Retail Sales and Inflation in the United States: Calm Seas After the Storms

HIGHLIGHTS

- Retail sales were up 0.2% in October after jumping 1.9% (upgraded from 1.6%) in September. Automobile sales edged up 0.7% and the value of service-station sales fell by 1.2%. Excluding automobiles and gas, sales advanced 0.3% after rising 0.6% in September. Few sectors stood out besides the somewhat stronger performance by sports and recreation stores. Renovation centres suffered a decline, and nonstore retailers reported a rare slump in sales.

- As expected, the consumer price index (CPI) advanced by only 0.1% in October, after the sharp 0.5% increase in September. Energy prices slipped 1.0%. The core index, which excludes food and energy, was up 0.2% after 0.1% growth in September. The annual change in the total CPI declined from 2.2% to 2.0%. Core inflation ticked up, from 1.7% to 1.8%.

COMMENTS

The hurricanes that sideswiped the southern United States in August and September triggered major fluctuations in the main economic indicators. With some hindsight, the total macroeconomic impacts were clearly quite modest in the end. The indicators calmed down as soon as the October results were released. After declining 0.1% in August and rebounding 1.9% in September, the monthly change for total retail sales shifted back to modest growth, almost mirroring the trend before the hurricanes hit. The relatively good showing for furniture, electronics and clothing suggests that consumption in the fourth quarter is off to a good start. The 0.8% increase in food services is also a good sign for real consumption of services.

In terms of inflation, the impact of the hurricanes on gas prices and, by extension, the total CPI, has started to fade. In fact, the first drop in prices at the pump since June occurred in October. Prices retreated slightly for clothing (-0.1%) and new automobiles (-0.2%), suggesting that real consumption of goods could come in a bit stronger than retail sales expressed in current dollars suggest.

IMPLICATIONS

Household spending growth in the fourth quarter should be fairly solid. We will have to see if Holiday purchases will be as good as the readings for consumer confidence indexes suggest. Inflation is still relatively modest, meaning that the Federal Reserve should continue to gradually raise its key rates.

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