December Retail Sales is a Mixed Bag, Inflation Tame

Retail sales less impressive than headline suggests
The monthly retail sales report is typically a confusing mix of data and revisions that can be difficult to interpret, and this morning’s report on December retail sales was no exception. At the headline, sales increased in December by +0.3%, matching the median forecast in Bloomberg’s survey as well as November’s +0.3% gain, which was revised up by a tenth. Gains were broad based in December, as 12 of the 13 major categories increased, with only auto sales in decline. The ex autos and gas figure rose +0.5%, a tenth better than expected, although November was revised down from 0% to -0.2%. The control group, which excludes several volatile categories, feeds into GDP calculations, and is generally considered a better gauge of underlying consumer health, also rose +0.5%, but here again November data was revised lower from +0.1% to -0.1%. Netting the two reveals a modest +0.2% average monthly increase.

Interpreting this data gets tricky. By itself, the December data looks pretty good. But downward revisions to November and October detract from that view. The timing of Thanksgiving is likely a factor as Sunday of the Black Friday shopping weekend fell into December, as did Cyber Monday, resulting in a weaker November and a stronger December. Taking a longer view, on a year-over-year basis, December sales were up +5.8%, which sounds great until you consider that sales in December 2018 were quite weak, falling -2.0% that month, hindered by a government shutdown and stock market declines.

One way to filter out some of the noise is to look at the control group and compare the third quarter versus the fourth quarter. That tells us that consumer spending slowed in the final quarter of 2019.

Inflation tame
Inflation readings remain subdued. An increase in gasoline prices fueled a +1.4% month-over-month gain in energy prices, but even that was only enough to pump up the consumer price index by +0.2%, a tenth less than forecast and a tenth less than November’s +0.3%. Ex food and energy, the core CPI rose just +0.1% in December. The year-over-year headline CPI did increase from +2.1% in November to +2.3% in December, but the core held steady at +2.3% and the more recent three-month annualized trend for core CPI is running at +2.0%. Producer prices are even tamer with both the headline and the ex food and energy readings gaining +0.1% on the month, a tenth less than forecasts. On a year-over-year basis, headline PPI is up +1.3% while core PPI is up just +1.1%. The tame readings on PPI and CPI suggest that the Fed’s preferred core PCE measure will remain around +1.6% or +1.7%, still well below their stated 2% objective. These reports are likely to reinforce expectations that the Fed will remain on hold for some time, but it might also foster speculation that the Fed should cut further in order to boost inflation.

Please see disclosure on page 2.
Stocks extend gains as trade deal is signed
In a ceremony yesterday, President Trump and Chinese Vice Premier Liu He signed the long awaited and much ballyhooed phase one trade agreement. We won’t cover the details here but it is important to recognize two things. One, the deal should act as a cease fire, halting the escalation of hostilities and additional tariffs. That should remove a degree of uncertainty and help business confidence. Two, most of the previously imposed tariffs remain in effect, so the pain doesn’t all go away. Nonetheless, the agreement is certainly a positive development.

Bond yields continue to fluctuate within their recent ranges while U.S. equity markets extend their ascent to record highs.

Market Indications as of 12:05 P.M. Central Time
DOW Up 166 to 29,196 (New record high)
NASDAQ Up 59 to 9,318 (New record high)
S&P 500 Up 18 to 3,308 (New record high)
1-Yr T-bill current yield 1.54%; opening yield 1.54%
2-Yr T-note current yield 1.57%; opening yield 1.55%
5-Yr T-note current yield 1.63%; opening yield 1.60%
10-Yr T-note current yield 1.81%; opening yield 1.78%
30-Yr T-bond current yield 2.27%; opening yield 2.24%