

U.S. Retail Sales, Consumer Prices— January March Is Looking More Interesting

Jennifer Lee, Senior Economist • jennifer.lee@bmo.com • 416-359-4092

No, you're not out of your head, or out of your mind.....I will try to explain it, but what can I say...it's complicated.....

Actually, it's not that complicated. The U.S. economy has quite a bit of momentum as the year began. This morning's trio of economic reports adds a little more impetus for the Fed to move this quarter. Still not our call but it is becoming all very interesting . . .



1) U.S. retail sales nice!

Headline rose for the 5th consecutive month, with January's 0.4% lifting sales up 5.6% above year-ago levels, the most since March 2012.

Revisions can go both ways but this time, they were upward....December's 0.6% gain was revised to +1.0%, which could push Q4 GDP up over 2% a.r. (currently estimated at +1.9%).

By sector, the gains were broad-based (a couple of flat readings). Only the auto sector saw a pullback, which is in line with what we've seen for unit sales. Excluding autos, sales were up bigly.....+0.85, the most since April.

Core sales (which subtract autos and gas and building materials) were up 0.4% again, or 4% above a year earlier. This is one of three months for the quarter but we are off to a good start, and supports our forecast of ~3% annualized growth in real consumer spending for Q1.

Retail Sales					
United States (m/m % chng)	(% chng : a.r.)				
	Jan	Dec	Nov	3-mo.	12-mo.
Retail Sales	0.4	1.0	0.2	6.0	5.6
Ex. Autos	0.8	0.4	0.3	6.0	5.3
Ex. Gasoline	0.2	0.8	0.2	4.6	4.9
Ex. Autos, Gas	0.7	0.1	0.3	4.2	4.4
Ex. Auto Dlr., Gas, Bldg Mat'ls	0.6	0.1	0.2	3.8	4.3
Building Materials	0.3	1.2	0.6	8.8	3.8
Furniture	0.0	-0.9	-0.5	-5.5	1.2
Autos	-1.4	3.2	-0.3	5.8	6.8
General Merchandise	0.9	-0.4	0.4	3.8	0.4
Department Stores	1.2	-0.6	0.1	2.9	-3.2
Food Stores	0.2	0.2	-0.2	0.7	2.0
Apparel	1.0	0.1	0.2	5.3	2.5
Gasoline	2.3	3.2	0.0	24.5	14.2
Restaurants	1.4	-1.1	1.2	5.8	5.6
Drug Stores	0.7	0.6	0.5	7.2	8.5
E-commerce, Mail Order, Fuel	0.0	1.9	0.3	9.0	12.0

2) U.S. consumer pricesheating up!

Stronger economic growth is putting pressure on inflation....even with an "excessively overvalued" currency. Go figure.

Headline CPI rose 0.6%, above expected and alluded to by yesterday's PPI report. That is the largest jump in four years (or since February 2013).

Higher energy costs added to the headline but it wasn't just gas. Apparel costs jumped 1.4%, the biggest increase since February 2009!

Food costs remained very mild, up just 0.1% but that is the first increase since last April.

Core prices grew 0.3%, largest since August. From a year ago, that's up 2.3%, the 15th consecutive month above 2%, the most since August and at the top of the recent range.

3) Empire State Manufacturing.....doing just fine, thank you very much

The index surged 12.2 pts to 18.7, the largest increase in nine months and the highest level since September 2014.

On an ISM-adjusted basis.....that comes in at 54.4, highest since July 2014.

This is one region only and this is only the first reading for January.....but that is a solid start! Let's see how the other areas play out.

General Disclosure

"BMO Capital Markets" is a trade name used by the BMO Financial Group for the wholesale banking businesses of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Dissemination of Research

Our publications are disseminated via email and may also be available via our web site <http://economics.bmocapitalmarkets.com>. Please contact your BMO Financial Group Representative for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., Member FDIC. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets. BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A, BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Inc., used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

™ Trademark Bank of Montreal in the United States and Canada.

© COPYRIGHT 2017 BMO CAPITAL MARKETS CORP.

A member of BMO Financial Group