

January Data Get Hot

Markets have been volatile, with reports convincing many that the Fed is done hiking rates. But this week, we get data that may change some minds. Why? Because the economic reports for January are likely to come in hot, with inflation, retail sales, industrial production, and housing starts all potentially coming in at the fastest pace in months.

A hot inflation report for January might be a surprise to some investors, but it really shouldn't be. The M2 measure of the money supply surged more than 40% in the two years ending in February 2022 and part of that surge is still generating extra inflation.

Analysts have been touting a 1.8% annualized rate of increase in consumer prices during the last three months of 2022, but these numbers were revised, now showing that the CPI climbed at a 3.3% annual rate in the fourth quarter. "Core" inflation, which excludes volatile food and energy prices, were previously reported as up at a relatively moderate 3.1% rate in the last three months of the year; now that's been revised up to a 4.3% pace.

In other words, the recent trend in inflation hasn't been as soft as some have been saying. And now, the consensus (and First Trust) expects a 0.5% increase in January. Some of this is energy, but "core" should also increase at a faster pace than many expected last year.

Retail sales should also be strong in January, for multiple reasons. First, January was unusually warm, which made it easier for consumers to be out and about. Second, auto sales were very high because of a temporary spike in fleet sales to

rental companies, which are counted in retail sales. Third, cost-of-living adjustments for Social Security happen in January and were very large this year because of high inflation in 2021-22. And last, massive government payments during COVID look like they've messed up the normal Christmas seasonal pattern in retail spending, with relatively less spending in December, in turn making January look better by comparison.

We also believe housing starts will come in above consensus expectations in January, due to unusually warm January weather. It's just easier to break ground on new housing projects when it's warm out; in a very cold winter month, builders like to focus more on completing homes that are already close to finished. In addition, the sticker shock of higher interest rates is wearing off.

Industrial production could turn out to be an outlier. Warm January weather means households didn't have to fire up their furnaces as much, which means utility output almost certainly plummeted for the month. However, the relative warmth also means manufacturers lost less time due to weather and so factory output should be strong. That, plus a gain in mining should boost overall industrial production for the month.

Put all these reports together and we have an economic stew that signals that a "data sensitive" Federal Reserve isn't done hiking rates. In turn, the markets need to recalibrate expected rate hikes upward and this could cause some indigestion. Some see the recent rally in stocks as part of a bull market; we still think it's a bear market rally and likely to fade.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-14 / 7:30 am	CPI – Jan	+0.5%	+0.5%		-0.1%
7:30 am	"Core" CPI – Jan	+0.4%	+0.4%		+0.3%
2-15 / 7:30 am	Retail Sales – Jan	+2.0%	+2.3%		-1.1%
7:30 am	Retail Sales Ex-Auto – Jan	+0.8%	+1.0%		-1.1%
7:30 am	Empire State Mfg Survey – Feb	-18.0	-13.6		-32.9
8:15 am	Industrial Production – Jan	+0.5%	+0.3%		-0.7%
8:15 am	Capacity Utilization – Jan	79.1%	79.0%		78.8%
9:00 am	Business Inventories – Dec	+0.3%	+0.3%		+0.4%
2-16 / 7:30 am	Initial Claims – Feb 11	200K	195K		196K
7:30 am	PPI – Jan	+0.4%	+0.4%		-0.5%
7:30 am	"Core" PPI – Jan	+0.3%	+0.3%		+0.1%
7:30 am	Housing Starts – Jan	1.358 Mil	1.391 Mil		1.382 Mil
7:30 am	Philly Fed Survey – Feb	-7.5	-9.8		-8.9
2-17 / 7:30 am	Import Prices – Jan	-0.1%	-0.2%		+0.4%
7:30 am	Export Prices – Jan	-0.2%	0.0%		-2.6%