



UNITED STATES

Retail sales and industrial output decline

HIGHLIGHTS

- Retail sales fell 0.3% in August after ticking up 0.1% in July. Auto sales retreated 0.9%. Excluding automobiles, sales contracted 0.1%. Other declines include building centres, department stores, and furniture and nonstore retailers. The value of service station sales dropped 0.8%. Excluding cars and gas, sales fell 0.1%, as in July. Sales increased for grocery stores, clothing boutiques, and food services.
- Industrial production fell 0.4% in August on the heels of July's 0.6% rise. Manufacturing production also contracted by 0.4%. Mining activity went up 1.0%, while energy production pulled back by 1.4%.

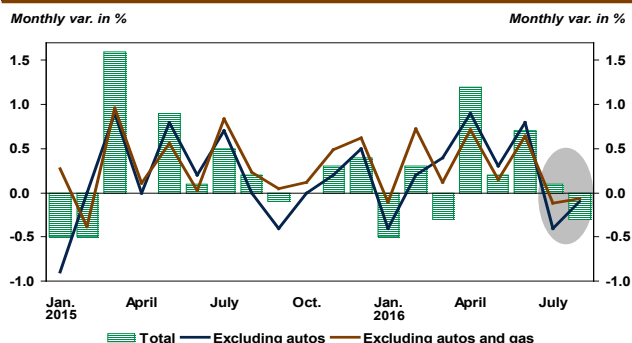
COMMENTS

Sales had been expected to go down in August, but they retreated more than anticipated. The automotive sector made a major negative contribution, although it does come after a strong 1.7% jump in July. The disappointment mainly stems from the other components. This is the first time since spring 2012 that retail sales excluding motor vehicles and gas have posted two straight monthly declines.

Industrial output had also been forecast to retreat after rising for two straight months, given the signals sent by the ISM manufacturing index's stunning drop and the decrease in hours worked in manufacturing. The retreat does not come from the auto sector (+0.5%), as had been feared, but several other components pulled back, including machinery, metallurgy, and chemical products. On the positive side, the mining sector's budding improvement continues, with a third straight gain for oil and gas extraction. Moreover, the first regional manufacturing indexes, which also came out today, are showing improvements for September.

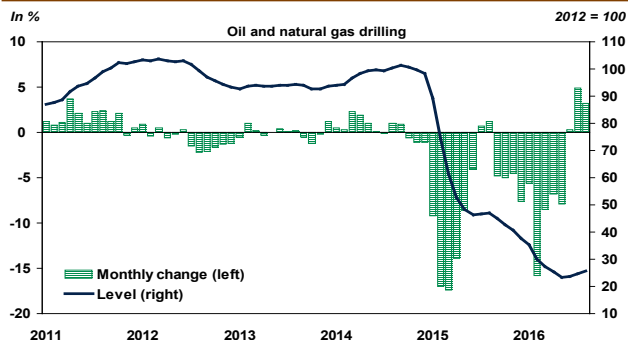
Implications: The results for retail sales suggest that the second quarter's strong real consumption of goods should slow in the third quarter. Combined with manufacturing's August pullback, this situation will give some ammunition

Retail sales growth has been disappointing so far in Q3 2016



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

The start of a turnaround for the U.S. oil and gas industry



Sources: Federal Reserve Board and Desjardins, Economic Studies

to Federal Reserve leaders who are reticent about rate increases in the near future.

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