United States: Retail Sales Disappoint

HIGHLIGHTS

- Retail sales rose just 0.1% in August after gaining 0.7% in July (revised from 0.5%). Motor vehicle sales declined 0.8%. Buoyed by higher gas prices, the value of gas station sales jumped 1.7%. Excluding motor vehicles and gas, sales inched up 0.2%, the weakest growth since January.

- Industrial output was up 0.4% in August after identical growth in July (revised from 0.1%). Manufacturing production gained 0.2%. Mining activity saw a 0.7% increase, while energy production jumped 1.2%.

- Consumer confidence improved in September according to the preliminary version of the University of Michigan index, which moved from 96.2 to 100.8, the highest it has been since March. The increase stems more from current conditions than consumer expectations.

COMMENTS

Retail sales growth in August was disappointing when compared to the consensus forecast of a 0.4% gain. However, the upward revision of July’s numbers lessens this disappointment. Excluding motor vehicles and gas, the 0.9% increase in July (revised from 0.6%) is good news, just like the 0.1% upward revision posted in June. Part of August’s weakness is also due to a price effect, as sales are expressed in current dollars. This is true of the 1.7% decline in clothing store sales, with the consumer price index posting a 1.6% drop in clothing prices yesterday. Real consumption might therefore outperform retail sales.

Industrial output also saw a positive revision of its July and June data. Higher energy demand bodes well for real consumption of services as well. In manufacturing, the 4.0% jump in the auto sector may be surprising, as hours worked were fairly low in August. Without this increase, manufacturing would have stagnated in August with notably a decrease in non-durable goods.

IMPLICATIONS

The figures released today are not extraordinary, but with the revisions, they suggest that another round of strong real GDP growth is expected in the third quarter, albeit likely not as robust as the 4.2% gain recorded in the spring. Under the circumstances, there is no doubt that the Federal Reserve will continue to gradually raise its key rates.

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