ECONOMIC NEWS

United States: Retail sales and inflation ramp up while industrial output suffers a setback

HIGHLIGHTS

- Retail sales were up 0.4% in January after ticking up 1.0% in December. Automobile sales slipped 1.4%, but the value of gas station sales advanced 2.3%. Excluding gas and automobiles, sales rose 0.7%. Food services as well as stores that sell recreational items, electronics stores, department stores and clothing boutiques also posted noteworthy gains.
- The consumer price index (CPI) surged 0.6% in January, its strongest monthly increase since February 2013. The increase stems mainly from energy prices, which advanced 4.0%. The core index, which excludes food and energy, was up 0.3%. The annual change in the total CPI rose from 2.1% to 2.5% and core inflation edged up from 2.2% to 2.3%.
- Industrial output declined 0.3% in January after rebounding 0.6% in December. Manufacturing output was up 0.2%. Activity in the mining sector rose by 2.8% while energy production fell 5.7%, after rising 5.1% in December.

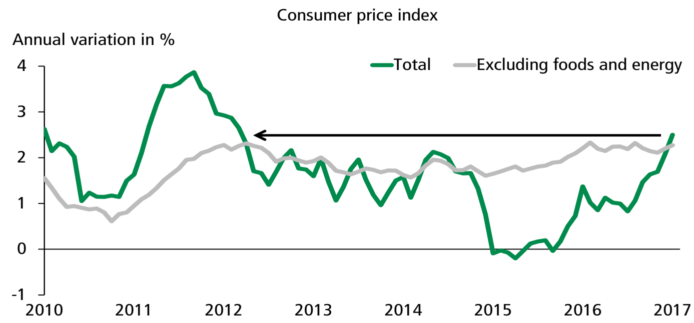
COMMENTS

The news for retail sales is better than expected. Other than the expected drop in automobile sales, a modest uptick in line with the previous months' data was expected.

However, the monthly price increases are eroding part of the increase in retail sales and the real data on consumption might be lower. For example, clothing sales were up 1.0% in January, but the price of clothing jumped by 1.4%; the net real effect could in fact be negative. Overall, the change in the CPI is much higher than expected. The price jump in January pushed up the inflation rate to its highest level since the winter of 2012.

In terms of industrial output, the rebound in the mining sector is encouraging. Moreover, if not for the 2.9% decline in the automobile sector, manufacturing would have posted good growth of 0.5%. What's more, warmer temperature in January is the reason for the pullback in energy production. This decline should be reflected in the personal consumption of services in January, but this will be partially offset by the 1.4% rebound in food services retail sales.

GRAPH
U.S. inflation at its highest since winter 2012



Sources: Bureau of Labor statistics and Desjardins, Economic Studies

IMPLICATIONS

Notwithstanding the production decline at energy suppliers, the data released today argue in favour of the Federal Reserve's leaders to start considering a rate increase at their meeting in March.

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