If you're having trouble reading this, click here.

MONDAY ECONOMIC REPORT

Opening Their Pocketbooks: Retail Spending Jumped 3.8% in January

By Chad Moutray – Feb. 22, 2022

The Weekly Toplines

- Retail sales jumped 3.8% in January, rebounding from the 2.5% decline seen in December. This result suggests that Americans once again opened their pocketbooks more willingly at the start of the new year after pulling back at year's end. Retail spending soared 13.0% over the past 12 months, consistent with the opening of the economy and with consumers who have been flush with cash.

- The solid growth in retail sales stands in contrast to falling consumer sentiment data, with Americans increasingly more worried about inflation. Manufacturers also continue to cite soaring raw material costs and supply chain disruptions as their top challenges.

- Producer prices for final demand goods and services rose 1.0% in January, the strongest monthly increase since May. At the same time, producer prices for final demand goods increased 1.3% in January, a four-month high.

- Over the past 12 months, producer prices for final demand goods and services jumped 9.8% (seasonally adjusted), pulling back from 10.0% in December, which was the largest increase on record for a series dating to November 2009. At the same time, core producer prices increased 6.9% year-over-year in January, edging down from a record 7.0% in December.

- Manufacturing surveys from the New York and Philadelphia Federal Reserve Banks moved in different directions in February. The Empire State Manufacturing Survey rebounded somewhat from a January contraction, whereas the Philly Fed's report cited slower conditions for the month. Input and output prices remained very elevated, particularly in the New York Fed district. Respondents remained upbeat in their outlook, however.

- Manufacturing production rose 0.2% in January, rebounding slightly after edging down 0.1% in December. Speaking to the softness of the latest data, manufacturers have been challenged by supply chain bottlenecks, workforce shortages, rising production costs and, more recently, the spread of the omicron variant.

- Nonetheless, manufacturing capacity utilization inched up from 77.2% in December to 77.3% in January, matching the rate seen in November, which was the strongest reading since December 2018. Overall, manufacturing production has risen 2.5% year-over-year, with 2.0% growth relative to February 2020's pre-pandemic pace.

- Meanwhile, total industrial production increased 1.4% in January, rising to the highest level since December 2018, buoyed by strong gains in the mining and utilities sectors for the month.

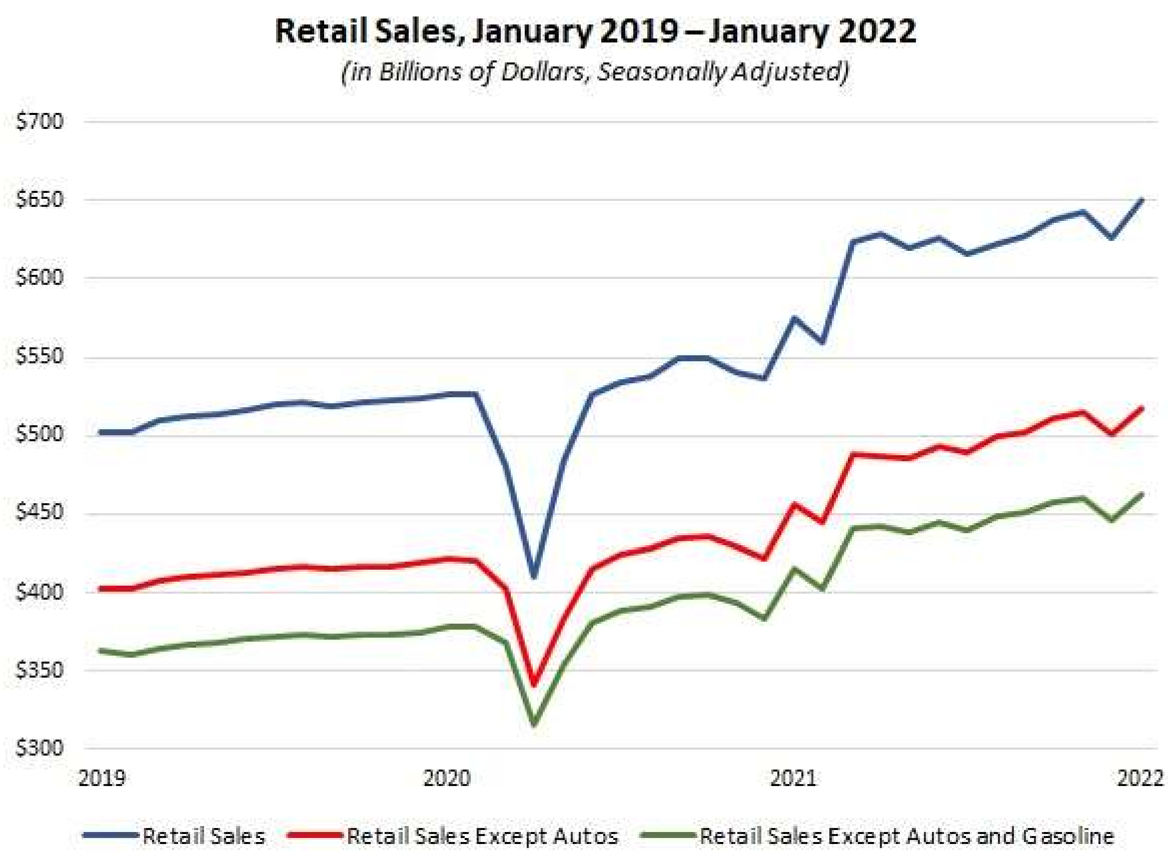
- New residential construction activity fell 4.1% to 1,638,000 units in January, a three-month low. Housing construction has been challenged by rising building costs, affordability issues and difficulties in finding workers. Housing starts have risen just 0.8% year-over-year.

- With that said, builders remained optimistic about the coming months. They expect solid sales growth over the next six months despite ongoing concerns, even with a slight easing in the latest NAHB Housing Market Index.

- Along those lines, housing permits increased 0.7% to an annualized 1,899,000 units in January, the fastest pace since May 2006. Single-family permits rose 6.8% to 1,205,000 units, a 12-month high. On a year-over-year basis, multifamily permits have soared 12.8%, but single-family permits have decreased 5.0% since January 2021.

- Existing home sales jumped 6.7% to 6.50 units at the annual rate in January, a 12-month high, according to the National Association of Realtors. Lawrence Yun, the NAR chief economist, noted, “Buyers were likely anticipating further rate increases and locking-in at the low rates, and investors added to overall demand with all-cash offers.”

- At the same time, existing homes on the market in January translated to just 1.6 months of unsold inventory, which was a record low. The median sales price for existing homes jumped by a very robust 15.4% year-over-year.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Feb. 14
None

Tuesday, Feb. 15
New York Fed Manufacturing Survey
Producer Price Index

Wednesday, Feb. 16
Industrial Production
NAHB Housing Market Index
Retail Sales

Thursday, Feb. 17
Housing Starts and Permits
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, Feb. 18
Conference Board Leading Indicators
Existing Home Sales

This Week's Indicators:

Monday, Feb. 21
PRESIDENTS' DAY HOLIDAY

Tuesday, Feb. 22
Conference Board Consumer Confidence
IHS Markit Flash U.S. Manufacturing PMI
Richmond Fed Manufacturing Survey

Wednesday, Feb. 23
None

Thursday, Feb. 24
Chicago Fed National Activity Index
Gross Domestic Product (Revision)
Kansas City Fed Manufacturing Survey
New Home Sales
Weekly Initial Unemployment Claims

Friday, Feb. 25
Durable Goods Orders and Shipments
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)

Deeper Dive

- **Conference Board Leading Indicators:** The Leading Economic Index decreased 0.3% in January, pulling back after increasing 0.7% in December and the first decline since April 2020. Over the past six months, the LEI has risen 2.6%, with the U.S. economy rebounding modestly despite lingering challenges. New orders in the manufacturing sector helped buoy the headline index in January, and other positive contributors included the building permits, interest rate spread and lending conditions. Nonetheless, the LEI fell lower due to weaker data for the average employee workweek, consumer confidence, initial unemployment claims and stock prices.

  Meanwhile, the Coincident Economic Index rose 0.5% in January, increasing for the fourth straight month. All four components of the CEI—industrial production, manufacturing and trade sales, nonfarm payrolls and personal income less transfer payments—made positive contributions in the latest data. The CEI has increased a very modest 1.4% over the past six months.

- **Existing Home Sales:** Existing home sales jumped 6.7% from 6.09 million units at the annual rate in December to 6.50 units in January, a 12-month high, according to the National Association of Realtors. Supply chain challenges, the lack of inventory and affordability have been issues for the existing home sales market. Yet, Lawrence Yun, the NAR chief economist, noted, "Buyers were likely anticipating further rate increases and locking-in at the low rates, and investors added to overall demand with all-cash offers."

  In January, single-family sales increased 6.5% from 5.41 million units to 5.76 million units, the best reading in one year. Similarly, condominium and co-op sales soared 8.8% from 680,000 units to 740,000 units. Given that each of these figures is being compared to a strong January 2021, existing home sales were off 2.3% year-over-year, down from 6.65 million units.

  Existing homes on the market in January translated to just 1.6 months of unsold inventory, which was a record low. The median sales price declined from $354,600 in December to $350,300 in January. More important, the median sales price for existing homes jumped by a very robust 15.4% year-over-year.

- **Housing Starts and Permits:** New residential construction activity fell 4.1% from 1,708,000 units at the annual rate in December to 1,638,000 units in January, a three-month low. Housing construction has been challenged by rising building costs, affordability issues and difficulties in finding workers. Single-family housing starts declined 5.6% from 1,182,000 units to 1,116,000 units. At the same time, multifamily construction activity pulled back 0.8% for the month, down from 526,000 units to 522,000 units.

  On a year-over-year basis, new residential construction has risen just 0.8%, driven by the volatile multifamily segment, which has increased 8.3% since January 2021. Single-family housing starts have declined 2.4% over the past 12 months, speaking to the challenges described above.

  Overall, builders remained optimistic about the coming months. They expect solid sales growth over the next six months despite ongoing concerns, even with a slight easing in the latest NAHB Housing Market Index. (See below.) Along those lines, housing permits increased 0.7% from an annualized 1,885,000 units in December to 1,899,000 units in January, the fastest pace since May 2006. These data suggest that housing construction should improve over the coming months.

Single-family permits rose 6.8% from 1,128,000 units to 1,205,000 units, a 12-month high. However, multifamily activity dropped 8.3% from 757,000 units to 694,000 units, a 3-month low. On a year-over-year basis, multifamily permits have soared 12.8%, but single-family permits have decreased 5.0%.

- **Industrial Production:** Manufacturing production rose 0.2% in January, rebounding slightly after edging down 0.1% in December. Durable and nondurable goods both rose 0.2% for the month. Speaking to the softness of the latest data, manufacturers have been challenged by supply chain bottlenecks, workforce shortages, rising production costs and, more recently, the spread of the omicron variant. Nonetheless, manufacturing capacity utilization inched up from 77.2% in December to 77.3% in January, matching the rate seen in November, which was the strongest reading since December 2018. Overall, manufacturing production has risen 2.5% year-over-year, with 2.0% growth relative to February 2020's pre-pandemic pace.

  The underlying manufacturing data provided mixed results. Sectors with the largest increases in January included textiles and product mills (up 1.4%), miscellaneous durable goods (up 1.4%), machinery (up 1.1%), aerospace and miscellaneous transportation equipment (up 0.9%) and food, beverage and tobacco products (up 0.9%), among others. At the same time, the biggest declines in output for the month occurred in petroleum and coal products (down 1.5%), printing and related support activities (down 1.4%), motor vehicles and parts (down 0.9%), nonmetallic mineral products (down 0.7%) and apparel and leather goods (down 0.6%).

  The chip shortage has challenged the motor vehicles and parts sector significantly over the past 12 months. Output had rebounded 11.2% and 1.7% in October and November, respectively, before declining 0.4% and 0.9% in December and January. Since January 2021, motor vehicles and parts production has declined 6.2%.

  Ten (or half) of the major manufacturing sectors have experienced increased production since February 2020. These increases included sizable gains in output post-pandemic in aerospace and miscellaneous transportation equipment (up 13.1%), computer and electronic products (up 8.5%), miscellaneous durable goods (up 7.2%), chemicals (up 7.1%) and machinery (up 7.0%), among others.

  Meanwhile, total industrial production increased 1.4% in January, bouncing back from the 0.1% decline seen in December. The industrial production index reached its highest level since December 2018. Mining and utilities production rose 1.0% and 9.9% in January, respectively, with the latter benefiting from cold weather conditions. On a year-over-year basis, industrial production has increased 4.1%, with mining and utilities output up 8.2% and 9.3% over the past 12 months. Total capacity utilization jumped from 76.6% in December to 77.6% in January, the best reading since May 2019.

- **NAHB Housing Market Index:** The Housing Market Index edged down from 83 in January to 82 in February, a four-month low, according to the National Association of Home Builders and Wells Fargo. With that said, the index for current single-family homes inched up from 89 in January to 90 in February, a very solid reading, with the index for expected single-family sales declining from 82 to 80.

  Several significant challenges continued for builders, including higher building costs and worker shortages. For potential buyers, affordability has become a major issue. Specific to this report, builders noted significant delivery delays that are raising costs and "pricing prospective buyers out of the market." The release adds, "Residential construction costs are up 21% on a year over year basis." Even with these challenges, it is important to remember that builders remain upbeat in their assessments of the housing market, and demand remains strong.

- **New York Fed Manufacturing Survey:** After contracting in January for the first time since June 2020, activity rebounded slightly in February, according to the Empire State Manufacturing Survey. The composite index rose from -0.7 in January to 3.1 in February. New orders, shipments, inventories, employment and the average employee workweek improved somewhat. To be fair, activity remains well below the pace seen last year, with the headline index averaging 23.3 in 2021. The index for delivery times flattened, although it remained very lengthy, consistent with supply chain woes. Product prices soared at the fastest rate in the survey's history, which dates to July 2001. Input costs also expanded at very elevated rates, not far from the record pace seen in May 2021.

  Manufacturers in the region remained upbeat about growth over the next six months, albeit with the forward-looking composite index declining from 35.1 in January to 28.2 in February, the lowest reading since April 2020. Respondents continued to be positive in their expectations for new orders, shipments, hiring and capital spending growth moving forward. In addition, respondents noted that they anticipate raw material prices will rise at a highly accelerated pace, despite the forward-looking index pulling back from January's record rate.

- **Philadelphia Fed Manufacturing Survey:** The Philadelphia Federal Reserve Bank's composite index of general business conditions declined from 23.2 in January to 16.0 in February, signaling softer manufacturing expansion activity. Growth in new orders and shipments eased in February, but employment and the average employee workweek strengthened. Raw material costs decelerated somewhat but remained highly elevated. In special questions, respondents predict that prices will rise 5.0% at the annual rate over the coming year, with consumer prices and overall compensation, including wages and benefits, also increasing 5.0%. Over the next decade, manufacturing leaders forecast 3.0% growth in consumer prices.

  Meanwhile, the forward-looking composite index edged down from 28.7 in January to 28.1 in February. More than 52% of respondents expect shipments to rise over the coming six months. However, just 36.2% anticipate more new orders, and 50.8% forecast flat sales. Hiring growth is expected to remain solid moving forward, and the expansion of input costs should decelerate but continue to grow strongly.

- **Producer Price Index:** Producer prices for final demand goods and services rose 1.0% in January, accelerating from the 0.4% gain seen in December and the strongest monthly increase since May. At the same time, producer prices for final demand goods increased 1.3% in January, rebounding after edging down 0.1% in December and a four-month high. In January, food and energy costs jumped 1.6% and 2.5%, respectively, with 12.9% and 29.4% growth year-over-year. Excluding food and energy, producer prices for final demand goods increased 0.8% in January, up from 0.4% in December. Meanwhile, producer prices for final demand services rose 0.7% in January, matching the pace seen in December.

  Over the past 12 months, producer prices for final demand goods and services jumped 9.8% (seasonally adjusted), pulling back from 10.0% in December, which was the largest increase on record for a series dating to November 2009. (The non-seasonally adjusted figure was 9.7%.) At the same time, core producer prices increased 6.9% year-over-year in January, edging down from a record 7.0% in

December. Manufacturers continue to cite soaring raw material costs and supply chain disruptions as their top challenges, with the rapid acceleration in prices in this data over the past year helping to explain why.

These data provide mixed messages on the inflation front. On the one hand, the January data reflect very rapid growth in producer prices, suggesting that the expected easing in input costs has yet to materialize. On the other hand, the year-over-year pace has likely peaked, even as the current rate remains just shy of all-time records.

The data should stabilize over the course of this year, especially once bottlenecks start to abate. A more favorable base comparison in 2022 will also help. Yet, industry experts predict that raw material prices will increase beyond the levels that businesses have become accustomed to in recent years. Also, core producer inflation will rise around 3.0% year-over-year by the end of 2022.

These data will put continued pressure on the Federal Reserve to tackle inflation. The Federal Open Market Committee has already said that it will end all asset purchases by early March, and it will likely start reducing its balance sheet over the summer. In addition, the FOMC will almost certainly increase short-term rates at its March 15–16 meeting, perhaps by 50 basis points (but at least by 25 basis points).

- **Retail Sales:** Retail sales jumped 3.8% in January, rebounding from the 2.5% decline seen in December. This result suggests that Americans once again opened their pocketbooks more willingly at the start of the new year after pulling back at year's end. Motor vehicle and parts sales at dealers soared 5.7%, which is encouraging news for a segment that has been challenged by supply chain issues and the chip shortage over the past year. Excluding motor vehicles and parts and gasoline stations, retail sales rose 3.8%, suggesting broad-based strength outside of autos.

  The year-over-year comparisons were largely favorable, consistent with the opening of the economy and with consumers who have been flush with cash. Indeed, retail spending has soared 13.0% over the past 12 months, or 11.4% with gasoline stations and motor vehicles and parts sales excluded.

  In addition to motor vehicles, the largest increases in retail spending in January occurred for nonstore retailers (up 14.5%), department stores (up 9.2%), furniture and home furnishings stores (up 7.2%), building material and garden supply stores (up 4.1%), electronics and appliance stores (up 1.9%) and grocery stores (up 1.2%), among others. At the other end of the spectrum, retail sales declined for sporting goods and hobby stores (down 3.0%), gasoline stations (down 1.3%), health and personal care stores (down 0.7%) and miscellaneous store retailers (down 0.1%). Nonstore retail sales rose to a new record ($94.3 billion), but department store spending also strengthened, reaching a three-month high ($11.9 billion).

  On a year-over-year basis, the greatest gains in sales since January 2021 occurred at gasoline stations (up 33.4%), food services and drinking places (up 27.0%), clothing and accessories stores (up 21.9%), miscellaneous store retailers (up 15.3%), building material and garden supply stores (up 12.2%), department stores (up 11.5%) and motor vehicle and parts dealers (up 11.3%).

- **Weekly Initial Unemployment Claims:** The week ending Feb. 12 saw 248,000 initial unemployment claims, a three-week high, rising from 225,000 for the week ending Feb. 5. At the same time, the week ending Feb. 5 saw 1,593,000 continuing claims, down from 1,619,000 for the week ending Jan. 29 and a five-week low. Despite mixed news in the latest figures, these data continue to reflect a labor market that has improved significantly over the course of the past year.

Take Action

- If you have not already done so, please take a moment to complete the latest NAM Manufacturers' Outlook Survey. This survey will help gauge how manufacturing sentiment has changed since the fourth-quarter survey. In addition, this survey includes some special questions on supply chain disruptions, price increases, incentives to move production to the U.S., tax policy and workforce shortages. To complete the survey, click here. Responses are due by Friday, Feb. 25, at 5:00 p.m. EST. As always, all responses are anonymous.

Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.