



UNITED STATES

Retreat in retail sales disappoints in June

HIGHLIGHTS

- Retail sales fell 0.3% in June after gaining 1.0% in May (revised from 1.2%). Auto sales contracted by 1.1% after strong 1.8% growth in May. Excluding automobiles, sales were down 0.1%.
- Aside from autos, almost all retail categories posted a decrease in sales. The worst pullbacks were in clothing stores, renovation centres and furniture stores.
- The only notable increases were in electronics stores and general merchandise stores (departments stores were down, however). Gas stations saw the value of their sales rise 0.8%. Excluding autos and gas, sales were down 0.2% following a 0.5% increase in May.

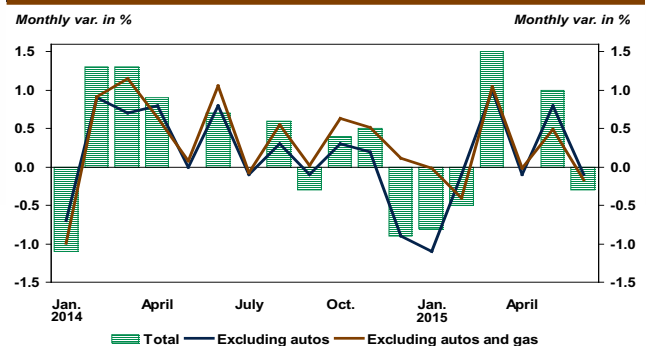
COMMENTS

June's retail sales were like a cold shower. The consensus had been calling for a modest 0.3% increase given the hit that was possible from the automobile sector. However, no forecasters polled by Bloomberg were worried about a contraction in sales excluding autos, and the forecasted median was 0.5%. Sales therefore continued the seesaw movement they've been on since the end of winter.

What most worries about June's retail sales is the extent of the decreases. Over half of the main components recorded a drop. Even sectors posting positive trends experienced difficulty in June, particularly furniture stores, groceries, food services and nonstore retailers.

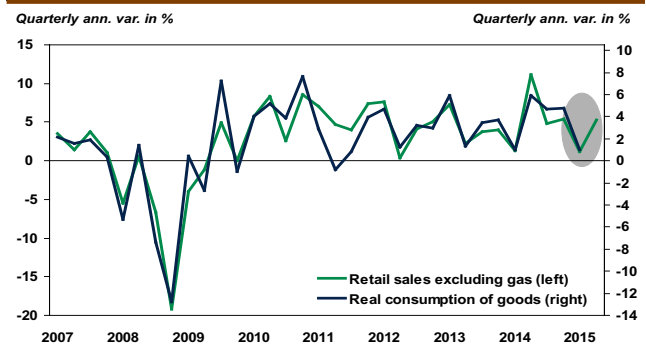
Implications: The decrease in June's retail sales is clearly disappointing. However, as with previous months, we can expect a quick rebound starting as early as July, boosted by the recent improvement in consumer confidence. In the meantime, June's dismal performance does not completely wipe out the gains obtained in the second quarter, and growth in consumption should still turn out fairly good. The Federal Reserve would still like to see sales make better progress in the next two months if it wants to start raising key rates in September.

Retail sales have been seesawing for several months



Sources: U.S. Census Bureau and Desjardins, Economic Studies

Despite weakness in June, real consumption growth is looking better for the entire second quarter



Sources: U.S. Census Bureau, Bureau of Economic Analysis and Desjardins, Economic Studies

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