ECONOMIC NEWS

United States: Consumer Wallets Remain Open

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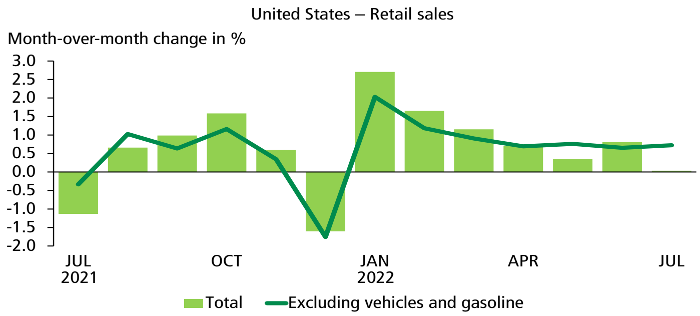
HIGHLIGHTS

- Retail sales stalled (0.0%) in July after increasing 0.8% in June and 0.4% in May.
- Motor vehicle sales fell 1.6%. Gas station receipts dropped 1.8%. Excluding motor vehicles and gasoline, sales rose 0.7% in both June and July.
- Both nonstore retailers and renovation centres posted solid gains for the month, surging 2.7% and 1.5% respectively.
- Besides motor vehicles and gasoline, the next biggest drags on growth came from clothing stores (-0.6%) and general merchandise stores (-0.5%).

GRAPH
Sales excluding vehicles and gasoline continue to rise



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

COMMENTS

It's no surprise that total retail sales stayed flat in July. The consensus forecast had called for an increase of just 0.1%. It was clear that cheaper gasoline would affect gas station receipts and pull down total retail sales (expressed in current US dollars). We're a bit more surprised that sales at motor vehicle dealerships fell, since new car sales published at the start of the month were up solidly and new motor vehicle prices have risen according to the consumer price index (CPI). It might be that consumers are changing their spending habits and opted for less expensive vehicles in July.

Sales growth excluding motor vehicles and gasoline was stronger than the consensus forecast. The rise in sales is a good thing, since CPI growth for goods slowed in July. It shows that despite some concerns, consumers still have some wind in their sails—though perhaps a bit less than at the start of the year. In July, Americans seem to have welcomed lower gas prices, as shown by the somewhat timid rebound in some consumer confidence indexes. Employment is still holding strong, which is another positive factor.

IMPLICATIONS

At first glance, July's retail sales may seem weak, but the gains are quite robust outside of gasoline and motor vehicles. It's a good start to real consumer spending in the third quarter. However, it also implies that demand remains relatively strong and that further key rate hikes can be expected, if the Federal Reserve wants to slow it down and curb inflationary pressures.

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