



TD Economics

Commentary

June 13, 2007

U.S. CONSUMERS KEEP THEIR WALLETS WIDE OPEN IN MAY

- **Retail sales come in noticeably above expectations in May**
- **Gains seen in every single major retail sales category**

U.S. retail sales for May came in stronger than expected this morning with a 1.4% gain in total sales, and 1.3% gain in ex-autos sales. Although part of this gain came from rising gasoline prices, this was only a small part of the story, since “core” retail sales, which exclude both automobile and gasoline sales, came in with a robust 1.0% increase. In fact, there really aren’t any soft spots in this data release, since every single major category of retail

sales posted an increase, which does not happen very often. (Taking a quick look at the data, it appears that the last time that occurred was May 1999.)

Today’s report suggests that consumer spending is going to add favourably to Q2 GDP growth in the U.S. Despite two consecutive months of 10%-plus increases in gasoline prices, U.S. consumers refuse to throw in the towel, and have kept their wallets wide open. However, we don’t think that this can last forever, with rising food prices, higher gasoline prices, and falling housing prices, and expect consumer growth to moderate going into the second half of the year.

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