



TD Economics

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Data Release: Retail sales come in below expectations, but details remain encouraging

- Retail sales rose by 0.2% in June, well shy of the consensus forecast which called for a stronger 0.6% gain. However, the weak headline reading comes atop of an upwardly revised May figure to 0.5% (previously reported as a 0.3% gain).
- Core retail sales – excludes autos and gasoline – rose by 0.4% on the month, a touch lower than the consensus forecast of 0.5%. Again, revisions played a role here, with the originally reported flat line reading revised up to 0.3%.
- Gains in sales were relatively broad based, with 9 out of the 13 components rising on the month. The largest gains came from general merchandise (+1.1% m/m), health care spending (+0.9% m/m), non-store retailers (+0.9% m/m) and clothing (+0.8% m/m) sales, while building materials (-1.0% m/m), motor vehicles & parts (-0.3% m/m), eat & drinking (-0.3% m/m), and furniture (-0.1% m/m) all posted declines on the month.

Key Implications

- On the whole, this was an encouraging report. The strength in June's core retail sales alongside positive revisions to last month's disappointing figures implies some upside to second quarter consumer spending.
- The weakness in the automotive component came as a bit of a surprise, especially given the fact that June auto sales – released earlier this month – rose to 16.9 million (annualized) units. Still, the fact that auto sales are now sitting at an eight year high speaks to the level of confidence that consumers are feeling about the current economic environment.
- The relatively strong decline in building materials is a bit concerning. However, given that this is a volatile component, we look to Thursday's housing starts report for a better gauge of June construction activity.
- Ongoing gains in the labor market, alongside easing credit conditions and stronger household balance sheets should continue to support consumer spending through the second half of 2014. Our current tracking has GDP growth just north of 3.0% over the second half of the year, with total consumer spending contributing over 2.0 percentage points to overall growth.

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