U.S. Flash

Retail Sales Decelerate as Unexpected Sectors Stunt Growth

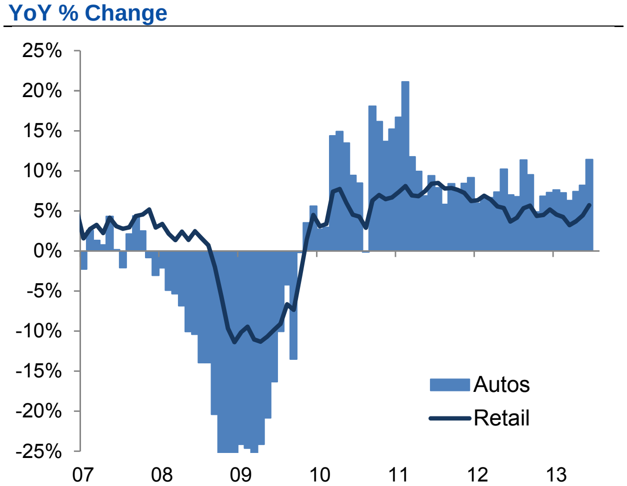
- **Retail Sales increased only 0.4% in June as key sectors weakened**
- **Excluding autos and gas the figure was less optimistic, declining 0.1%**
- **YoY growth remains strong, reaching 5.7% to mark the highest rate since March 2012**

Retail sales for June were slightly disappointing, showing modest improvement in certain sectors while a handful of others dragged the overall figure downward. Expanding 0.4% for the month, the figure was shy of the consensus expectations for 0.8% and came in a bit slower than May's 0.5% gain. Autos expanded at a considerable clip, up 1.8%, which is line with what we expected given the strong unit sales volume seen in Autodata's latest report. This surge also brought the annual growth figure for vehicle and parts sales to 11.4% which is its highest point since March 2011 and continues to bolster the overall retail sales figure. Sales at gas stations jumped 0.7%, mostly due to rising prices toward the end of the month.

However, excluding autos and gasoline stations, the situation is a little more fragmented. Consumer based products seemed to have done better than expected in June despite the call for weaker growth given the bump in sales we saw in May. Furniture & home products grew at a moderate pace in June, up 1.2% after declining in May. Breaking down the sector, it was strictly furniture that pushed the overall figure up as the electronics & appliances component declined for the second consecutive month. Apparel also saw a boost in sales despite the difficulty many store have been experiencing with online sales encroaching into their market. Clothing and accessories grew 0.7% with clothing driving the figure as other facets like jewelry and shoes plummeted. Nonstore retailers, which encompasses online retailers, grew 2.1%, a strong pace and the strongest monthly expansion since December. This positive data was pulled down by a handful of weak sectors. Building materials ranked first in terms of overall drag, falling 2.2% in June as paint & hardware stores saw a big hit in terms of demand. Miscellaneous store retailers also took a significant hit, dropping 2.5% in June as office, novelty and used merchandise sales fell back to March levels. Finally, food and drink establishments saw a significant decline in traffic. Reaching a rate of decline unseen since 2008, the sector tends to be an indicator of consumer's willingness to spend more which relates to their confidence in terms of income and the economic outlook.

While the overall figure was not as strong as expected, there were certain sectors that continue to show growth and have potential to keep rising so long as consumers have a reason to buy. With gasoline prices rising in early July there is upward momentum for the headline retail sales figure. Auto sales are also expected to keep increasing as consumers trade their older vehicles for more fuel efficient alternatives with better equipment for less. Nevertheless, there continues to be downside risks as a handful of sectors teeter on decline with the ability, as we have seen in June, to drag the month's retail figure lower.

Chart 1
Retail and Auto Sales
YoY % Change



Source: US Census Bureau & BBVA Research

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