

# ECONOMIC NEWS

## United States: Higher Prices Are Underpinning Retail Sales

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### HIGHLIGHTS

- ▶ Retail sales rose 1.0% in June after falling 0.1% in May (revised from -0.3%).
- ▶ Motor vehicle sales increased 0.8% in June, while gas station receipts spiked 3.6%. Excluding motor vehicles and gasoline, sales were up 0.7% after dipping 0.1% in May and rising 0.7% in April.
- ▶ Other than motor vehicles and gasoline, the biggest gains were at nonstore retailers (+2.2%), furniture stores (+1.4%) and food services and drinking places (+1.0%).
- ▶ Industrial production declined 0.2% in June after stagnating in May. Manufacturing output fell 0.5% for the second consecutive month. The mining sector jumped 1.7%, while energy production contracted 1.4%.

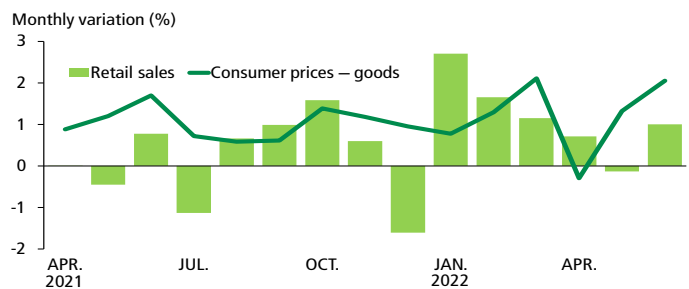
### COMMENTS

As we expected, retail sales posted a solid rise in June. May's dip—which was reduced when the monthly figures were adjusted—has proven to be short-lived. Furthermore, several types of retailers saw solid sales growth in June. However, sales dropped sharply at department stores (-2.6%) and renovation centres (-0.9%). In addition, higher consumer prices, particularly the 2.1% spike in the price of goods (0.8% for goods excluding food and energy), undoubtedly inflated the value of retail sales. As a result, real consumption of goods may end up being substantially lower in June than what today's retail sales figures are showing.

After rising strongly by a total of 2.7% between February and April, manufacturing is now having a more difficult time and has fallen 1.0% in two months. Several sectors are backsliding, including the automotive industry, metallurgy and machinery. That said, this weakness in manufacturing output is not far off our own forecasts, which are based mainly on the drop in the number of hours worked.

### GRAPH

Price increases have likely inflated June's retail sales



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

### IMPLICATIONS

June's retail sales and industrial production figures are fairly in line with our forecasts. Inflation-adjusted retail sales and the decline in manufacturing output suggest that second-quarter real GDP growth could be negative. However, strong consumption of services and the buoyant labour market mean that a recession still isn't officially on the table.