Daiwa Capital Markets

U.S. Data Review

- Retail sales: sluggish but not indicative of a significant retreat by households
- PPI: April results softer than expected
- Industrial production: decreases in manufacturing and mining offset by jump in utilities

Lawrence Werther
lawrence.werther@us.daiwacm.com
+1-212-612-6393
Brendan Stuart
brendan.stuart@us.daiwacm.com
+1-212-612-6172

Retail Sales

- Retail sales rose 0.1 percent in April, modestly better than the Bloomberg median expectation of no change (+5.2 percent year-over-year). Sales at motor vehicle and parts dealers eased 0.1 percent, but the soft result followed a surge of 5.5 percent in the prior month – which was likely spurred by pre-tariff purchases – and activity is up 9.4 percent year-over-year. Sales excluding autos also were lackluster, with the pickup of 0.1 percent (+4.2 percent year-over-year) missing expectations (+0.3 percent as per the Bloomberg survey). The latest results were augmented by upward revisions across categories, with the backward-looking data raising the possibility of an upward revision to real consumer spending in the GDP accounts (currently reported growth of 1.8 percent, annual rate, in Q1). With that said, we remain concerned that sharp deterioration in consumer sentiment and tepid spending in the latest retail report could give way to further deceleration in household spending over the remaining months of Q2. Despite recent developments on the trade front, including signs of easing tensions with China, households are likely to proceed with caution amid elevated uncertainty and downside risks to the economic outlook.

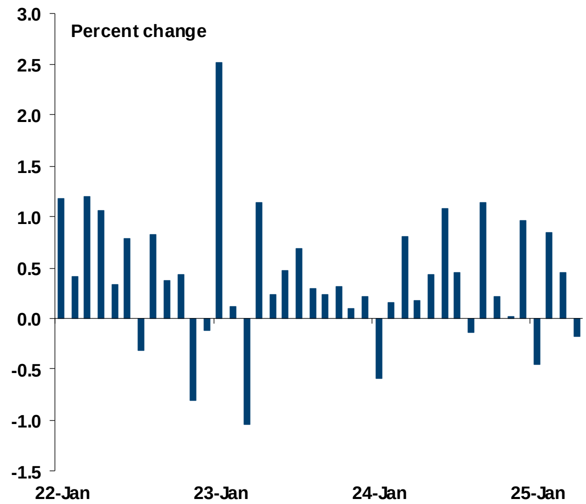
Retail Sales -- Monthly Percent Change

	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
Total	0.8	-0.9	0.0	1.7	0.1
Ex.-Autos	0.7	-0.3	0.4	0.8	0.1
Ex.-Autos, Ex.-Gas	0.6	-0.4	0.5	1.1	0.2
Retail Control*	1.0	-0.5	0.8	0.5	-0.2
Autos	1.0	-3.3	-1.4	5.5	-0.1
Gasoline	2.0	1.1	-0.7	-2.5	-0.5
Clothing	1.1	-0.5	-0.1	1.1	-0.4
General Merchandise	0.6	0.7	-0.3	0.5	-0.2
Nonstore**	1.0	-1.0	1.4	0.1	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

- Focusing on the retail control group -- which excludes activity at auto dealers, gasoline stations, and building materials outlets and thus provides a clearer view on core spending by households – revealed a mixed picture with declines in several discretionary categories. On the point, this grouping slipped 0.2 percent month-to month (+4.9 percent year-over-year) versus an expected pickup of 0.3 percent (chart). Notably, sales at sporting goods, hobby, book and music stores dropped 2.5 percent, while outlays at miscellaneous stores fell 2.1 percent and those at clothing and accessory outlets dipped 0.4 percent. Conversely, activity in the furniture and home furnishing category and in electronics and appliance stores rose modestly (both up 0.3 percent), but those shifts could well have represented increased prices in response to looming tariffs rather than gains in real activity. All this to say, consumers were cautious in the latest month.

Retail Sales: Control Group



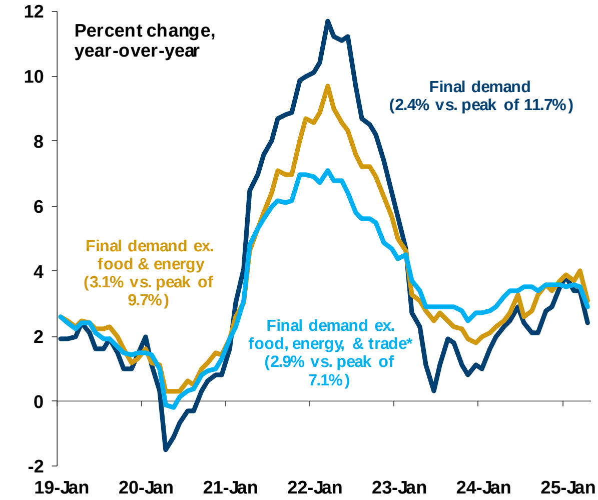
Source: U.S. Census Bureau via Haver Analytics

- On positive note, restaurant sales (the only category in the retail report that provides insight into outlays on services) remained strong (+1.2 percent in April after a jump of 3.0 percent in the prior month). Part of recent increases may again represent price effects, but we are hopeful that this portends outlays for services more broadly remain positive. With that in mind, we are still penciling in real consumer outlay growth of 1.0 percent in our latest projection of Q2 GDP (currently tracking at +0.3 percent). This initial pass will almost certainly evolve in coming months, but again we do not expect an all-out retreat by consumers – at least in the near term.

Producer Price Index

- The headline PPI fell 0.5 percent in April, with the PPI excluding food and energy and the measure excluding food, energy, and trade services decreasing 0.4 and 0.1 percent, respectively. Although all three readings were markedly lower than Bloomberg survey median expectation (+0.2 for the headline and +0.3 percent for the two core measures), the changes occurred from upwardly revised readings in March. The April readings translated to year-over-year advances of 2.4 percent for the headline (versus +3.4 percent in March), 3.1 percent for final demand excluding food and energy (versus +4.0 percent), and 2.9 percent for final demand excluding food, energy, and trade (versus +3.5 percent; chart). Broadly speaking, the latest results are consistent with ongoing moderation in prices at the producer level, though they have yet to fully capture tariff-related pressure.

PPI Inflation



** Prices received by domestic producers of good and services excluding food, energy, and trade services.*

Source: Bureau of Labor Statistics via Haver Analytics

- The energy component dipped 0.4 percent in April, its third consecutive decline. On a year-over-year basis, the measure fell 8.1 percent (versus -6.7 percent in March). The food component also eased in the latest month, decreasing 1.0 percent after falling 2.1 percent in March. The measure increased 3.0 percent year-over-year (versus +3.7 percent previously), a reading more or less in line with the pre-pandemic trend.

- As previously mentioned, prices excluding food and energy decreased 0.4 percent, which was an observation essentially equal to the average monthly change in Q1. Goods prices excluding food and energy rose 0.4 percent in April – a bit firmer than the Q1 average advance of 0.3 percent (+2.5 percent year-over-year) and potentially indicative of firms raising prices in response to new levies. Service prices, however, fell 0.7 percent in the latest month (+3.3 percent year-over-year). Notably, a large portion of the decline in the broad service area was the result of a drop of 1.6 percent in trade services (+3.7 percent year-over-year), which signaled an inability by firms to expand margins in the latest month (i.e., higher costs were absorbed rather than passed along). Construction costs eased, decreasing 0.4 percent after an advance of 0.3 percent in the prior month (+1.8 percent year-over-year).

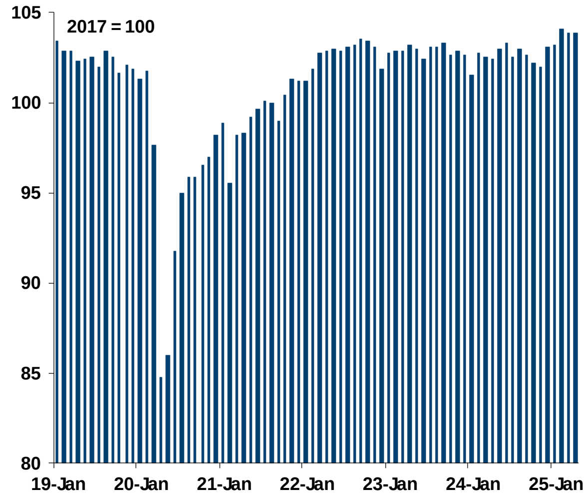
- Today's results for the PPI, coupled with CPI data released on Tuesday, allow us to better calibrate our expectations for the price index for personal consumption expenditures released with the Personal Income & Consumption report on May 30. Among the key areas that assist in formulating expectations for PCE, the airline passenger services and portfolio management fees both declined (-1.5 percent and -6.9 percent, respectively) while health care services continued on its moderate upward trend (+0.2 percent). These developments, along with those for the CPI, suggest a monthly increase in the core PCE price index of 0.1 percent (associated with a 0.1 percentage point decline to 2.5 percent for the year-over-year advance).

Industrial Production

- Following a decline of 0.3 percent in the prior month, industrial production was unchanged in April (+1.5 percent year-over-year), a bit softer than the Bloomberg survey expectation of an advance of 0.1 percent (chart). While both the manufacturing and mining components declined in the latest month (-0.4 and -0.3 percent, respectively), an increase in utility output provided an offset (+3.3 percent).

- Manufacturing eased 0.4 percent in the latest month (+1.2 percent year-over-year), its first decline since October of last year (chart, below left). April's weakness reflected, in part, a drop in auto production (-1.9 percent). Excluding motor vehicles and parts, manufacturing output slipped 0.4 percent, with 12 of 19 non-auto manufacturing industries registering declines in production.

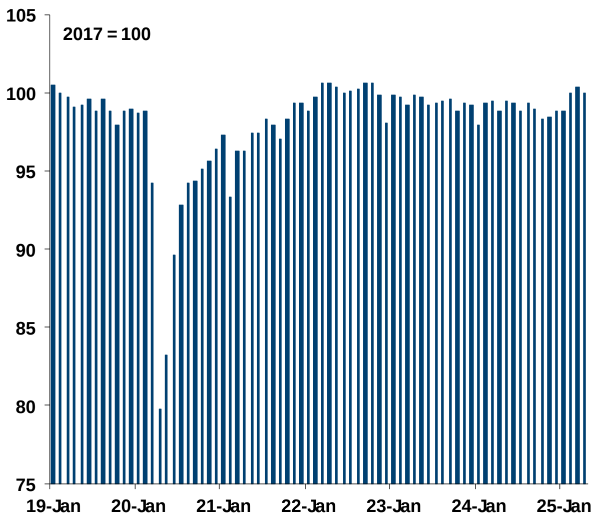
Industrial Production



Source: Federal Reserve Board via Haver Analytics

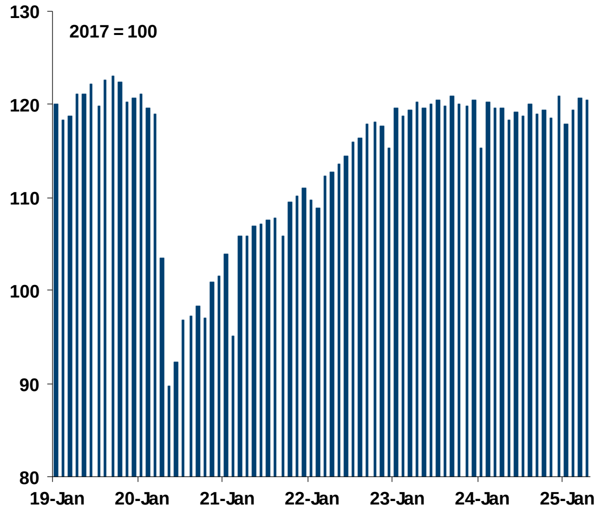
- Mining output fell 0.3 percent in April (+0.7 percent year-over-year). This area had mounted a notable recovery from the COVID-related trough through early 2023, but that progress has since leveled off at a pace approximately in line with levels seen in the period immediately preceding the onset of the pandemic (current index level of 120.4 versus the 2019 average of 120.8; chart, below right). Looking ahead, with the recent softening in the prices of energy commodities, firms may decide to dial back drilling and extraction activity – at least for a time.

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics

- In contrast to the other subcomponents, utility output rose 3.3 percent in April (+4.3 percent year-over-year), a markedly firmer result than the 6.2 percent plunge in the prior month. Keep in mind that this area is volatile on a month-to-month basis (range of -6.2 to +4.6 percent in the past six months), with shifts often reflecting variation in weather rather than underlying fundamentals.

- While industrial production has yet to show signs of outright deterioration, U.S. trade policy has introduced significant uncertainty to the current landscape and stoked fears of a broader economic slowdown. Should economy-wide demand ease further, it may contribute to softening in an already unimpressive trend industrial production.