United States: A Good Year End for Retail Sales in Some Sectors

HIGHLIGHTS

- Retail sales rose 0.4% in December after a sharp increase of 0.9% (revised from 0.8%) in November. Motor vehicle sales increased by 0.2%, and the value of service station sales remained stable. Excluding motor vehicles and gas, sales also rose 0.4% after a 1.2% increase in November. Strong growth has been noted in renovation centres, nonstore retailers and furniture stores, although there have been significant decreases in recreation-themed shops, department stores and “other” sectors. For 2017 as a whole, retail sales were up 4.6% following a 3.0% increase in 2016.

- As expected, the consumer price index (CPI) ticked up a mere 0.1% in December after November’s 0.4% rise. Energy prices fell 1.2%. The core CPI, which excludes food and energy, edged up 0.3%, its strongest growth since January 2017. Year over year, the total CPI went from 2.2% to 2.1%. Core inflation rose slightly from 1.7% to 1.8%. Total inflation was up to 2.1% for 2017 overall (annual average), while core inflation was at 1.8%.

COMMENTS

Despite the intense cold at the end of the month, retail sales closed 2017 on a high note. Online shopping did very well, rising 1.2% in December and 12.7% in the past year. At the other end of the spectrum, department stores were still in difficulty with a decrease of 1.1% in December and only a slight edge of 0.3% over December 2016 (which does not even cover inflation). Clearly, 2017 reflects the profound change of the U.S. retail market.

In terms of inflation, the dampening effect of energy prices was aggravated by the fact that gas prices tend to rise at this time of the year. However, the strength of the core CPI is quite surprising. That is due mainly to accelerating rents, motor vehicle prices and health care-related costs. Core inflation is expected to gain a little more strength in the new year.

IMPLICATIONS

Holiday spending, although not extravagant, was fairly robust, so household spending for Q4 should be quite good. With regard to inflation, the stage is set for the Federal Reserve to hike key rates again in March.

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