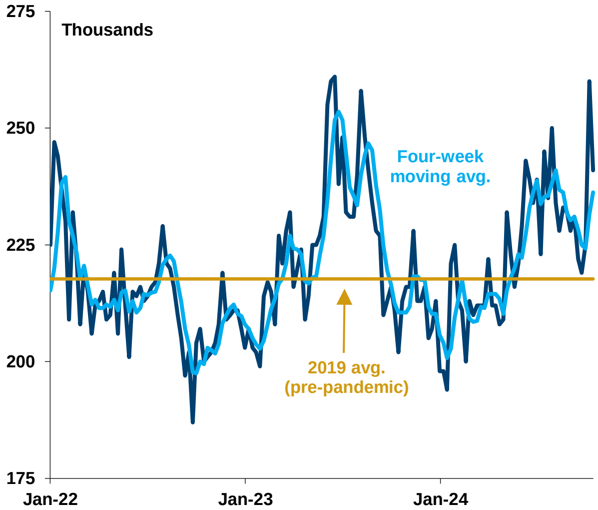
- Sales excluding autos and gas were robust, jumping 0.7 percent (+3.7 percent year-over-year). The value of transactions at electronic and appliance stores and furniture outlets were sluggish (-3.3 percent and -1.4 percent, respectively), but sales at other establishments were, in many cases, brisk. Sales at clothing stores, for example, rose 1.5 percent. Moreover, activity at restaurants, a discretionary area and the only service-related component of the retail report, increased 1.0 percent, joining good performances in general merchandise stores (+0.5 percent) and nonstore retailers (+0.4 percent; mostly online transactions).

- With respect to GDP, the performance in the retail control group (sales ex. autos, building supplies, and gasoline stations) augmented an already solid Q3 pace (+0.7 percent; +4.0 percent year-over-year in September; chart). The results offer only a partial view of consumer spending, with real outlays for goods and services available in the monthly report on personal income and consumption from the Bureau of Economic Analysis, but they suggest that real consumer spending in Q3 could be in the area of 3.5 percent (annual rate). Growth at that pace would contribute to an expected advance in overall GDP in the upper-two-percent area.

Unemployment Claims

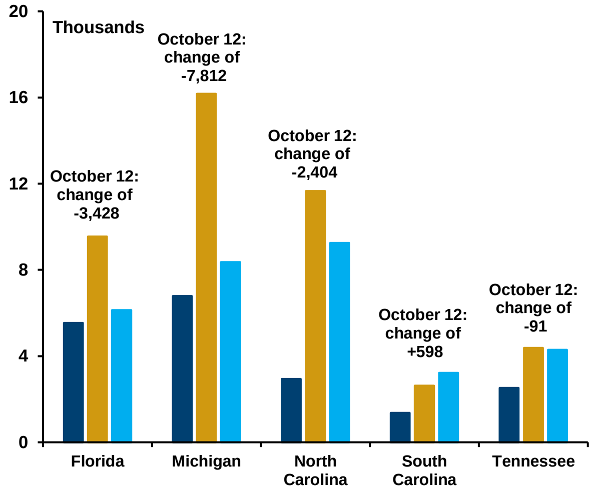
- Following a spike of 35,000 in the prior week, initial claims for unemployment insurance decreased in the week ending October 12, falling by 19,000 to 241,000. However, the four-week moving average, a measure used to smooth out short-term fluctuations seen in claims (range of 219,000 to 260,000 in the past four weeks), rose 4,750 to 236,250. Claims had drifted lower since reaching a cycle peak of 250,000 last July, but hurricane-related weather effects (and automaker layoffs) have introduced volatility to the metric in recent weeks, thus halting that progress (and leaving claims above the 2019 pre-pandemic average of 218,000 for the 21st consecutive week; chart, below left). That said, while initial claims are still somewhat elevated on account of ongoing hurricane-related disruptions, effects from recent storms likely have peaked (chart, below right).

Initial Claims for Unemployment Insurance



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

Initial Unemployment Claims by State*

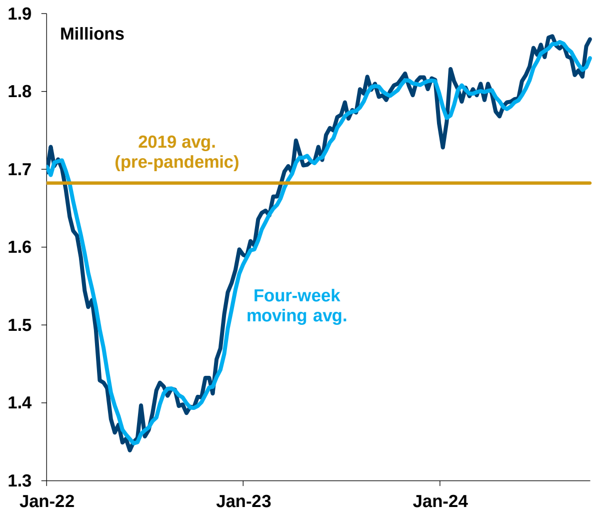


* Not seasonally adjusted. The dark blue, gold, and light blue bars represent data for the weeks ending September 28, 2024, October 5, 2024, and October 12, 2024, respectively.

Source: U.S. Department of Labor via Bloomberg

- Continuing claims, on the other hand, increased in the week ending October 5, rising by 9,000 to 1.867 million – a predictable development as workers in hurricane-affected areas could remain out of work for some time. Moreover, the four-week moving average advanced 11,500 to 1.843 million – its third consecutive increase (chart, right). With that said, the latest data on claims were solid, with little evidence of broad deterioration in underlying labor market conditions.

Continuing Claims for Unemployment Insurance



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

Industrial Production

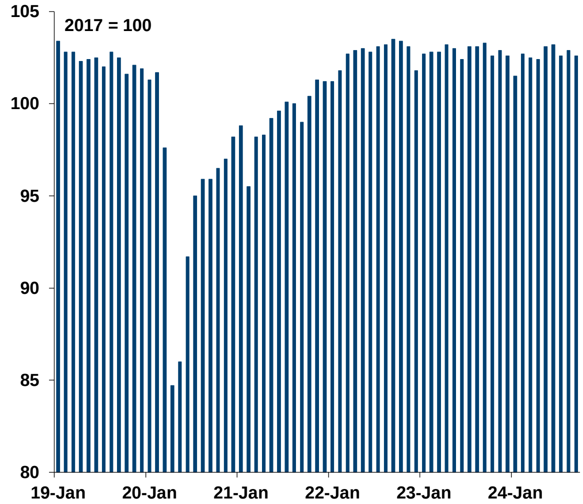
- Industrial production fell 0.3 percent in September (-0.6 percent year-over-year; chart, next page), with both manufacturing and mining output easing. At least a portion of the weakness was attributable to special factors tied to strike activity and weather events. Specifically, headline production was constrained by strikes at Boeing and two separate hurricanes, with the Federal Reserve's release noting that each factor depressed total IP growth by 0.3 percent.

- Manufacturing activity decreased 0.4 percent in September (-1.5 percent year-over-year; chart, below left). A portion of the weakness was the result of a drop of 8.3 percent in the aerospace and miscellaneous transportation equipment component (which was tied to the strike at Boeing). The motor vehicles and parts component also was soft (-1.5 percent month-over-month, -0.6 percent year-over-year). Activity excluding motor vehicles (but inclusive of aerospace) recorded a more muted decline (-0.3 percent month-over-month; -0.5 percent year-over-year), with 11 of 19 non-auto manufacturing industries registering declines in production in the latest month.

- Mining output decreased 0.6 percent in September (-2.2 percent year-over-year), with the report mentioning difficulties in oil and gas extraction due to hurricane effects; specifically, output declines in these areas offset increases elsewhere. All told (and absent the latest weather-related influences), activity in the current cycle peaked in the fall of 2023 and has since moderated – coinciding with cooling in the prices of energy commodities (-2.2 percent from the cycle peak of 120.9 in September 2023; chart below right).

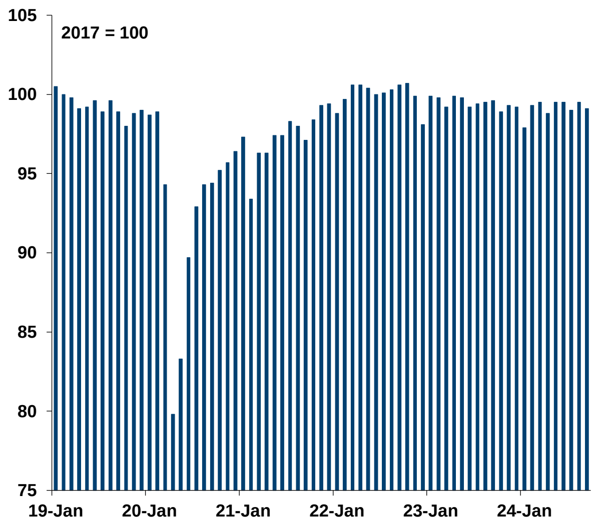
- Following two months of declines, utility output rose 0.7 percent in the latest month (+0.6 percent year-over-year). Keep in mind that this area is volatile on a month-to-month basis, with changes often reflecting swings in weather rather than in underlying economic conditions.

Industrial Production



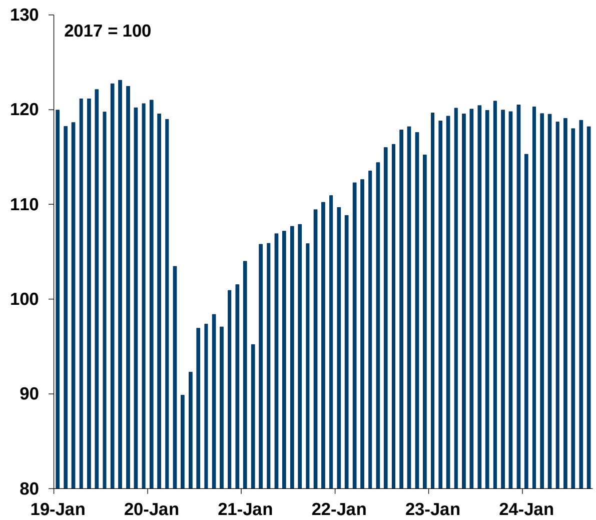
Source: Federal Reserve Board via Haver Analytics

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics