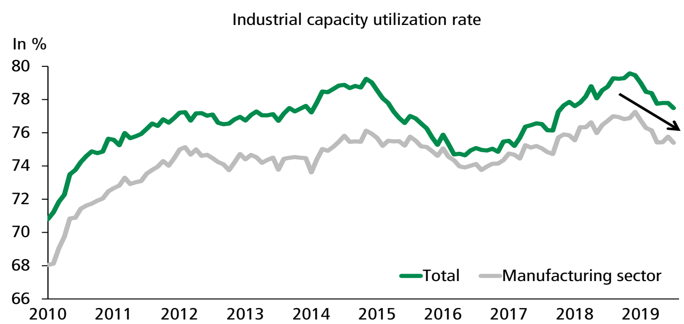
ECONOMIC NEWS

United States: Retail Sales Soar While Industrial Production Retreats

HIGHLIGHTS

- Retail sales rose 0.7% in July, after gaining 0.3% in June. Motor vehicle sales fell 0.6%, but the value of service station sales jumped 1.8.%. Excluding motor vehicles and gasoline, sales were also up 0.9% after a 0.6% increase. The strongest growth came from nonstore retailers (+2.8%), department stores (+1.2%) and food services (+1.1 %).
- Industrial production fell 0.2% in July, after gaining 0.2% (revised from 0.0%) in June. Manufacturing production fell by 0.4%. Activity in the mining sector was down 1.8%. Energy production jumped 3.1% after falling 3.3% in June.

GRAPH
Industrial capacity utilization rates are falling



Sources: Federal Reserve Board and Desjardins, Economic Studies

COMMENTS

In July, retail sales recorded stronger-than-expected growth, whereas the consensus forecast had pegged it at 0.3%. The 0.9% gain in sales, excluding motor vehicles and gasoline, was especially encouraging. Some of the significant advances noted in July follow on the heels of much more modest gains in June. This was mostly the case for electronics, clothing and, in particular, department store sales, which posted their best performance since October 2018. Food services and online shopping continued to perform well in recent months. All of this bodes well for real consumption to grow in the third quarter.

The change in industrial production is less encouraging. The sudden drop in July represents the fourth monthly decline this year. The situation is even worse in the manufacturing sector, which was unable to take advantage of the sudden boost in motor vehicle production recorded in May and June. Since peaking last December, industrial production has shrunk 1.2%, while manufacturing has plunged 1.6%. It appears that the U.S. industry is feeling the pain of the trade war, the decline in trade and slowdown in the global economy. Still, July's leap in energy production (coupled with the 1.1% increase in food services spending from retail sales) should be reflected in fairly strong growth in real consumption of services.

IMPLICATIONS

U.S. consumers are holding up. Buoyed by a tight job market, consumers remain very confident in spite of the uncertainties of the financial markets, as reflected in household spending. Nonetheless, the industrial sector is at greater risk, and the industrial capacity utilization rates are surprisingly downward at this point in the economic cycle. This could prompt the Federal Reserve to lower its key rates once again.

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