HIGHLIGHTS

• Retail sales ticked up 0.4% in October after stagnating in September. Automobile sales were up 1.3% while service station sales declined by 0.6%. Excluding automobiles and gas, sales growth reached 0.3% for a second consecutive month. Other than automobiles, sales in clothing and electronics stores also recorded sound advances.

• The consumer price index (CPI) dipped by 0.1% in October, the first pullback since April 2013. This decline was fuelled in large part by the drop in gas prices. For the third straight month, the core index, which excludes energy and food, edged up by only 0.1%. The annual change in the total CPI total shifted from 1.2% to 1.0%. Core inflation stayed put at 1.7%.

• Existing home sales declined by 3.2% in October on the heels of a 1.9% decline in September, with the number of units sold slipping from 5,290,000 to 5,120,000, annualized.

COMMENTS

Advances in retail sales in October were better than expected. The difference in expectations stems mainly from the uptick in automobiles sales, while the figures released earlier in the month pointed to a decline in the number of new automobiles sold. And since the CPI on new automobile sales was also down (-0.1%), the variance cannot be explained by the price effect. Worth noting is the relatively good performance of sales excluding automobiles and gas, which advanced by 0.3%. Given the dent in consumer confidence caused by last month’s budget impasse, this advance shows that consumption is fairly resilient.

The drop in energy prices was quite predictable, as gas prices were on a slide throughout the month of October. However, this only highlighted the weakness of the CPI, which excludes energy and food, especially in terms of goods where the quarterly annualized change was the weakest in a year, at -1.0%. In addition to new automobiles, clothing prices were down as well.

The decline in existing home sales was expected, given the decrease in pending sales in recent months. Still, this is the weakest level of sales since June. The drop is mainly in the sale of single family homes (-4.1%), while sales of multiple unit dwellings were up by 3.3%. Unfortunately, the market for single family homes is a better indicator of the current trend in the wider housing market than condos, where the swings are much greater. Housing still seems to be reacting to the mortgage rate hikes of last summer.

Implications: While not staggering, retail sales posted good growth in October, especially if we consider the drop in consumer confidence that occurred during the month. With the holidays just around the corner, this resilience is encouraging. Since consumer prices are not under any real pressure, the Federal Reserve will be able to wait before it announces any tapering of its asset purchases.

Francis Généreux
Senior Economist