Economic News
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UNITED STATES

Retail sales and industrial production ended 2015 down, but confidence climbed in January

HIGHLIGHTS

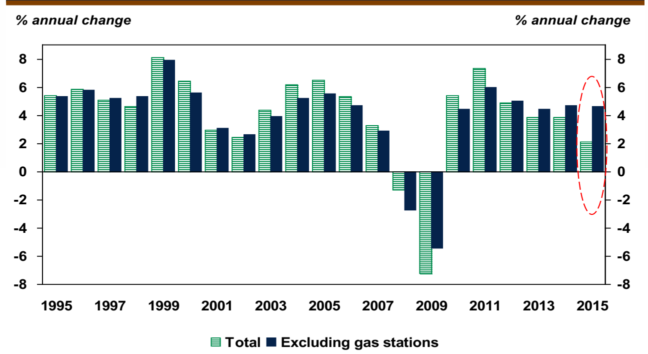
- Retail sales fell 0.1% in December after rising 0.4% (revised from 0.2%) in November. Motor vehicles sales idled. Excluding automobiles, sales are also down by 0.1%. The decrease in sales stems mainly from the falling value of gas station sales. We also note retreats in clothing, groceries, and electronics stores. There were increases in sporting and leisure goods stores, renovation centres and food services. Ex-auto and gas, sales were flat.
- Industrial output pulled back 0.4% in December after falling 0.9% in November (revised from -0.6%). Manufacturing output slipped 0.1%, as in the previous month. Activity in the mining sector shrank 0.8%, while energy production fell 2.0% after dropping 5.0% in November. The industrial capacity utilization rate went from 76.9% to 76.5%.
- Despite recent volatility in financial markets, likely helped by falling gas prices, consumer confidence rose slightly in January. The University of Michigan index went from 92.6 in December to 93.3. The gain stems exclusively from the consumer expectations component.

COMMENTS

The fall in retail sales was expected. However, the causes for the decline were unexpected. The automobile sector performed better than expected, but sales excluding autos and gas were disappointing. The unusually warm temperature no doubt modified people's routines; we see this in the jump in food services and the weakness in clothing stores. For 2015 as a whole, we note that retail sales were fairly weak, with the 2.1% increase representing the slowest advance since 2009. However, falling gas prices distort the results and, excluding this sector, sales rose 4.6% in 2015, a result similar to 2014.

In terms of industrial production, the difficulties it struggled with for a good part of the year were still manifest in December. Added to that is the negative impact of falling energy demand caused by unusually mild weather. Growth in industrial production was only 1.3% in 2015 compared

Falling gas prices make growth in 2015 retail sales look bad



Sources: U.S. Census Bureau and Desjardins, Economic Studies

with 3.7% in 2014. From December to December, we even note a 1.8% decrease in industrial production, significantly impacted by the mining sector (-11.2%) and energy production (-6.9%). While not very vigorous and reined in by the strength of the U.S. dollar, manufacturing still managed to grow 2.0 % on average annually and 0.8% from December to December.

Implications: It seems increasingly clear that real GDP growth was modest in the final quarter of 2015, at barely over 1%. There is still hope that the situation will turn around in the beginning of 2016, a sentiment buoyed by improvement in consumer confidence. Under these circumstance, the Federal Reserve should wait at least until its March meeting to continue the gradual recovery of its key interest rates.

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Note to readers: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.