

February 2019 Retail Sales, ISM-MF Index, Jan. Construction Spending

Consumer Caution Crimped Q1 GDP

- Retail Sales decreased by 0.2 percent in February and are up 2.2 percent over the previous year.
- The ISM Manufacturing Index improved to 55.3 in March.
- Construction Spending increased by 1.0 percent in February.

Retail sales registered their fourth decline in the last seven months, dipping by 0.2 percent in February. The drop in headline sales came despite increased gasoline prices and stable unit auto sales. Building materials sales were a big weight on the headline number, dropping by 4.4 percent in February. Gasoline station sales increased by 1.0 percent in February as the price for unleaded regular gasoline increased by 1.7 percent. February saw the first monthly price gain for gasoline since October. Motor vehicle and parts sales increased by 0.7 percent as unit auto sales were essentially unchanged in February at a 16.6 million unit annual rate. Food and beverage sales fell by 1.2 percent in February. Over the previous 12 months, headline retail sales were up by 2.2 percent, a little ahead of the Consumer Price Index which gained 1.5 percent over the year. Retail spending is a complex story right now. Consumers are enjoying low unemployment, increasing wages and higher house prices with low mortgage rates. Even though most consumer fundamentals are favorable, there are some important negatives. One is demographics. As the population ages, more people are either saving for retirement or living on fixed incomes. Younger people may be saddled by a lot of student debt. We expect reserved consumer spending in Q1 to be a key feature of a weak-to-moderate GDP growth story for the quarter. The personal saving rate, which we could call the non-spending rate, has remained higher in this expansion cycle than in the previous one. In December, the personal saving rate increased to 7.7 percent and remained high at 7.5 percent in January. The government shutdown from late December through January is also a part of the cautious consumer spending story.

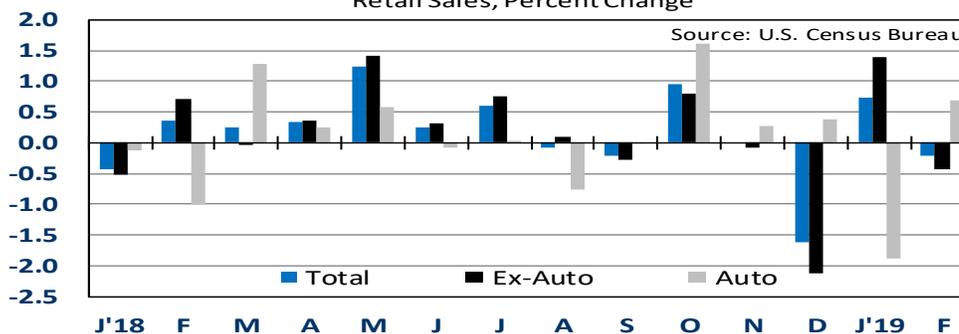
The ISM Manufacturing Index for March increased to 55.3, from February's 54.2. Anything above 50 represents improving conditions. So, 55.3 is a solid reading for the U.S. manufacturing index. Nine out of ten sub-indexes were above 50, including new orders, production and employment. Sixteen out of 18 industries said conditions improved in March. Apparel and paper products reported contraction. Anecdotal comments were positive, indicative of improving business confidence. There was an interesting comment from a wood products company that talked about a backlog in home construction due to winter weather, which they expect to lead to a surge in business later this spring.

Total construction spending increased by 1.0 percent in February, driven by strong public construction activity. Public projects increased by 3.6 percent for the month, with a 9.5 percent increase in highway and street spending. Private nonresidential construction spending dipped by 0.5 percent. Private residential construction spending increased by 0.7 percent in February even as spending on new home construction increased.

Market Reaction: Equity markets opened with gains. The 10-year Treasury yield is up to 2.48 percent. NYMEX crude oil is up to \$60.95/barrel. Natural gas futures are up to \$2.71/mmbtu.

Consumers Have Been Cautious

Retail Sales, Percent Change



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