

## US Retail Sales Beat On Revisions

- Retail sales beat expectations due to upward revisions;
- The second quarter is tracking a significant improvement in consumer spending;
- Breadth was solid;
- Consumer sentiment fell along with inflation expectations.

### US, Retail Sales , Headline / Ex-Autos / Ex-Auto-Gas, m/m %, May:

Actual: 0.5 / 0.5 / 0.5

Scotia: 0.6 / 0.4 / na

Consensus: 0.6 / 0.4 / 0.4

Prior: 0.3 / 0.5 / 0.3 (revised from -0.2 / +0.1 / -0.2)

- US retail sales surprised higher on upward revisions that more than offset slightly missing expectations for May. The US consumer sector is powering ahead in Q2.
- Key is that the retail sales control group—which is how the report flows into total consumption as captured in GDP—is tracking a gain of 6% q/q at a seasonally adjusted and annualized rate (SAAR) in Q2 which is roughly double the Q1 growth pace. Trim that in to account for the fact that usually more stable services spending but it should still mean consumption tracks higher than it did in Q1 when it only grew by 1.3%. See the accompanying chart that depicts the rough but imperfect correlations between the measures.
- Total retail sales are tracking a rise of 7.1% in Q2 SAAR. Strip out the change in CPI and that yields over 4% growth in total retail sales during Q2.
- Sales were up 0.5% m/m (0.6% consensus) in May but the prior month was revised up by a half point to +0.3%.
- By components (see table) 10 of 14 sectors were higher and breadth was decent. Auto sales were up 0.7% m/m including parts which is directionally in line with expectations but softer than tracking likely because of prices and parts. Electronics were up 1.1% m/m along with sporting goods, non-store retailers (ie: online) saw a 1.4% rise in spending, health and personal care spending was up 0.6%, restaurant/bar spending was up 0.7% and spending at gas stations was up 0.3%. Sales of clothing were flat. 'Miscellaneous', food/beverages and department stores were the weak spots.
- The retail sales control group was up 0.5% m/m (0.4% consensus) with upward revisions that took the prior month up to 0.4% from flat. This is how retail will flow through consumption into GDP.
- Because CPI was soft in May with headline prices up 0.1% m/m and core up 0.1%, most of this report should flow through higher volumes of goods sold and hence a positive impact upon real consumption and real GDP.
- Also note that the **University of Michigan's consumer sentiment gauge for June slipped in line with expectations** (97.9, 98 consensus, 100 prior) mostly due to lower expectations with that component dropping by about five points. **The one-year ahead and 5-10 year ahead inflation expectations measures fell** to 2.6% (2.9% prior) and 2.3% (2.6% prior) respectively. They are not the greatest gauges, but they are among the suite of measures of inflation expectations followed by Fed officials.

### CONTACTS

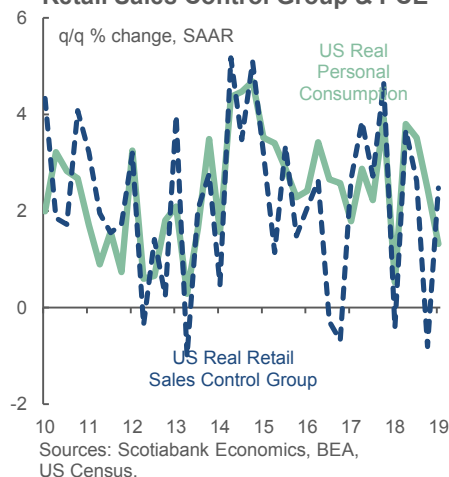
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### Retail Sales Control Group & PCE



### Weighted Contributions By Type of Retailer, May

Strongest Retail Sectors	% Points	m/m %
Non Store Retail	+0.17	+1.4
Vehicles	+0.15	+0.7
General Merchandise	+0.08	+0.7
Weakest Retail Sectors	% Points	m/m %
Miscellaneous Retail	-0.03	-1.3
Food & Beverage	-0.01	-0.1
Clothing & Apparel	0	0

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