

July 15, 2016



UNITED STATES

Retail sales and industrial output grow more than expected

HIGHLIGHTS

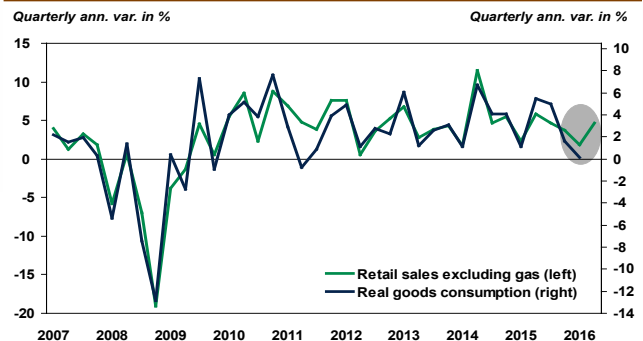
- Retail sales rose 0.6% in June on the heels of May's modest 0.2% uptick (revised from 0.5%). Auto sales advanced 0.1%. Excluding automobiles, sales increased 0.7%. Other noteworthy increases occurred for nonstore retailers and renovation centres. The value of service station sales rose 1.2%. Excluding cars and gas, sales went up 0.7%, after gaining 0.2% in May. Clothing stores and food services saw sales fall.
- Industrial output rose 0.6% in June after dipping 0.3% in May. Manufacturing production advanced 0.4%. Mining activity went up 0.2%, while energy production jumped 2.4%.
- The consumer price index (CPI) rose 0.2% in June, as in May. Food prices fell for a second straight month, while energy prices went up 1.3%. Excluding food and energy, the core CPI also increased 0.2%, for the third straight month. The total CPI's annual change was steady at 1.0%, while core inflation accelerated slightly, rising from 2.2% to 2.3%.

COMMENTS

June's retail sales growth is much better than expected. Note that the value of auto sales did not suffer the same fate as the number of vehicles sold, released at the start of the month. The 0.7% rise excluding gas and cars is also encouraging, coming in at twice what was forecast. The spring's total retail sales growth suggests that real household consumption picked up in the second quarter, and should make a good contribution to real GDP growth.

Industrial production was also astoundingly strong in June. The gain was backed by solid increases in the automotive (5.9%) and machinery (1.1%) sectors. The automotive sector's performance is astonishing, as hours worked there went down in June. Overall, manufacturing is posting a better trend, which also shows in the ISM index's stronger performance. In mining, the two straight months of growth is promising, a first since the summer of 2015. Lastly, the increase in energy production suggests that personal consumption of services will be relatively strong in June.

Consumption should post solid growth for the second quarter as a whole



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

As for the CPI, note that the upside pressure comes entirely from services, particularly shelter. Excluding food and energy, in June, goods prices posted a fourth straight decline.

Implications: June's numbers on retail sales and industrial output confirm that real GDP growth accelerated in the second quarter. We will have to see this kind of growth frequently in the coming months, along with good job growth, for the Federal Reserve to be able to raise its key rates before next year.

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