MONDAY ECONOMIC REPORT

Retail Sales Soared 5.3% in January, Boosted by Stimulus Payments

By Chad Moutray – Feb 22, 2021 – SHARE

The Weekly Toplines

- Retail spending soared 5.3% in January, boosted by new stimulus payments enacted at year's end and ending three straight months of declines. Indeed, retail sales weakness in the fourth quarter of 2020 helped lead to passage of additional relief. Excluding gasoline and motor vehicles, retail spending increased 6.1% in January.

- Manufacturing production increased 1.0% in January, rising for the fourth straight month. Output in the sector plummeted 20.1% between February and April 2020 at the beginning of the COVID-19 pandemic, but production has stabilized since then, with output down just 1.0% from the pre-pandemic pace 11 months ago.

- The IHS Markit Flash U.S. Manufacturing PMI pulled back somewhat in February from January's record pace, with the headline index down from 59.2 to 58.5, largely on "extreme weather and existing widespread supply shortages." Input costs jumped at the fastest rate since May 2007.

- Manufacturing in the New York and Philadelphia Federal Reserve Bank districts expanded in February, with respondents feeling upbeat in their outlook for the next six months but continuing to cite pricing pressures for input costs.

- In Europe, manufacturing activity expanded at the strongest pace in three years, even as raw material prices rose at rates not seen since April 2011, and the services sector contracted sharply for the sixth straight month due to COVID-19-related restrictions.

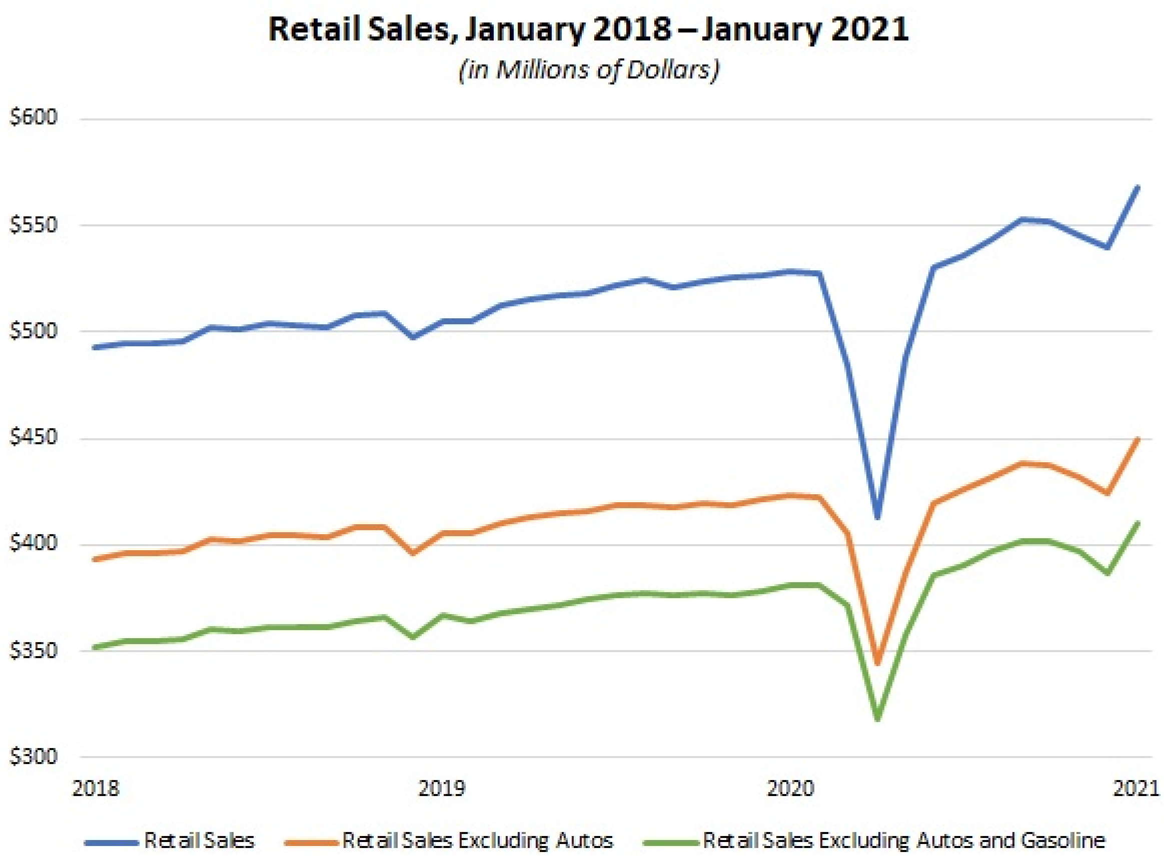
- New housing starts fell 6.0% from 1,680,000 units at the annual rate in December, the strongest pace since September 2006, to 1,580,000 units in January, likely reflecting poor weather. Encouragingly, single-family activity has jumped 17.5% year-over-year.

- Home builders continue to remain upbeat in their expectations for single-family sales over the next six months, despite rising costs and supply chain constraints. Housing permits jumped 10.4% to 1,881,000 units in January, a pace not seen since May 2006.

- Existing home sales remain not far from the strongest pace since March 2006, rising 0.6% in January and 23.7% over the past 12 months, but inventories are at a historic low.

- Producer prices for final demand goods and services jumped 1.3% in January, the largest monthly gain since the series began in December 2009. Likewise, producer prices for final demand goods rose 1.4% in January, also a record.

- Over the past 12 months, core producer prices for final demand goods and services have increased by a seasonally adjusted 1.9% year-over-year, up from 1.1% year-over-year in December and the fastest pace since July 2019. Manufacturing leaders continue to cite supply chain disruptions, and with that in mind, the jump in raw material prices should not be a surprise



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, February 15
PRESIDENTS DAY HOLIDAY

Tuesday, February 16
New York Fed Manufacturing Survey

Wednesday, February 17

This Week's Indicators:
(Summaries Appear Below)

Monday, February 22
Chicago Fed National Activity Index
Conference Board Leading Indicators
Dallas Fed Manufacturing Survey

Tuesday, February 23

Industrial Production
NAHB Housing Market Index
Producer Price Index
Retail Sales

Thursday, February 18
Housing Starts and Permits
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, February 19
Existing Home Sales
IHS Markit Flash U.S. Manufacturing PMI

Conference Board Consumer Confidence
Richmond Fed Manufacturing Survey

Wednesday, February 24
New Home Sales

Thursday, February 25
Durable Goods Orders and Shipments
Gross Domestic Product (Revision)
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, February 26*International Trade in Goods (Preliminary)*
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)

Deeper Dive

- **Existing Home Sales:** The National Association of Realtors reported that existing home sales rose 0.6%, up from 6.65 million units in December to 6.69 million units in January. It was not far from the 6.73 million units in October, which was the strongest since March 2006. In January, activity strengthened in the Midwest and South but weakened in the Northeast and West. Single-family and condominium and co-op sales increased 0.2% and 4.1% in January, respectively. More importantly, the housing market continues to be a bright spot, with existing home sales jumping 23.7% over the past 12 months, up from 5.41 million units in January 2020, with single-family and condo/co-op sales rising 23.0% and 28.8% year-over-year, respectively.

- Inventories of existing homes for sales continued to be at a record low, remaining at 1.9 months of supply on the market in January. The median sales price for existing homes has increased 14.1% year-over-year, up to $303,900 in January.

- **Housing Starts and Permits:** New residential construction fell 6.0% from 1,680,000 units at the annual rate in December, the strongest pace since September 2006, to 1,580,000 units in January. Single-family starts plummeted 12.2% in January, also pulling back from the best reading since September 2006, down from 1,323,000 units to 1,162,000 units. At the same time, multifamily construction, which can often be quite volatile from month to month, rose from 357,000 units to 418,000 units, a six-month high.

- The weaker data in January likely reflected poor weather, dampening construction activity for the month. The underlying data, however, continue to be encouraging. While housing starts have fallen 2.3% over the past 12 months, single-family activity has jumped 17.5% year-over-year, up from 989,000 units in January 2020. Residential construction has been boosted by historically low mortgage rates, even as costs are rising and inventories remain low. For their part, builders continue to remain upbeat in their expectations for single-family sales over the next six months (see below).
  Indeed, the housing permits data support such optimism, soaring 10.4% from 1,704,000 units in December to 1,881,000 units in January, a pace not seen since May 2006. These increases point to solid growth in the housing market over the coming months.
  Single-family permits increased from 1,223,000 units in December to 1,269,000 units in January, the highest reading since August 2006. In addition, multifamily permitting soared from 481,000 units to 612,000 units. Over the past 12 months, housing permits have risen 22.5% from 1,536,000 units in January 2020, with single-family permits jumping 29.9% year-over-year.

- **IHS Markit Flash U.S. Manufacturing PMI:** After expanding at the fastest pace on record in January, manufacturing pulled back somewhat in February, with the headline index down from 59.2 to 58.5. The release notes, "The slower manufacturing growth was often blamed on extreme weather and existing widespread supply shortages. Supplier delays hit a record high during the month." Still, manufacturing activity remained solid despite some softening in new orders (down from 59.9 to 57.4), output (down from 60.5 to 57.7) and exports (down from 54.0 to 53.8). Hiring (up from 54.7 to 55.6) accelerated to the briskest pace since December 2017, and survey respondents felt more upbeat in their outlook for future production (up from 72.1 to 75.7). Yet, raw material costs (up from 65.1 to 73.3) soared, growing at the fastest rate since the question was added in May 2007.

- Encouragingly—and in contrast to the European data, which are described below—the IHS Markit Flash U.S. Services Business Activity Index improved from 58.3 to 58.9, the best reading since March 2015. This reflected rebounding activity, with COVID-19 restrictions lifted in some areas.
  Meanwhile, the IHS Markit Flash Eurozone Manufacturing PMI jumped from 54.8 in January to 57.7 in February, a three-year high. Manufacturing activity rose sharply across the board, including stronger demand and production growth. Exports grew at the fastest rate since January 2018, and hiring was positive for the first time since April 2019. Respondents felt very upbeat in their assessments of future output, with that measure rising to an all-time high. Input costs soared at rates not seen since April 2011.

  The data were similar in both France and Germany, with "flash" reports on manufacturing activity also notching three-year highs in February. Outside the Eurozone, manufacturers in the United Kingdom also noted improvements for the month, buoyed by rebounding new orders. The U.K. index of future output rose to the best reading since April 2014, pointing to optimism in the outlook.

  At the same time, the IHS Markit Flash Eurozone Services PMI contracted further, with declining activity for the sixth straight month, as renewed COVID-

19 cases and restrictions took a toll on the Eurozone economy.

- **Industrial Production:** Manufacturing production increased 1.0% in January, rising for the fourth straight month (and in eight of the past nine months). Durable and nondurable goods production rose 0.9% and 1.2% for the month, respectively. Output in the sector plummeted 20.1% between February and April 2020 at the beginning of the COVID-19 pandemic, but production has stabilized since then, with output down just 1.0% from the pre-pandemic pace 11 months ago. In addition, capacity utilization was just 0.7% below where it was in February 2020, with the utilization rate in the sector rising from 73.9% in December to 74.6% in January, the highest rate since the COVID-19 outbreak began.

- In January, the largest increases in manufacturing production occurred in primary metals (up 3.9%), electrical equipment, appliances and components (up 2.3%), aerospace and miscellaneous transportation equipment (up 2.2%), petroleum and coal products (up 2.1%) and furniture and related products (up 2.0%). In contrast, five sectors had reduced output for the month: nonmetallic mineral products (down 1.8%), other manufacturing (down 0.8%), motor vehicles and parts (down 0.7%), paper (down 0.7%) and printing and support (down 0.6%).

  Five of the major manufacturing sectors experienced increased production since January 2020: aerospace and miscellaneous transportation equipment (up 3.5%), food, beverage and tobacco products (up 3.5%), motor vehicles and parts (up 1.7%), chemicals (up 1.4%) and computer and electronic products (up 0.6%). The biggest year-over-year declines occurred in printing and support (down 11.6%), petroleum and coal products (down 10.9%), other manufacturing (down 10.6%), furniture and related products (down 8.1%), primary metals (down 5.8%) and nonmetallic mineral products (down 5.2%).

  Meanwhile, total industrial production rose 0.9% in January, expanding for the fourth consecutive month. In January, mining production rose 2.3%, but output in the utilities sector fell 1.2%. Over the past 12 months, industrial production has dropped 1.8%, with mining production down 11.5% year-over-year. However, utilities output has increased 6.6% since January 2020. Total capacity utilization increased from 74.9% in December to 75.6% in January, an 11-month high but still down 1.8% since February 2020.

- **NAHB Housing Market Index:** The National Association of Home Builders and Wells Fargo reported that confidence edged slightly higher, up from 83 in January to 84 in February. As such, the Housing Market Index remains highly elevated, with builders very upbeat in their assessments, despite easing from November's all-time high (90). The housing market continues to be buoyed by historically low mortgage rates, but builders continue to cite low inventories, rising construction costs, supply and labor constraints and regulatory risks as ongoing headwinds for growth.

- The HMI improved in the Midwest and Northeast but slipped a bit in the West. The index for current single-family home sales held steady at 90 in February—a very solid reading. At the same time, the index for expected single-family sales eased for the third straight month, down from a record 89 in November to 80 in February. Even with the decline, builders expressed optimism about increased sales moving forward.

- **New York Fed Manufacturing Survey:** In February, manufacturing activity expanded in the New York Federal Reserve Bank's district at the fastest pace since July 2020. The composite index rose from 3.5 in January to 12.1 in February, buoyed by stronger growth in new orders, employment and hours worked. Inventories grew for the first time since March 2020. At the same time, shipments growth slowed slightly in February. More troublesome, input costs accelerated at the fastest rate since May 2011.

- Meanwhile, manufacturers in the Empire State Manufacturing Survey remain upbeat about stronger activity over the next six months, with the forward-looking composite index increasing from 31.9 in January to 34.9 in February. Nearly 53% of respondents forecasted new orders expanding moving forward, with 35.1% anticipating more capital spending. Expectations for shipments and employment slipped a little but remained solid overall. Those completing the survey predicted that raw material prices will continue to grow strongly, with the index for expected prices paid rising to the highest level since November 2018.

- **Philadelphia Fed Manufacturing Survey:** Manufacturing activity slowed a bit in February but remained solid overall. The composite index declined from 26.5 in January to 23.1 in February, with decelerated growth for new orders and shipments. At the same time, employment and the average employee workweek both improved, with hiring expanding at the best pace since July 2019. The prices paid for input costs also rose very strongly, increasing at the fastest rate since August 2018.

- Manufacturers in the district remained very positive in their outlook, albeit with the forward-looking composite index dropping from 52.8 to 39.5. More than 49% of business leaders in the region expect new orders to rise over the next six months, with 40.3% and 32.4% predicting more hiring and capital spending, respectively. Survey respondents predicted raw material prices to accelerate at rates not seen since December 2018. In special questions, respondents see prices for their goods and services and labor compensation both rising 3.0% over the next 12 months.

- **Producer Price Index:** Producer prices for final demand goods and services jumped 1.3% in January, the largest monthly gain since the series began in December 2009. Likewise, producer prices for final demand goods rose 1.4% in January, also a record. Energy prices soared 5.1% in January, extending the 4.9% increase in December, and food costs edged up 0.2% for the month. Excluding food and energy, producer prices for final demand goods increased 0.8% in January, and at the same time, producer prices for final demand services rose 1.3% for the month.

- Over the past 12 months, producer prices for final demand goods and services have increased by a seasonally adjusted 1.8% year-over-year, up from 0.8% in December. At the same time, core producer prices have risen 1.9% since

January 2020 (seasonally adjusted), up from 1.1% year-over-year in December and the fastest pace since July 2019.

Manufacturing leaders continue to cite supply chain disruptions, and with that in mind, the jump in raw material prices should not be a surprise. With that said, core inflation remains just shy of 2%, which it has for 19 straight months, suggesting that overall pricing pressures remain largely in check for now. For its part, the Federal Reserve has pursued extraordinary monetary policy measures to help prop up the economy, with little worry about inflation. It remains committed to its stimulative stance for the foreseeable future.

- **Retail Sales:** Consumer spending at retailers soared 5.3% in January, boosted by new stimulus payments enacted at year's end and ending three straight months of declines. Indeed, retail sales weakness in the fourth quarter of 2020 helped lead to passage of additional relief. Excluding gasoline and motor vehicles, retail spending increased 6.1% in January.

- The underlying data strengthened across the board, with the largest increases occurring for department stores (up 23.5%), electronics and appliance stores (up 14.7%), furniture and home furnishings stores (up 12.0%), nonstore retailers (up 11.0%), sporting goods and hobby stores (up 8.0%) and food services and drinking places (up 6.9%), among others.

  Over the past 12 months, retail sales have jumped 7.4%, or 7.6% year-over-year with motor vehicles and parts and gasoline excluded. The bright spots on a year-over-year basis included nonstore retailers (up 28.7%), sporting goods and hobby stores (up 22.5%), building material and garden supply stores (up 19.0%), motor vehicle and parts dealers (up 13.0%), food and beverage stores (up 11.8%) and furniture and home furnishings stores (up 11.7%). At the other end of the spectrum, food services and drinking places (down 16.6%), clothing and accessories stores (down 11.1%), gasoline stations (down 7.8%), electronics and appliance stores (down 3.5%) and department stores (down 3.0%) experienced retail sales declines over the past 12 months, largely on COVID-19-related weaknesses.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 861,000 for the week ending Feb. 13, a four-week high, up from 848,000 units for the week ending Feb. 6. Meanwhile, continuing claims declined from 4,558,000 for the week ending Jan. 30 to 4,494,000 for the week ending Feb. 6. Although this figure represents the lowest level since the week ending March 21, 2020, it is still too high and consistent with 3.2% of the workforce.

- At the same time, 18,340,161 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Jan. 30, down from 19,665,728 for the week ending Jan. 23. The lower figure came largely from reduced state and pandemic assistance.

Take Action

- If you have not already done so, please take a moment to complete the latest NAM Manufacturers� Outlook Survey. This survey will help gauge how manufacturing sentiment has changed since the fourth-quarter survey. In addition, there are special questions on when your company expects to return to pre-COVID-19 revenue levels, tax policy and incentives for workforce development and infrastructure. To complete the survey, click here. Responses are due by Friday, March 5, at 5:00 p.m. EST. As always, all responses are anonymous.

Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.