

ECONOMIC NEWS

United States: Retail Sales Retreat in July, but Motor Vehicle Production Rebounds

By Francis Généreux, Senior Economist

HIGHLIGHTS

- ▶ Retail sales dipped 1.1% in July after a 0.7% increase in June and a 1.4% decrease in May.
- ▶ Motor vehicle sales declined by 3.9% in July, the third consecutive drop. The value of service station sales rose 2.4%. Excluding motor vehicles and gasoline, sales dipped 0.7% following a 1.3% increase in June. Other than motor vehicles, the main decreases stem from nonstore retailers (-3.1%), clothing stores (-2.6%) and leisure goods stores (-1.9%).
- ▶ Industrial production grew 0.9% in July, following increases of 0.2% in June and 0.8% in May. Manufacturing output grew by 1.4% and the mining sector saw an increase of 1.2%. Meanwhile, energy production plunged by 2.1%.

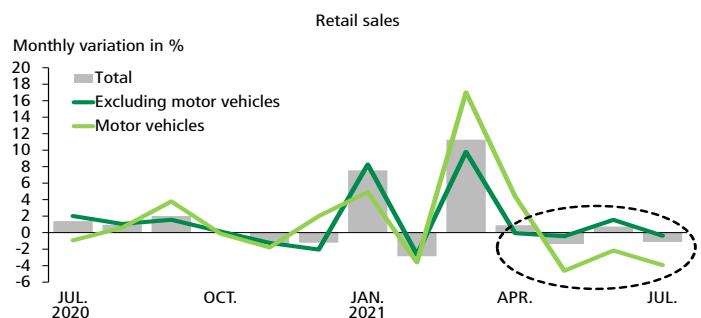
COMMENTS

The retail sales posted in July are somewhat disappointing. The general consensus had been expecting a drop, fuelled by the motor vehicle sector (the number of new vehicles sold had already posted a decline of 4.1% for July), but sales in many other retail categories were below projections. The consensus was calling for an increase of 0.1% in sales excluding motor vehicles, but the actual outcome was a decrease, or -0.4%. The decline in sales at clothing stores, renovation centres and nonstore retailers is fairly disappointing and suggests clearly weaker growth in the consumption of goods in the third quarter of 2021. July's increase of 1.7% in the food services sector bodes well for the consumption of services, however.

In terms of industrial output, we see a clear acceleration in auto industry output, with a gain of 11.2% in July on the heels of a 5.9% decline in June. This could be a sign that the situation is starting to return to normal in a sector hard hit by electronic parts shortages. Caution is still in order, however, due to the string of ups and downs in this sector. It contributed just over

GRAPH

The motor vehicle sector is still dragging retail sales down



Sources: U.S. Census Bureau and Desjardins, Economic Studies

half of the increase in industrial output in July. Excluding motor vehicles, the increase would still have been 0.4%, including solid gains in machinery, the aerospace sector and electric and electronic products.

IMPLICATIONS

The reduction in retail sales in July is disappointing, and real consumption growth may turn out to be weaker in the third quarter than the second. That said, the outlook is still good, thanks to tax relief for families, the job market's strong performance and accumulated savings, which remain high. A less problematic supply, particularly in terms of motor vehicles, would also favour economic growth.