United States: Retail Sales Disappoint Once Again

HIGHLIGHTS
- Retail sales declined 0.1% in February following a similar drop in January (revised from -0.3%).
- Automobile sales shrunk 0.9%, just as they did in January. The value of service station sales dropped 1.2%. Excluding autos and gas, sales rose 0.3% after January’s 0.1% decrease (revised from -0.2%).
- Aside from automobiles and service stations, department stores, personal care stores and furniture stores experienced the main declines. Renovation centres, recreational goods stores, and nonstore retailers recorded the main gains.

COMMENTS
The weakness in retail sales is surprising given that several factors that normally encourage household consumption are currently present in the United States. These include the strength of the job market, the high confidence indexes and, in particular, the tax cuts that inflate disposable income. Despite all this, sales are stagnant and suggest that the real consumption of goods will be especially weak in the first quarter of 2018. A rebound in March may be possible, but the numerous storms that have battered the east coast recently may limit its extent.

IMPLICATIONS
In the end, after a disappointing January, the rebound hoped for in February did not happen. The growth in consumption will be rather modest in the first quarter, a little like what we saw during several first quarters over the last few years. However, it is possible that the tax cuts will have a positive effect on the economy, probably beginning in the spring. In the interim, the Federal Reserve is expected to raise its key rate by 25 basis points during next week’s meeting; however, it appears less likely that it will signal faster firming.