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Severe weather weighs on U.S. retail sales and some industrial production

KEY TAKEAWAYS

- U.S. retail sales drop more than expected, partly due to adverse weather. Underlying trend still solid.
- Strong utilities output supports U.S. industrial production, as cold weather weighs on manufacturing and mining.
- U.S. business inventories decline at yearend, but level still near balanced with demand.
- U.S. import prices rise less than expected, reflecting dollar strength.
- Eurozone GDP revised up, green shoots ahead.
- China's lending surges, but overall credit still weak.

U.S. retail sales tumble, due to weather disruption

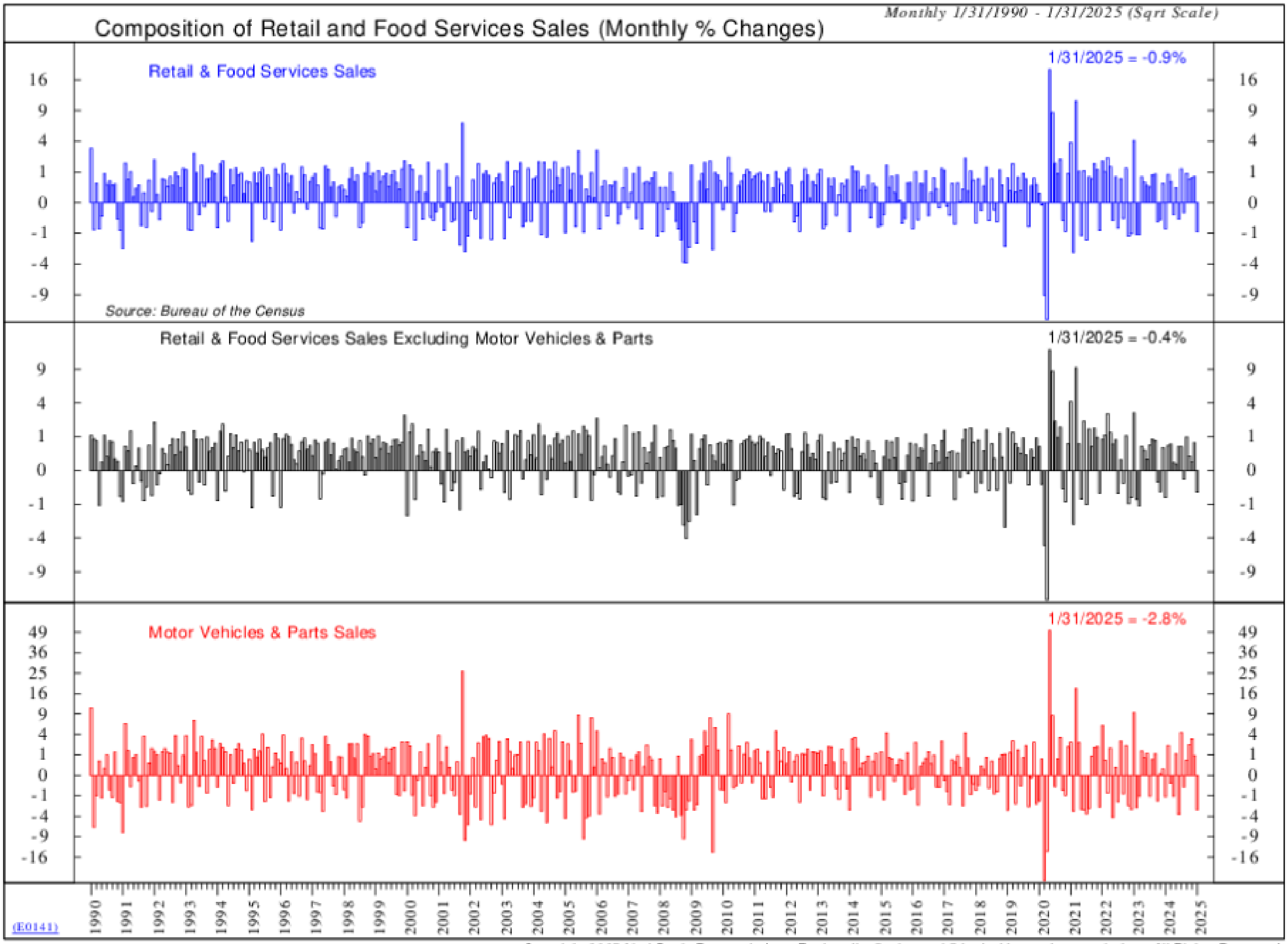
Retail sales tumbled a bigger-than-expected 0.9% in January, down for the first time in five months, and by the most since March 2023. Some pullback was to be expected, given the surge in spending in Q4. But the January decline was exacerbated by severe winter weather in large parts of the country and wildfires in California. Such temporary disruptions are typically followed by a rebound in sales in subsequent months.

Vehicle sales, which account for about a fifth of retail sales, fell 2.8%. This mostly reflected fewer units sold, as new vehicle prices were unchanged from the prior month while used car and truck prices rose. Retail sales ex-vehicles fell 0.4%, contrary to the consensus of a modest increase, as most major categories declined.

Our measure of discretionary retail sales and its core, which is close to the control group used in the GDP estimate, fell 1.2% and 1.1%, respectively.

Biggest drop in retail sales since March 2023

E0141



On a y/y trend basis, however, retail sales maintained strong momentum, up 4.2%, the most in nearly two years. Discretionary and core discretionary retail sales also rose at solid rates, up 4.9% and 4.5%, respectively. The underlying consumer resilience is supported by a healthy labor market, with low unemployment and elevated wage growth.

We expect to see some moderation in consumer spending this year amid more tepid real income growth than last year, a smaller wealth effect, and some pickup in delinquency rates, especially on credit card debt.

Growth from a year ago still strong

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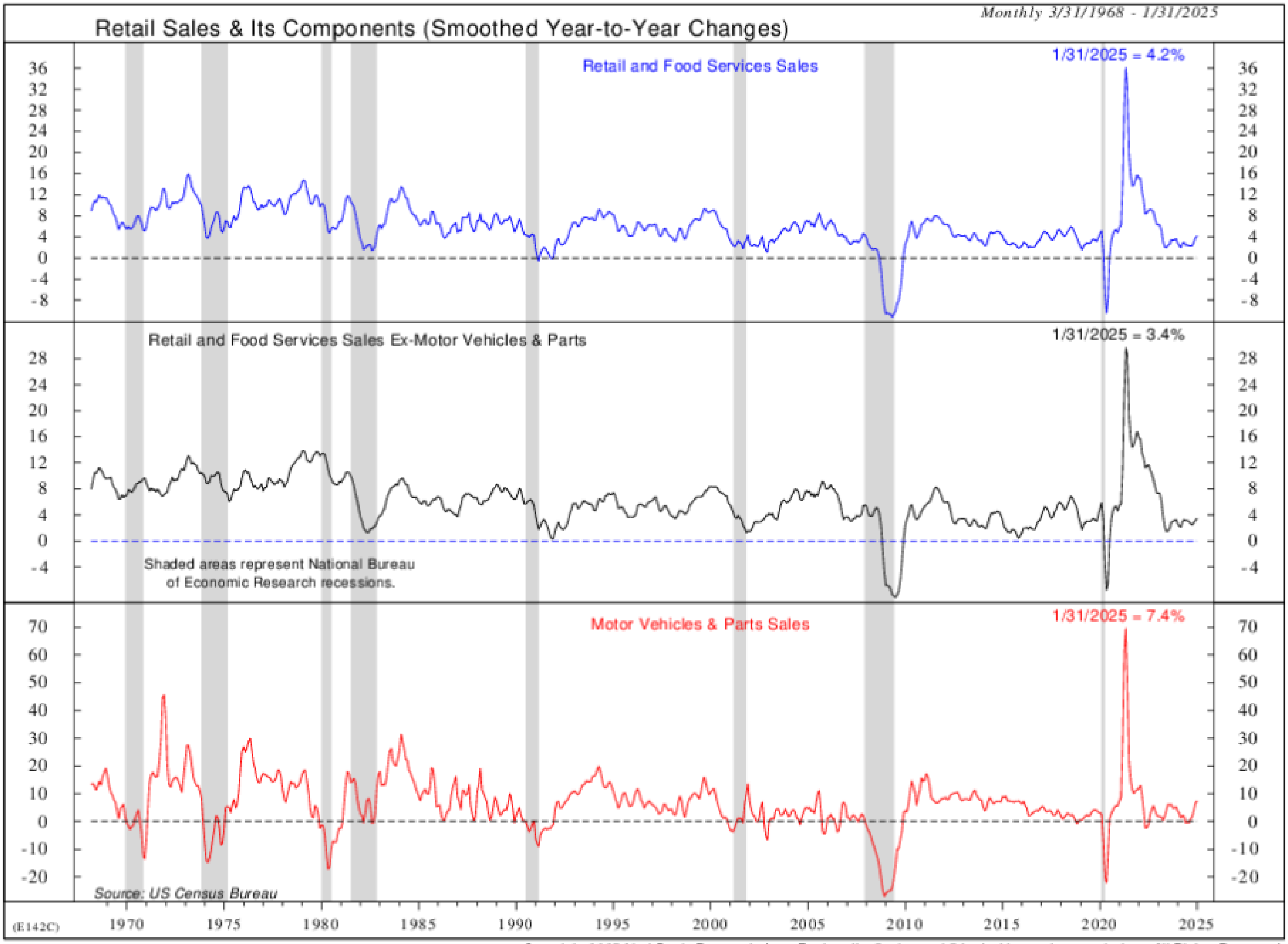

U.S. industrial production up, led by utility output

Industrial production rose a bigger-than-expected 0.5% in January, as utilities output jumped due to much colder-than-normal weather. Partly for the same reason, mining and manufacturing output fell from the prior month.

Utilities and energy output drove industrial production in January

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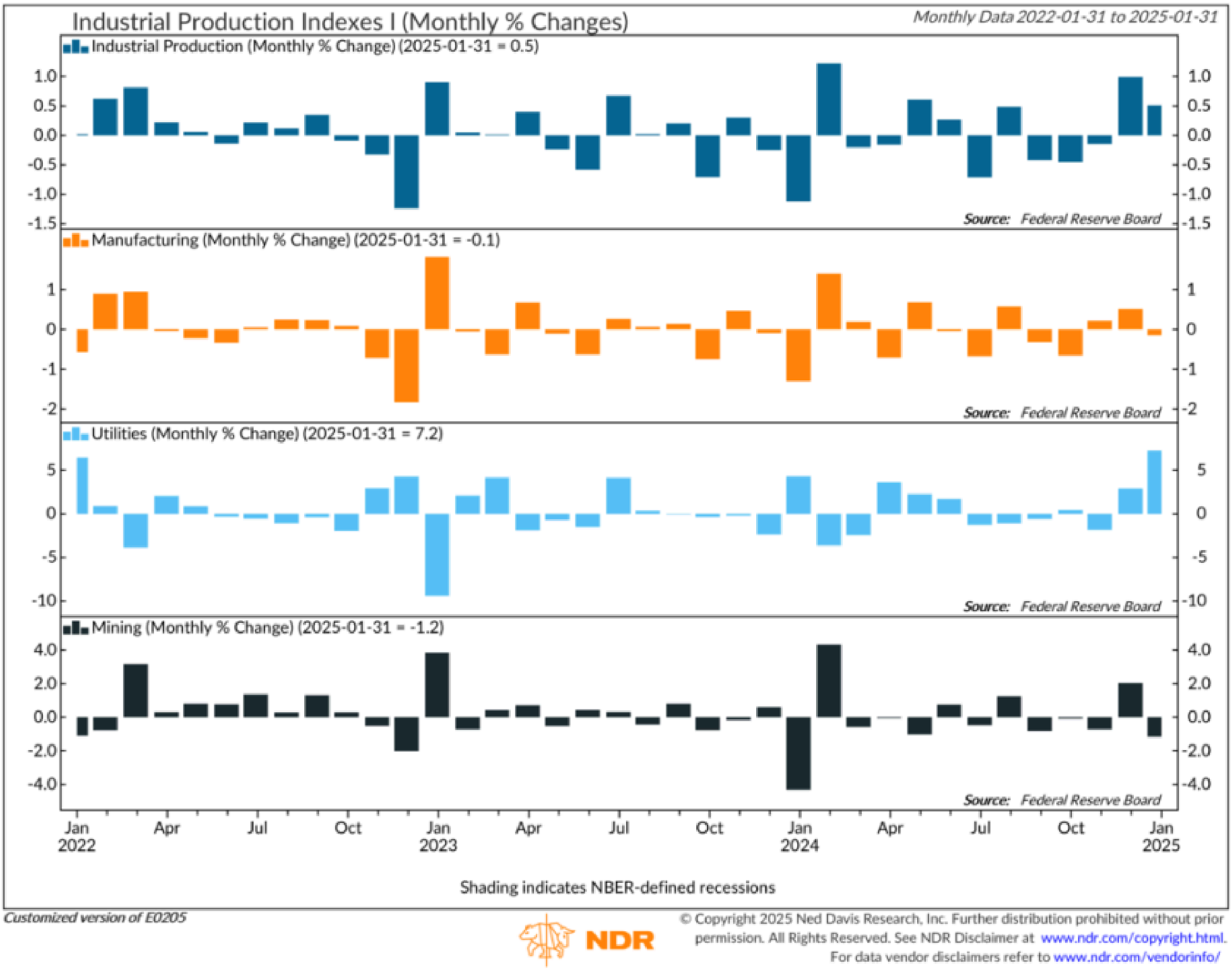

Total energy output, which includes consumer and commercial products, converted fuel, primary energy, as well as oil and gas well drilling, and accounts for about a quarter of industrial production, increased 2.5% at the start of this year. Excluding energy, industrial production was down 0.3%.

In manufacturing, durable goods output was flat. A surge in aerospace and miscellaneous transportation equipment, due to production catchup after the Boeing strike last year, was offset by a decline in vehicles output. Nondurable goods manufacturing fell slightly from the prior month.

On a y/y basis, industrial production was up 2.0%, the most since October 2022. A jump in ISM manufacturing new orders in January amid a continued rundown in inventories bodes well for continued production growth in the near-term.

ISM indicator points to continued production growth

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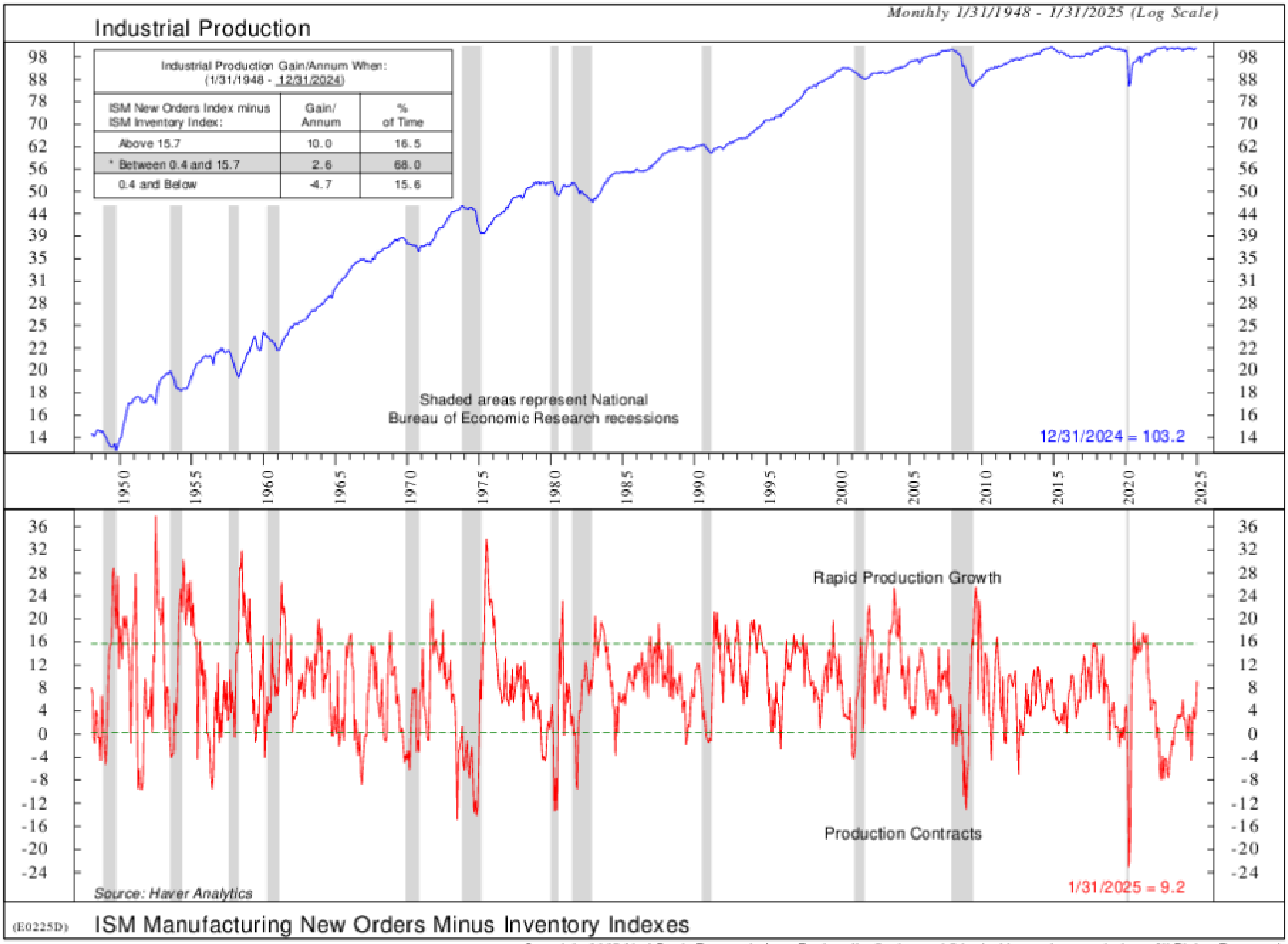

The capacity utilization rate picked up to a slightly higher-than-expected 77.8%. This, however, is still 1.8 ppt below its long-term average, which implies some excess capacity and disinflationary pressures stemming from it.

Even so, our Inflation Timing Model, which is a composite of 21 indicators (including capacity utilization), rebounded two points to +1 in January, climbing back into modest positive territory. The latest reading is consistent with neutral pressure on inflation, after signaling disinflation for most of the time since mid-2022.

ITM in neutral territory, after a long period of disinflation

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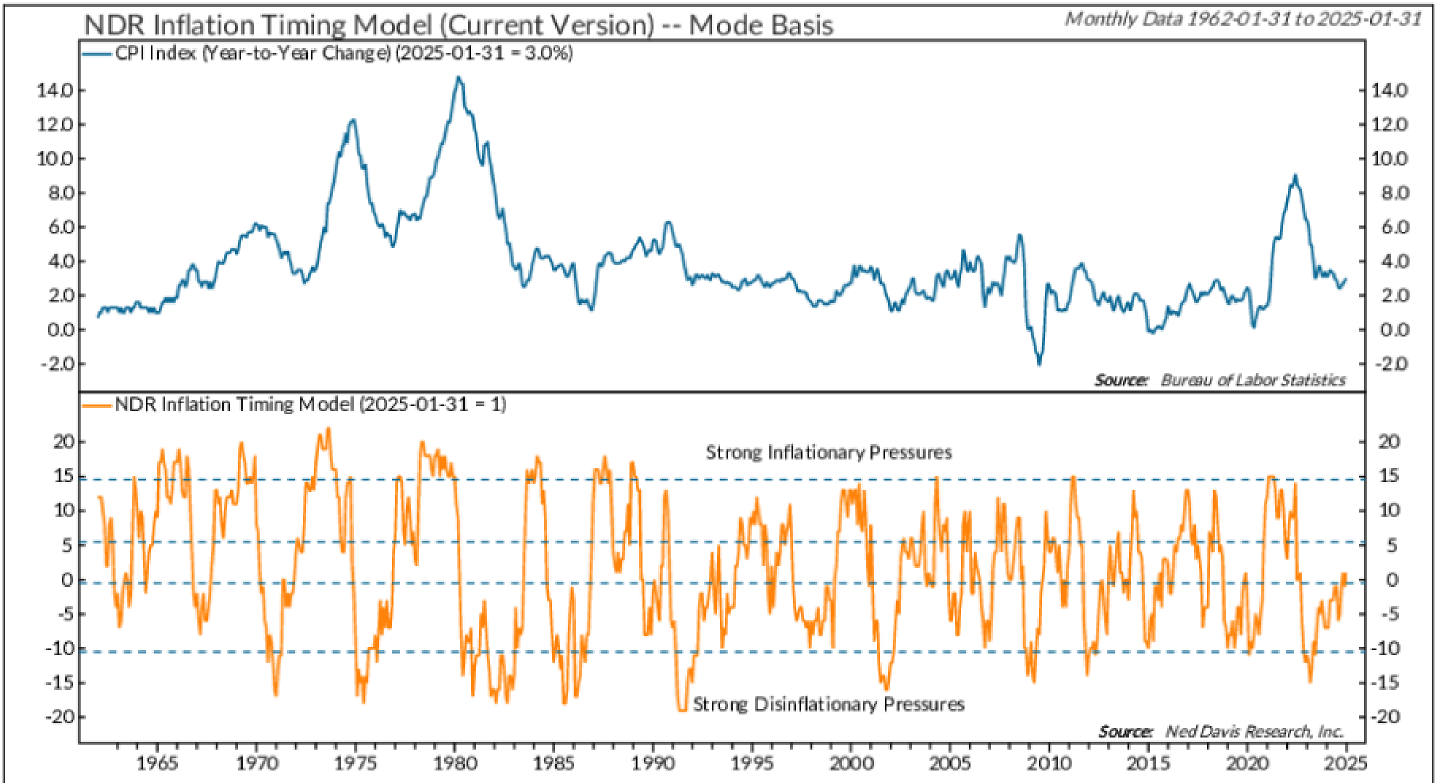

Consumer Price Index Performance **Full History:** 1962-01-31 to 2025-01-31		
NDR Inflation Timing Model -- Mode Basis	Points/ Annum	% of Time
Strong Disinflation	-3.48	11.62
Moderate Disinflation	-0.99	32.29
Neutral Inflation	0.26	20.13
Moderate Inflation	1.20	24.84
Strong Inflation	3.69	11.12
Buy/Hold = 0.04 Points/Annum		

E701

U.S. business inventories decline

Business inventories fell 0.2% in December, down for the first time in ten months, and contrary to expectations of a pickup. A substantial decline in wholesale and retail inventories was only partially offset by an increase in manufacturing inventories.

Strong sales drive down inventories at yearend

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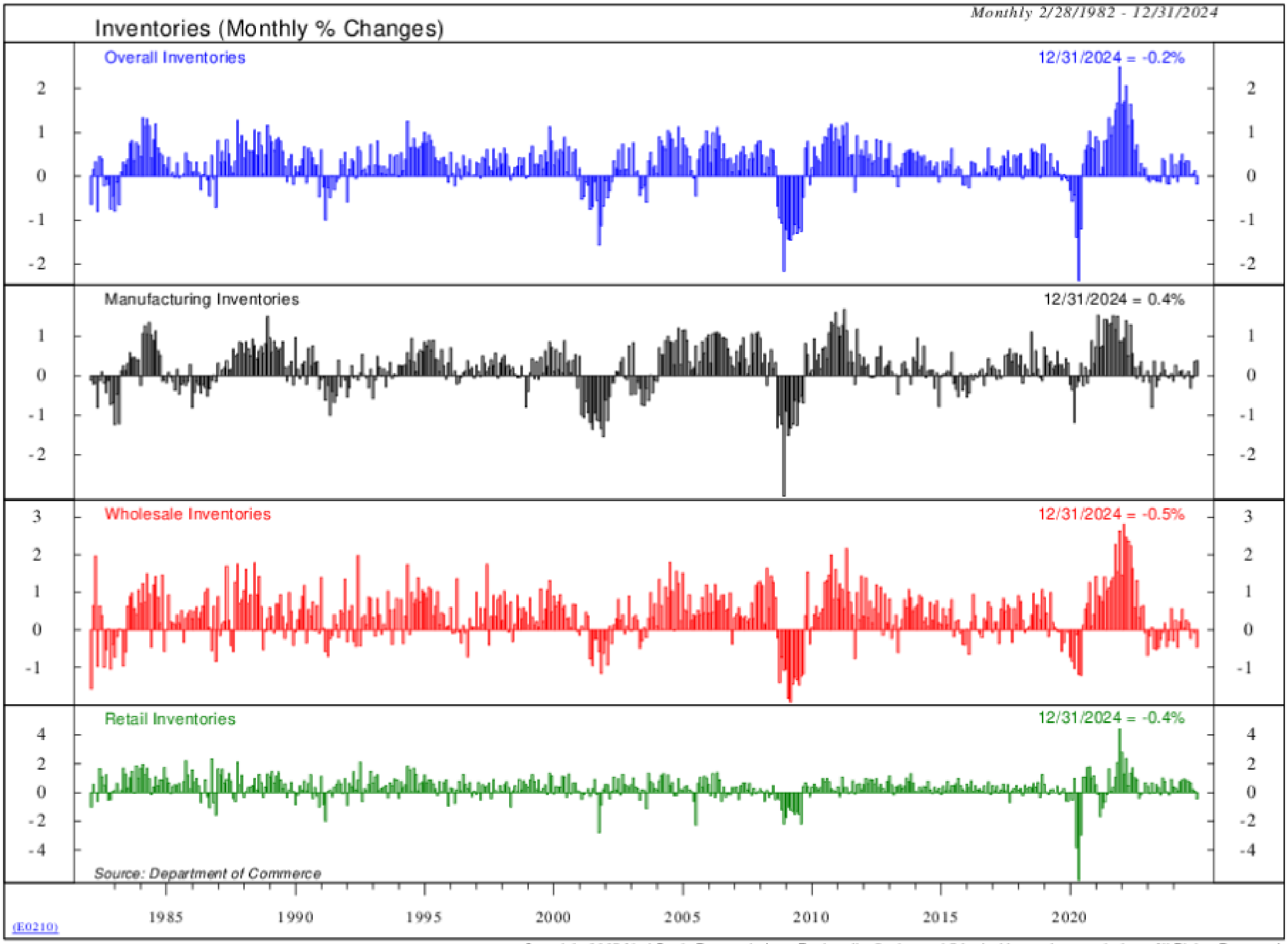

The decline in inventories came alongside a 0.8% increase in business sales. As a result, the I/S ratio dipped to 1.35 from 1.37 in the prior month, matching its lowest level since mid-2022. Notably, the retail I/S ratio slipped to 1.30, slightly below its 12-month average. It still indicates near balance of supply and demand, but further erosion would signal building inflationary pressures in goods prices.

Retail I/S moving closer to signaling inflation pressure building up

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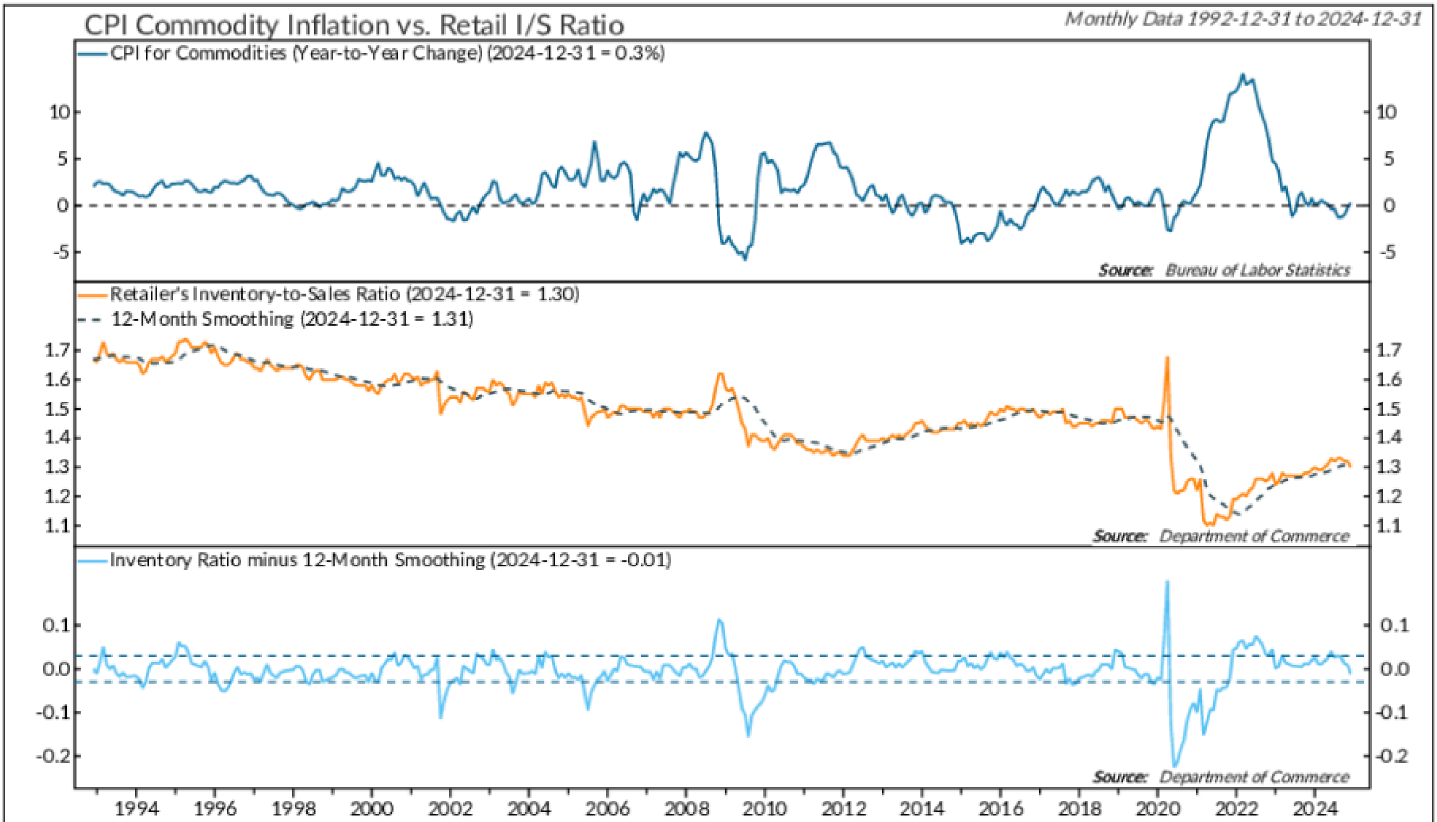

CPI Commodity Inflation Performance
Full History: 1992-12-31 to 2024-12-31

Inventory Ratio minus 12-Month Smoothing	Points/ Annum	% of Time
Above 0.03	-4.63	11.69
-0.03 - 0.03	-0.34	73.69
Below -0.03	5.03	14.62

Buy/Hold = -0.05 Points/Annum

E705C

U.S. import prices rise less than expected

Import prices rose a smaller-than-expected 0.3% in January, with fuel and nonfuel prices up 1.2% and 0.1% respectively. On a y/y basis, import prices eased slightly to 1.9%, and were down-to-flat across key trading regions, reflecting U.S. dollar strength.

Import price data reflects the dollar price paid by U.S. importers, and does not include tariffs. Amid rising U.S. tariffs and tariff threats, their passthrough to inflation depends on the U.S. dollar, as discussed in the ***U.S. Focus*** yesterday. A stronger dollar could offset the tariffs, while a flat-to-weaker dollar would allow for some passthrough to inflation.

Import price inflation remains low

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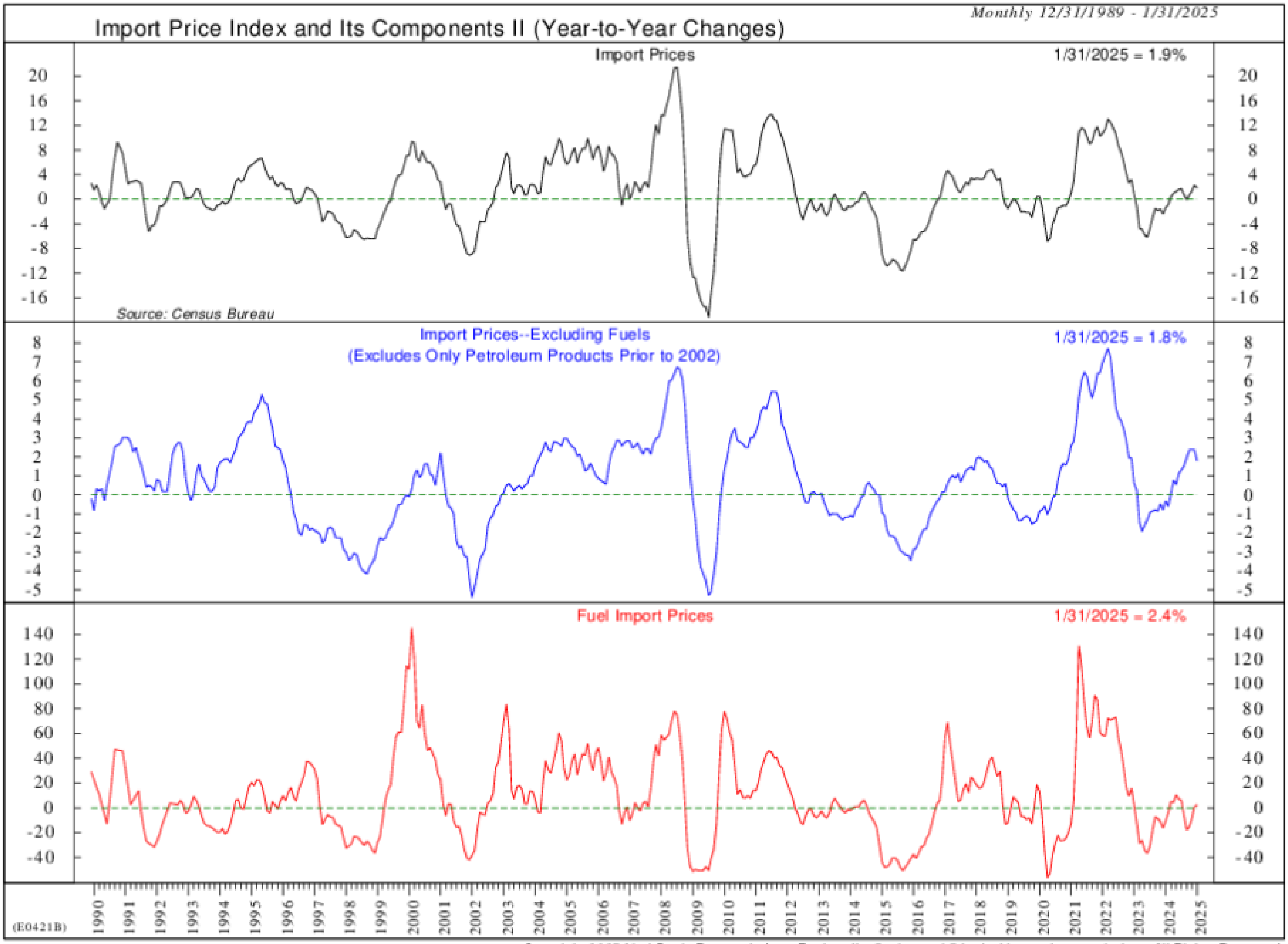

Eurozone GDP revised up, green shoots ahead

The eurozone's real GDP expanded 0.1% in Q4 of last year, exceeding its initial estimate for a flat reading. But trends varied widely by economy. Among the countries that have reported Q4 data, Germany and France contracted, Italy was flat, while Spain, Portugal, and the Netherlands grew at strong rates.

Eurozone GDP growth varied widely by economy

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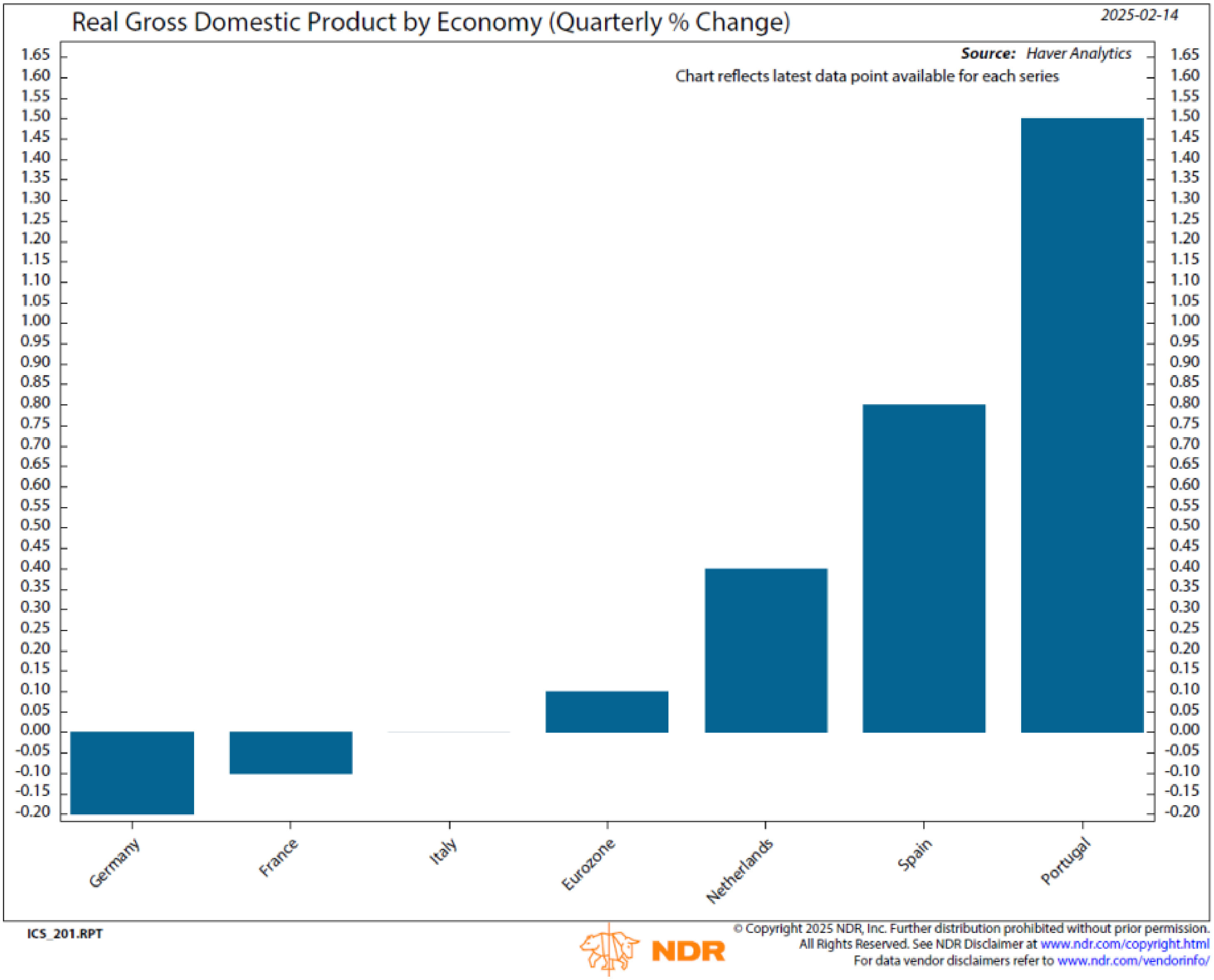
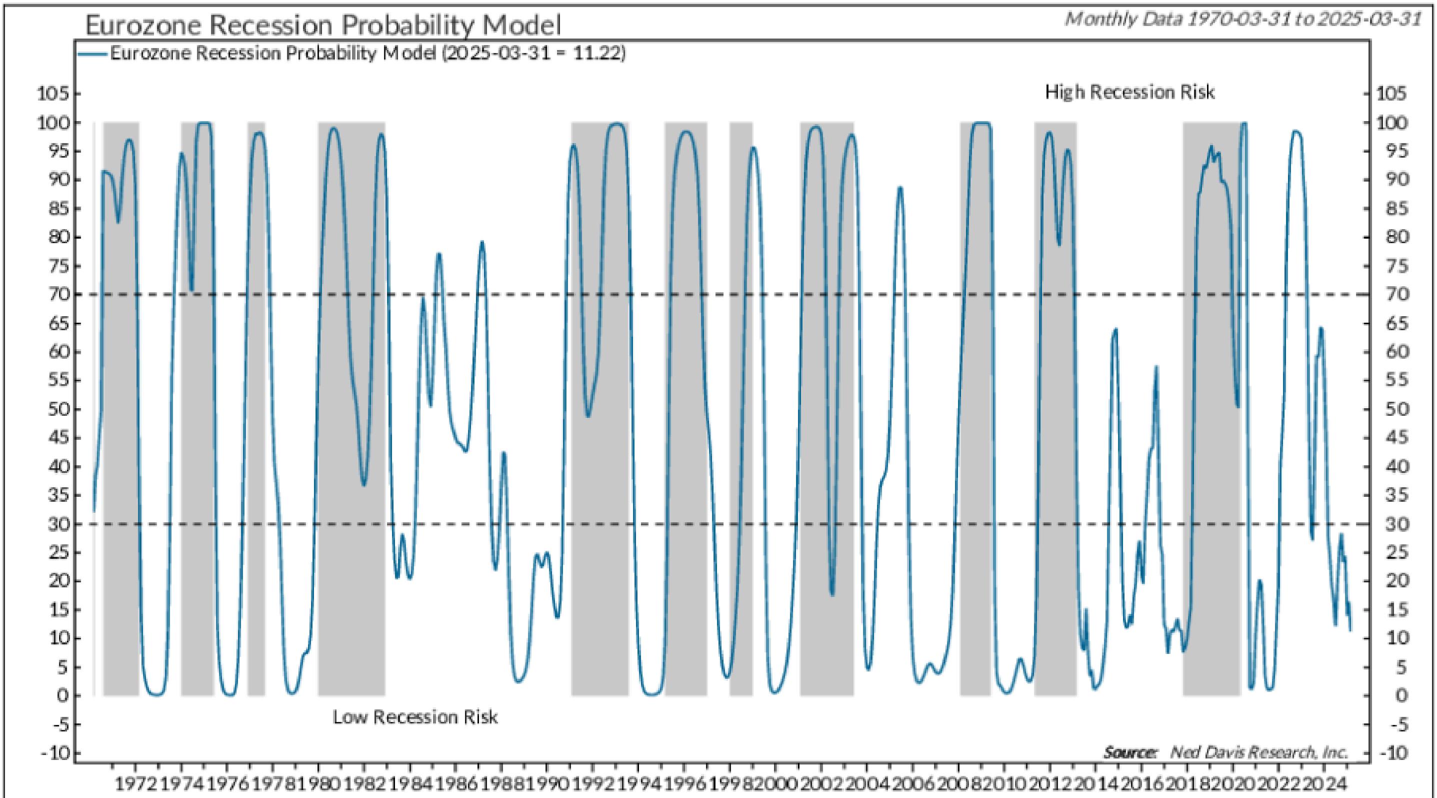


For the year, the region eked out a gain of just 0.7%, below pre-pandemic growth rates and partly a reflection of weak potential real GDP growth. We anticipate a modest acceleration of 1.1% this year, due in part to easier monetary policy. Indeed, the PMIs for January, which saw the composite rebound back into expansion territory, indicate some green shoots in the region. Our recession probability model has also been trending lower. However, downside risks emanating from possible U.S. tariffs, lack of competitiveness in the manufacturing sector, and domestic political issues persist.

NDR Eurozone Recession Probability Model edging lower

IE1090



Shaded Areas Represent OECD-Defined Eurozone Recession Periods

Analysis Dates: 1970-03-31 - 2025-03-31		
	Actual:	
Probability Model	Recession (% of Time)	No Recession (% of Time)
Above 70	79.91	20.09
Between 30 and 70	32.47	67.53
Below 30	6.47	93.53

IE1090

China's lending surges, but overall credit still weak

New total social lending, China's broadest measure of lending, surged to a record in January. Seasonally, lending is strongest in January because of a reset of quotas. Even so, the reading beat all past Januarys. New bank lending, a subset of total social lending, also rose to a record. While this surge may be a reflection of easier monetary policy and government stimulus, total outstanding credit remains historically depressed. Indeed, the year-to-year change in both social lending and bank loans are either at or close to their slowest paces on record.

Chinese lending surges to a record, reflecting seasonal jump

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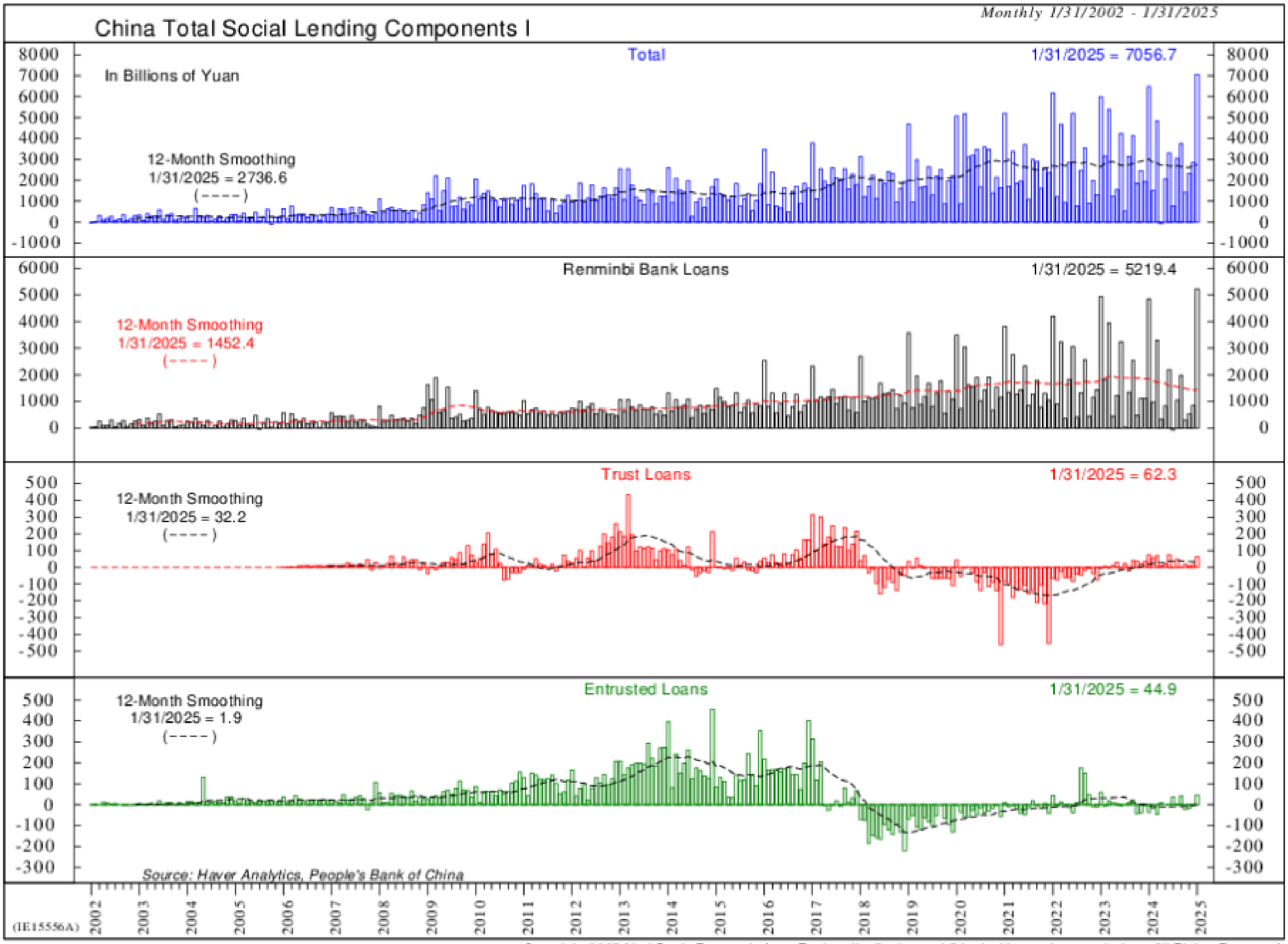

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