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Flash Macro Update (02/14/2019)

Yesterday, after the pretty much in line CPI inflation data, we mentioned that eyes will turn to activity related high frequency data in order to see how US economy is doing. One of the most important high frequency macro data was released today and increased the level of concerns that US economy might be slowing down faster than expected.

Retail sales fell by 1.2% m-o-m in December 2018 compared to the market consensus of 0.1% gain. Such a big difference naturally triggered new woes about the state of US economy. A deeper decline is also recorded in core retail sales.

Although non-farm payroll data was better than expected in January and although retail sales data capture around half of all household purchases and can be volatile, we think that the data is an orange sign hinting that US economy might be slowing down faster than consensus forecasts. Meanwhile, data releases are delayed due to government shut down and quality of the data could be questioned. It is also worth noting that January retail sales data will be released soon.

When we look at the details of the December retail sales data, we observe that there was a decline in almost all sub-categories excluding auto parts and building materials. Moreover, seasonally adjusted online store sales also dropped by around 4% m-o-m in December, which is not good news.

On a separate note, we should highlight that today January PPI data was announced too. Headline PPI inflation posted a 0.1% m-o-m decline compared to expectations of +0.1%, whereas core PPI (ex food/energy) registered a 0.3% increase compared to the consensus of +0.2% in January. With the January data, annual headline PPI inflation materialized at 2.0% that was 2.5% in end-2018 showing that cost pressures are not there, which supports FED’s recent view that it will employ a ‘wait and see’ approach.

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