United States: Retail Sales Disappoint

HIGHLIGHTS

- Retail sales dropped by 0.3% in May after rising 0.4% in April.
- Auto sales were down 0.2% and the value of service station sales fell by 2.4%. Excluding auto and gasoline sales, retail sales were stagnant after a 0.5% gain in April (revised from 0.3%). Sizeable decreases were observed among stores selling electronics and recreational goods as well as department stores. Only nonstore retailers and furniture stores saw significant gains.
- The consumer price index (CPI) decreased by 0.1% in May after rising 0.2% in April. Energy prices fell by 2.7%. The core index, which excludes food and energy, rose by 0.1%, just as it did in April. The annual change in the total CPI dropped from 2.2% to 1.9%, and core inflation went from 1.9% to 1.7%.

COMMENTS

In the United States, disappointment surrounding household spending has not been unusual since the beginning of the year. In particular, there is the fact that the good showing of the major consumer confidence indexes did not affect consumption. The better rise in retail sales in March and, especially in April, was a step in the right direction, but this momentum seems to have been broken by May’s results. Given that the drop in auto sales and the value of service station sales was predictable, it is the stagnating retail sales excluding these two sectors that are especially disappointing. Moreover, restaurant sales declined for the fourth consecutive month (a first since 1992). The 0.1% decrease in this sector will limit growth in real consumption of services.

There is also a certain disappointment regarding prices. The consensus was calling for a stagnating total CPI. The sharp drop in energy prices is explained, in particular, by the decrease in gasoline prices which was exacerbated by seasonal adjustments. There was also a noticeable decrease of 0.3% in the prices for goods excluding food and energy; they have not risen since January. However, this latest price drop for goods explains, in part, the weakness in retail sales, as these are expressed in current dollars. For example, clothing prices declined by 0.8%, while automobile prices decreased by 0.2%.

IMPLICATIONS

Despite the drop in retail sales in May, real consumption should prove to be stronger in the second quarter than the first, with help from lower consumer prices that explain, in part, the disappointing retail sales performance. The data published today should not prevent the Federal Reserve from raising its key interest rates this afternoon. However, they will allow Janet Yellen to insist on the gradual process of normalizing interest rates.

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