U.S. Data Review

- Retail sales: solid in March, but tariffs pose significant risk to the outlook for consumer spending
- Industrial production: increases in manufacturing, mining offset by drop in utilities

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Retail Sales

- Retail sales jumped 1.4 percent in March (+4.6 percent year-over-year), matching the Bloomberg panel median expectation. Sales at motor vehicle and parts dealers were a key driver of activity in the latest month (+5.3 percent; +8.8 percent year-over-year), with consumers accelerating purchases of automobiles ahead of tariff-related price increases. Sales excluding autos also were solid (+0.5 percent versus +0.4 percent expected; year-over-year advance of 3.6 percent), with the results in key areas suggesting modestly firmer real consumer spending in Q1 than we had assumed after the February round of data.

Retail Sales -- Monthly Percent Change

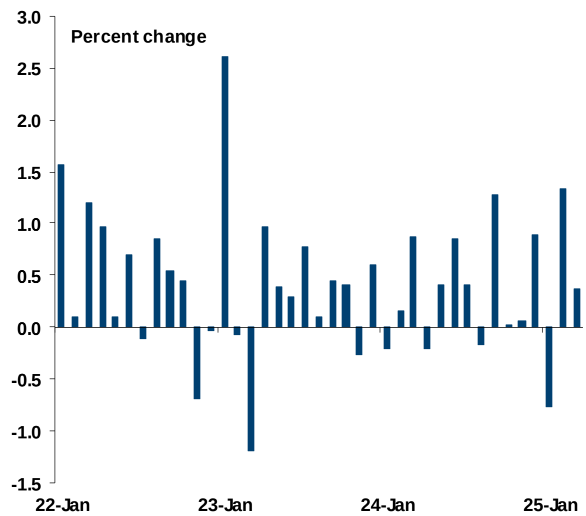
	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Total	0.7	0.7	-1.0	0.2	1.4
Ex.-Autos	0.1	0.6	-0.4	0.7	0.5
Ex.-Autos, Ex.-Gas	0.0	0.4	-0.6	0.8	0.8
Retail Control*	0.1	0.9	-0.8	1.3	0.4
Autos	3.1	1.3	-3.4	-1.6	5.3
Gasoline	0.2	2.0	1.0	-0.8	-2.5
Clothing	-0.6	1.2	-0.3	-0.2	0.4
General Merchandise	0.1	0.5	1.0	0.0	0.6
Nonstore**	0.4	0.5	-2.3	3.2	0.1

** 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 softer areas of the report, with activity falling 2.5 percent (-4.3 percent year-over-year). With that said, the results reflect lower prices rather than a drop in real consumption. Adjusting the nominal value of sales by the gasoline component of the CPI suggest monthly growth in real activity of almost four percent. That is, consumers consumed more fuel but paid less at the pump.

- Sales excluding autos and gas (+0.8 percent versus +0.6 percent expected; +4.5 percent year-over-year) were in part driven by a burst of 3.3 percent in the building material, garden equipment & supply dealers category after declines in the prior five months. Excluding this area, which is often influenced by consumption by commercial builders, sales activity tilted to the favorable side. On that point, spending in the retail control group (which correlates with goods outlays in the GDP accounts) rose 0.4 percent (+4.6 percent year-over-year; chart). Some areas were soft (e.g., the nonstore category, which is mostly online activity, rose 0.1 percent after wide swings in the prior two months; +4.8 percent year-over-year), but other areas titled to the firm side. Sales at sporting goods, hobby, book and music stores increased 2.4 percent (+2.7 percent year-over-year), and those at general merchandise stores were up 0.6 percent (+3.8 percent year-over-year). Additionally, activity at restaurants, one of the only areas in the retail report that captures consumer outlays on services and is decidedly a discretionary budget item, rose 1.8 percent after choppy results in the prior three months (+4.8 percent year-over-year).

Retail Sales: Control Group



Source: U.S. Census Bureau via Haver Analytics

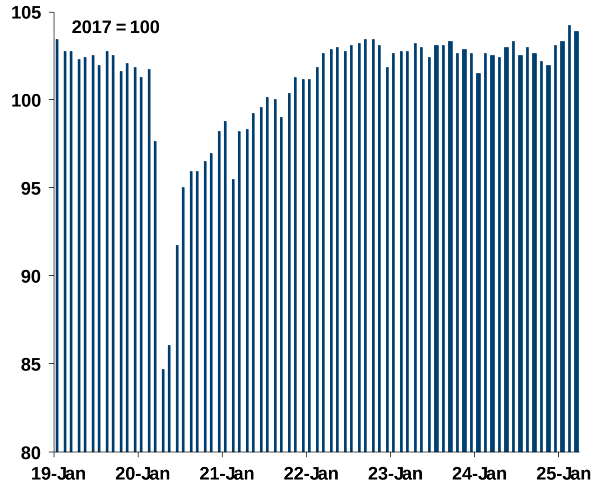
- All told, the results on retail activity suggest somewhat better real consumer spending in Q1 than previously assumed. We're now anticipating real consumer spending growth in the range of 0.75 to 1.00 percent, annual rate, in Q1 (versus 0.25 to 0.50 percent, annual rate, after the February data; consistent with GDP growth a bit below one percent versus our prior tracking estimate of 0.2 percent). After a burst of 4.0 percent in real consumer spending in 2024-Q4, the latest results indicate caution by households amid a highly uncertain economic outlook. Some consumers may be pulling forward purchases to avoid higher costs associated with import duties (see the aforementioned surge in auto sales) while others may be postponing outlays in anticipation of harder times ahead.

Industrial Production

- Industrial production fell 0.3 percent in March (+1.3 percent year-over-year; chart), the first decline since November 2024. While both the manufacturing and mining components advanced in the latest month (+0.3 and +0.6 percent, respectively), utility output fell 5.8 percent.

- Manufacturing increased 0.3 percent in the latest month (+1.0 percent year-over-year; chart, below left). A portion of March's improvement reflected a 1.8 percent increase in the aerospace and miscellaneous transportation equipment component, as Boeing has returned to normal operations after strikes and quality control issues previously disrupted operations. The auto manufacturing category was also favorable, advancing 1.2 percent after a spike of 9.2 percent in February. Excluding motor vehicles and parts, manufacturing activity also rose 0.3 percent, with 11 of 19 non-auto manufacturing industries registering increases in production. Despite the latest pickup, the cyclically sensitive factory sector faces significant risks. Manufacturing activity had previously been constrained by restrictive monetary policy, and trade disruptions tied to the Trump administration's tariff policy have now introduced a potential new – and possibly equally serious – challenge.

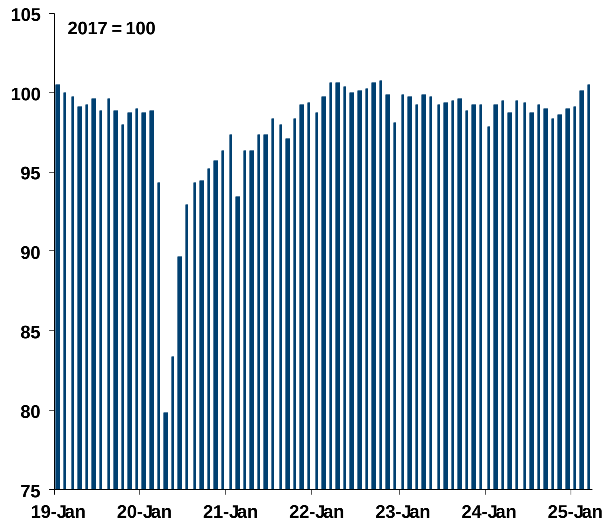
Industrial Production



Source: Federal Reserve Board via Haver Analytics

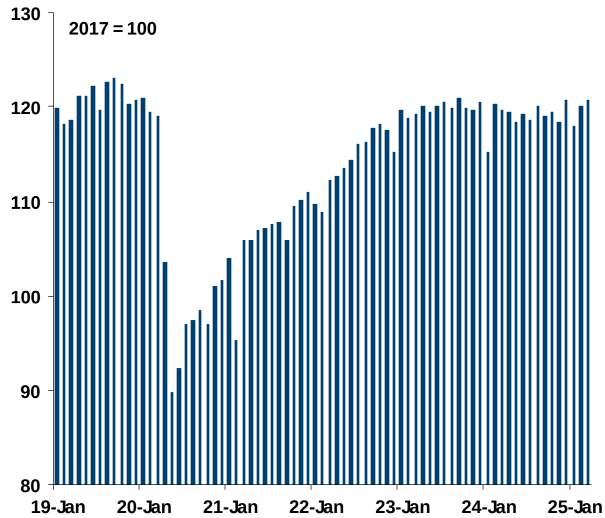
- Mining output rose 0.6 percent in March (+1.0 percent year-over-year; chart, below right), a more muted result following February's advance of 1.7 percent. This area had mounted a notable recovery from the COVID-related trough through early 2023, but that progress has since leveled off at a pace approximately in line with levels seen in the period immediately preceding the onset of the pandemic (current index level of 120.8 versus the 2019 average of 120.8). On the point, energy prices have softened recently, which may curtail new drilling and extraction activity in coming months.

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

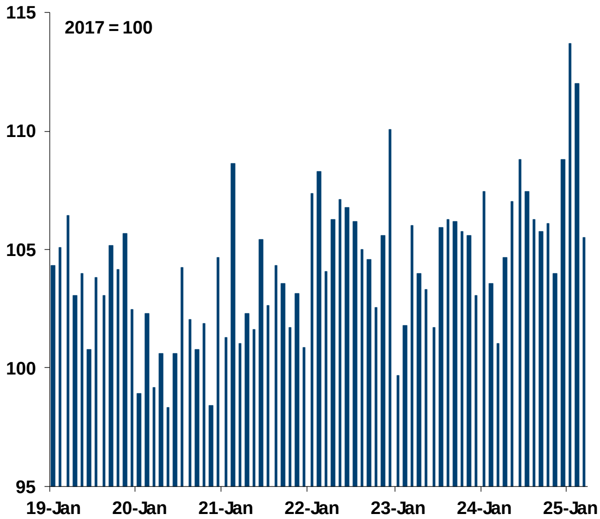
Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics

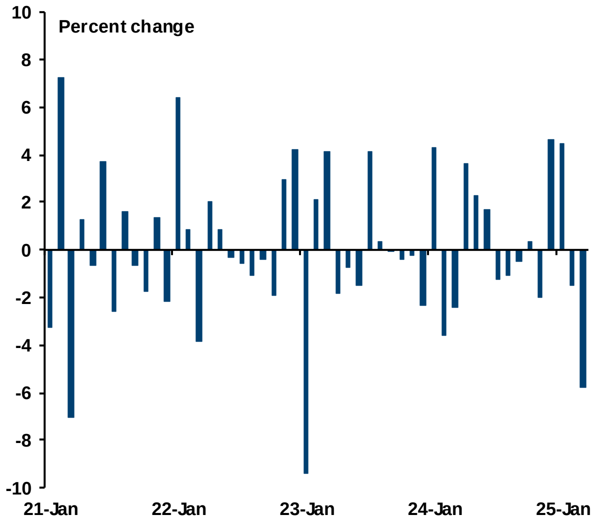
- Following a decline of 1.5 percent in the prior month, utility output fell again in March, down 5.8 percent (+4.4 percent year-over-year). In context, warmer-than-average temperatures seemed to have contributed to below-average home heating usage, leading to the drop in this category. Keep in mind, however, that this area is volatile on a month-to-month basis, with shifts often reflecting variation in weather rather than underlying fundamentals (charts, below).

Industrial Production: Utilities



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Utilities



Source: Federal Reserve Board via Haver Analytics

- In context, the data were solid (excluding the drag from utility output). However, U.S. trade policy has raised the possibility of a global economic slowdown, which poses downside risks to industrial production.