

February 12, 2016



UNITED STATES

Retail sales hold up well, small loss of confidence

HIGHLIGHTS

- Retail sales rose 0.2% in January after a similar gain in December (revised from -0.1%).
- Motor vehicle sales advanced 0.6%. Excluding automobiles, sales are up 0.1%.
- Aside from autos, sales were up for general merchandise stores, nonstore retailers, grocery stores and renovation centres.
- There was another sharp decline in the value of gas station sales. Department stores, sporting and leisure goods stores, renovation centres, furniture and food services also retreated. Excluding autos and gas, sales increased 0.4%.
- Consumer confidence was down in February according to the preliminary version of the University of Michigan confidence index. The index went from 92.0 in January to 90.7.

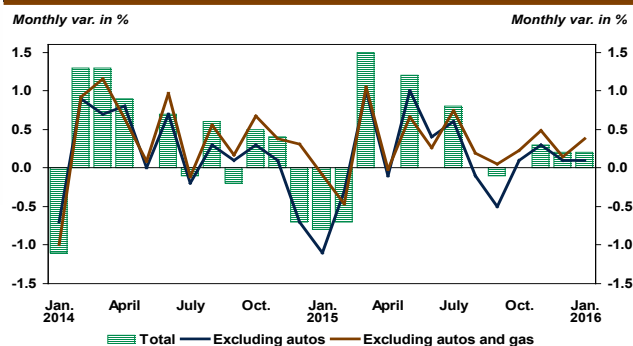
COMMENTS

Total retail sales growth of 0.2% proved to be stronger than the consensus forecast of 0.1%. The same can be said of retail sales excluding autos and gas. Growth is clearly not strong, but combined with the upward revision of December's data, the finding is fairly positive all in all.

We also note that the main weaknesses in January sales stem from sectors that generally overperformed in December. Following a 1.9% monthly gain in December, leisure goods stores sales tumbled 2.1%. The 0.5% decrease in food services (the first contraction since January 2014) follows a 1.3% jump in December, which was boosted by very mild weather. In contrast, online stores, department stores and grocery stores, which all underperformed in December, fared better in January. It can therefore be concluded that, while not staggering, retail sales are trending relatively well. Excluding autos and gas, the annual change in sales was 3.8% in January, the best result since September.

The drop in confidence in February is more disappointing. The Michigan index lost gains made at the end of fall,

While not extraordinary, retail sales are starting on the right foot in 2016



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

returning to its lowest level since October. The decline stems more from the consumer expectations component, which suggests changes in consumer spending. The drop in gas prices did not fully offset the negative sentiment in the financial markets.

Implications: Household spending is holding up. However, as with confidence, it does not seem to benefit much from the stimulating effect that should result from falling gas prices. Combined with problems in the financial markets since the beginning of the year, the fragile household sentiment will mean that the Federal Reserve will not raise its key rates again before June, at the earliest.

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