United States: Several Disappointing Indicators

HIGHLIGHTS

- Retail sales declined 0.2% in June after slipping 0.1% (upgraded from -0.3%) in May. Automobiles sales were up 0.1% and the value of service-station sales declined by 1.3%. Excluding automobiles and gas, sales fell 0.1% after stagnating in May. Recreational stores, department stores, food services and the “miscellaneous” category all saw considerable declines.

- Industrial output advanced 0.4% in June, after modest 0.1% growth in May. Manufacturing output was up 0.2%. Activity in the mining sector jumped by 1.6% while energy output remained stable.

- The consumer price index (CPI) was stable in June after declining 0.1% in May. Energy prices plummeted by 1.6%. The core index, which excludes energy and food, was up 0.1%, as in May and April. Year over year, the total variation in the CPI slid from 1.9% to 1.6%—the lowest since September 2016. Core inflation stayed put at 1.7%.

- Consumer confidence deteriorated in July according to the preliminary version of the University of Michigan index, which slipped from 95.1 to 93.1.

COMMENTS

The lack of vigour in U.S. retail sales is once again disappointing. Considering the second decimal point in the monthly changes, this marks the first time since winter 2015 that sales have recorded two consecutive declines, excluding automobiles and gas. This situation contrasts with the level of household confidence indexes. The reading is relatively good, but as the -4-point decline in two months for the Michigan index suggests, confidence is already lagging the level seen in early 2017.

Part of the weakness in sales expressed in current dollars stems mainly from the absence of price increases for goods. The CPI for goods excluding energy and food has not recorded any significant increase since January; we have to go back to February 2016 to see a positive annual change. In this environment, seeing real consumption growth outperform nominal retail sales growth is not unusual.

On the services side, a new decline in spending on food services is also disappointing. The 0.6% drop recorded in May is the fourth drop in six months. The consumption of services should therefore be weak in June, especially considering that industrial production numbers are showing a flat energy demand.

As for the rest of industrial output, manufacturing renewed with growth after being sideswiped by the automobile sector in May, which incidentally, was up 0.7% in June. Metals and machinery also recorded good growth, an encouraging sign for business investment.

IMPLICATIONS

The less robust sales performance has diminished expected real GDP growth in the second quarter; however, we still expect to see some acceleration compared to the 1.4% recorded in the first quarter. This backdrop should prompt the Federal Reserve to take a break from its quarterly key rate increases.