

ECONOMIC NEWS

United States: Retail Sales Improve

HIGHLIGHTS

- ▶ Retail sales rose 0.4% in April after gaining 0.1% in March (revised from -0.2%).
- ▶ Motor vehicle sales increased 0.7%, while the value of service station sales rose 0.2%. Excluding autos and gas, sales went up 0.3% following an increase of 0.4% in March (revised from 0.1%). There were substantial increases at nonstore retailers, electronics stores and building centres.
- ▶ The consumer price index (CPI) rose 0.2% in April after March's astounding 0.3% drop. Energy prices rose 1.1%. The core index, which excludes food and energy, rose 0.1%. The total CPI's annual change went from 2.4% to 2.2%, while core inflation retreated from 2.0% to 1.9%.
- ▶ According to the preliminary version of the University of Michigan index, consumer confidence improved in May, going from 97.0 to 97.7.

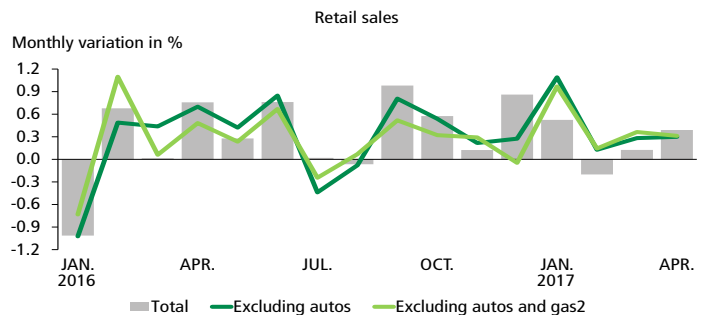
COMMENTS

At first glance, April's retail sales results are somewhat disappointing. The consensus forecast for monthly growth was 0.6%. However, this does not factor in the positive revision of March's figures. The initial estimate of a 0.2% decline for the month has turned into growth of 0.1%. In particular, a 0.1% advance by sales excluding motor vehicles and gas has turned into a livelier 0.4% increase. For April, the first noteworthy item is the improvement in motor vehicle sales, which had contracted for three straight months. Other sectors that struggled in March improved, like electronics and building centres. However, the weakness in food services (0.4% following 0.2% in March) is disappointing, as a bigger rebound had been expected due to the better weather.

As for consumer prices, the monthly change in the indexes is also below the forecast. A rebound had been hoped for after March's surprise drop in prices. Excluding food and energy, goods prices are down again, driven by motor vehicles as well as clothing.

GRAPH

For the first time this year, auto sales did not hurt monthly growth by total retail sales



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

The weakness in goods prices may also explain some of the slow growth by the value of retail sales. In services, shelter costs have returned to their trend following March's temporary weakness.

IMPLICATIONS

Without being striking, April's growth by retail sales suggests that real consumption will be faster in the second quarter than in the first, especially as the real data will get some help from the weak price growth for goods. Solid consumer confidence, at least according to the University of Michigan index, also augurs well.

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