July 15, 2016

TD Economics

Data Release: Retail sales remain robust in June

- Retail sales rose by 0.6% m/m in June according to the advance Census Bureau report. This was far better than expected, with economists eyeing a more subdued 0.1% rise. However, the gain comes atop of a downwardly revised 0.2% gain in May (previously 0.5%).

- Excluding sales at gasoline stations (+1.2% m/m) and automotive dealers (+0.1%), core sales rose by an even stronger 0.7% in June with only a slight downward revision to the previous month (0.2% vs. 0.3%). Excluding gas, autos as well as building materials (+3.9%) and food services (-0.3%), the so called 'control group' used in calculating GDP rose by 0.5% in June (0.3% m/m expected) following a similar gain during the previous month which was revised up from 0.4%.

- Nearly all of the remaining major categories posted gains with clothing store sales down 1.0% while electronics sales were largely flat on the month. Other than that, gains were relatively broad based, with sporting goods (+1.3%) and non-store retailers (+1.3%) posting solid gains alongside sales at clothing stores and restaurants – both up 0.8% on the month.

Key Implications

- It would appear that American consumers have definitely rekindled their love for shopping and returned to the malls – both brick-and-mortar and the virtual kind – in recent months. Given the impressive June result, second quarter sales rose 5.9% in annualized terms, the fastest pace in four quarters. This suggests significant strength in consumer spending during the second quarter – which should expand by well above 4% annualized, allowing second quarter growth to come in at a relatively healthy 2.5%.

- Better yet, the June numbers offer a strong handoff into the third quarter, with consumption likely to remain supported by resilient job prospects, rising wages, and accumulated savings from cheap gas.

- While the sales report is mostly for the period prior to the Brexit referendum, following which financial markets convulsed, the solid June print should reassure the Fed that the domestic side of the economy is doing well despite surges of global volatility. While we don't rule out the notion that the Fed may choose to continue on its gradual tightening cycle later this year, should domestic data remain robust and financial markets keep calm, we ultimately don't expect the FOMC to rush into raising rates until mid-2017 given the significant global risks.

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