Comerica Economic Alert

Comerica Bank

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January Retail Sales, Consumer Price Index, Industrial Production

Consumers Undeterred by Higher Prices

- January Retail Sales increased by 0.4 percent, boosted by higher gasoline prices.
- Retail Sales Ex-Autos increased by 0.8 percent in January.
- The Consumer Price Index gained 0.6 percent in December, on higher energy prices.
- Industrial Production in January declined by 0.3 percent as utility output reset.

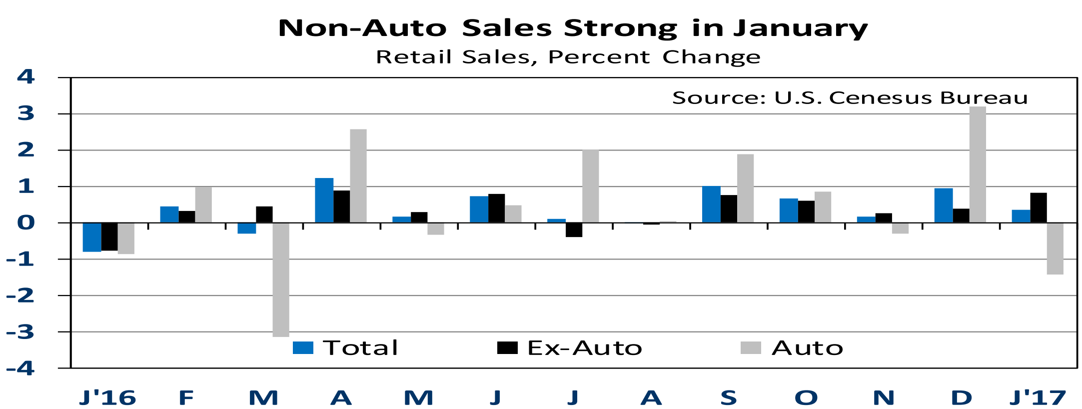
Retail sales for January were stronger than expected and December sales were revised up, showing ongoing strength in most categories of consumer spending. Total retail sales increased by 0.4 percent, boosted by higher gasoline prices, which ramped up sales at service stations by 2.3 percent for the month. Other categories were also strong. Sales at electronics and appliance stores were up by 1.6 percent. Sales at sporting goods stores increased by 1.8 percent. General merchandise stores gained 0.9 percent. Restaurants and bars saw a 1.4 percent increase in January. The exception to the broad-based gains was in autos. Unit auto sales fell in January to a 17.6 million unit pace after hitting a supercharged 18.4 million unit pace in December. January retail sales (dollar value) of autos fell by 1.4 percent. Hiring, wage growth, increasing consumer confidence, higher house prices and a climbing stock market are all positives for consumer spending this spring.

Consumers were busy in January, and they were undeterred by higher prices. The Consumer Price Index increased by 0.6 percent in January, boosted by higher energy prices. Gasoline prices were up by 7.8 percent for the month and by 20.3 percent over the previous 12 months. Residential natural gas prices were also up, gaining 1.5 percent in January and 10.1 percent over the previous year. Other prices were up as well. Core CPI (excluding food and energy) increased by 0.3 percent in January, and is up by 2.3 percent over the past year.

Industrial production fell by 0.3 percent in January, weighed down by a reset in utility output, which has been lurching due to weather. Utility output declined for three consecutive months from September through November of last year due to a warm autumn. December was cold in many areas and utility output jumped by 5.1 percent. January was warm and utility output dropped by 5.7 percent. Manufacturing output was up by 0.2 percent for the second month in a row. Mining output gained 2.8 percent in January reflecting higher rig counts and more oil drilling activity.

The Federal Reserve Bank of New York's Empire State Manufacturing Survey showed good and strengthening conditions in New York and northern New Jersey. The National Association of Homebuilders survey for February fell to 65 from January's 67, still positive but a little less so. Mortgage applications for the week ending February 10 fell for both purchases and refis, not good news for February home sales. Manufacturing and trade inventories gained 0.4 percent in December. This is mostly a backward looking number that factors into Q4 GDP. However, a declining inventory-to-sales ratio through Q4 is good news for 2017.

Market Reaction: Equity markets opened with gains. The 10-year Treasury yield is up to 2.50 percent. NYMEX crude oil is down to $52.94/barrel. Natural gas futures are up to $3.05/mmbtu.



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