United States: Post-Hurricane Retail Sales Jump

HIGHLIGHTS

- Retail sales jumped 1.6% in September after slipping 0.1% (upgraded from -0.2%) in August. Automobile sales jumped by 3.6% and the value of service station sales advanced 5.8%. Excluding automobiles and gas, sales grew by 0.5% after the 0.1% uptick in August (upgraded from -0.1%). Renovation centres, grocery stores and food services all saw major increases.

- The consumer price index (CPI) was up 0.5% in September after a 0.4% increase in August—the sharpest monthly growth since January. Energy prices soared 6.1%. The core index, which excludes food and energy, was up 0.1% after a 0.2% increase in August. The annual change in total CPI rose from 1.9% to 2.2%. Core inflation remained at 1.7%.

- Consumer confidence improved in October, according to the preliminary version of the University of Michigan index, which jumped from 95.1 to 101.1.

COMMENTS

Largely expected since the release early in the month of new automobile sales in September, the increase in retail sales still comes as a surprise. The fact that Hurricane Irma's passage through Florida failed to derail the post-Harvey bump stands out the most. What is behind this burst in retail sales? The automobile industry is fuelling this activity, spurred by purchases to replace vehicles damaged by flooding. The amounts received from insurance companies and manufacturers' rebates supported this surge in sales. The inevitable increase in sales at renovation centres was also noted. The rise in food services is more surprising—and a good sign for real consumption of services.

Part of this increase in retail sales, which are expressed in current dollars, is clearly driven by the increase in consumer prices, reflected mostly in gas prices. Service station sales were up 5.8%, while gas prices surged by 13.1%. Other than energy prices, increases in consumer prices were somewhat more moderate than expected in September. The price of goods recorded a new decline while the cost of services has slowed compared to the data for August.

IMPLICATIONS

The rebound in retail sales as of September suggests that real GDP growth in the third quarter may not be as adversely affected by the hurricanes as expected. We will see if a pullback in October materializes. The solid performance of the confidence index lends hope that this will not be the case. In this environment, the Federal Reserve should get back to hiking its key rate at its December meeting.

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