HIGHLIGHTS

- After rising 0.2% in August, retail sales slipped 0.1% in September.
- Auto sales dropped 2.2% while gas station sales held steady. Excluding autos and gas, sales are up 0.4%. Aside from automobiles, sales dwindled for both department and clothing stores. Electronics stores, grocery stores and food services all recorded strong monthly gains.
- According to the Conference Board survey, consumer confidence dropped in October. The 9.0 points lost drove the index from 80.2 to 71.2, the lowest level since April.
- The S&P/Case-Shiller index of existing home prices in the 20 major cities edged up 0.9% in August, picking up pace after 0.6% growth in July. The index’s annual change went from 12.3% to 12.8%.

COMMENTS

The 0.1% slide in retail sales is smaller than anticipated. While it has been clear since the last publication of new auto sales in September that the auto sector would have a serious negative impact on total monthly sales growth, it was less damaging than expected. The performance of most other sectors is encouraging, if not exciting. Sales of electronic goods have, for the first time since summer 2011, risen two months in a row. Over the third quarter, retail sales growth suggests annualized growth in real consumption of goods will be similar to the 4.6% posted in the spring.

Home prices continue to rise sharply even if August saw other housing market indicators retreat in light of rising mortgage rates. Since the market bottomed out in January 2012, the S&P/Case-Shiller index has advanced 17.3%.

The drop in consumer confidence is not surprising, even though it is sharper than the consensus forecast. Other indicators of household sentiment show that the budget impasse had a significant adverse effect. While the drop in the Conference Board index wiped out the gains made in the spring and summer, it has not revisited the very low levels posted in 2011. Even the consumer expectations component, which had the steepest dive in October, only fell to its lowest level since March. The resolution of the political conflict over the budget suggests stronger confidence for November. However, if the level remains low, household purchases could be relatively disappointing for the coming holiday season.

Implications: Excluding autos, retail sales growth is encouraging, but the deterioration of consumer confidence in October does not bode well for the coming monthly results. Fortunately, households are comforted by the housing market’s continued improvement.

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Sources: Conference Board and Desjardins, Economic Studies

Note to readers: The letters k, m and b are used in texts and tables to refer to thousands, millions and billions respectively.

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