



Economics Group

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Retail Sales Surge in May

Retail sales surged 0.8 percent in May after an upwardly revised 0.4 percent in April. Control group sales were up 0.5 percent after an upwardly revised 0.6 percent in April.

Strength Not Only Due To Higher Gasoline Prices

Retail sales surged 0.8 percent in May after an upwardly revised 0.4 percent increase in April. Excluding gasoline stations' sales, retail sales also increased a strong 0.7 percent. Furthermore, if we exclude motor vehicle & parts and gasoline stations' sales, retail sales were up 0.8 percent. The only negative readings in May were furniture & home furnishing stores' sales, down 2.4 percent during the month and sales at sporting goods, hobby, musical instrument, & book stores, which declined 1.1 percent sequentially.

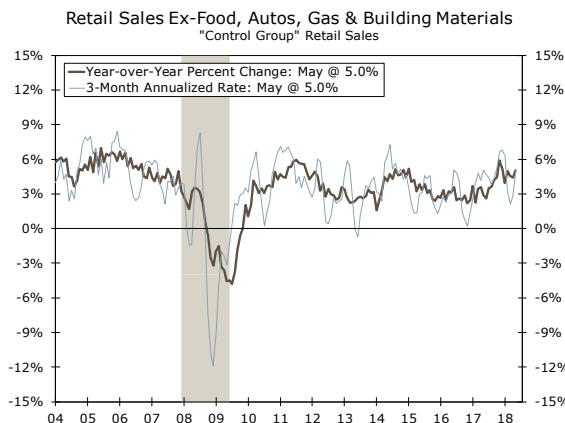
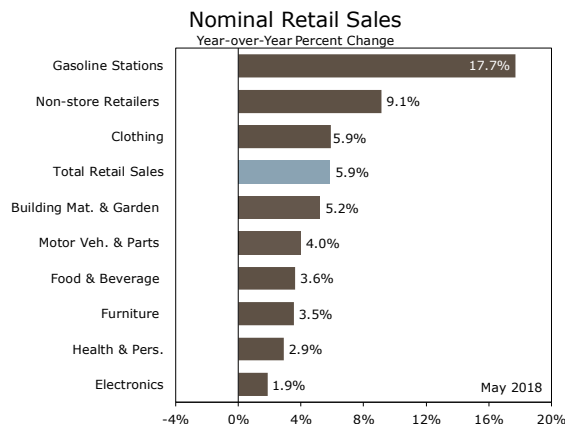
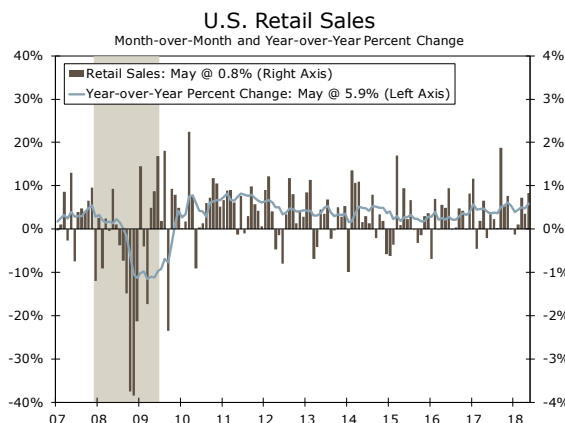
The strongest sectors in May were miscellaneous store retailers' sales, up 2.7 percent, and building material & garden equipment & supplies dealers' sales, up 2.4 percent. Gasoline station sales were up 2.0 percent, mostly due to the increase in the price of gasoline. Meanwhile, sales at general merchandise stores were up 1.2 percent, while department store sales were surprisingly up a strong 1.5 percent after increasing 0.7 percent in April. Another strong sector in May was sales at clothing & clothing accessories stores, which were up 1.3 percent after a strong 1.2 percent reading in April. Non-store retailers' sales were relatively muted, increasing 0.1 percent after a strong 1.5 percent increase in April. Motor vehicle & parts dealers' sales as well as health & personal care stores' sales were up 0.5 percent during the month. Meanwhile, food & beverage stores' sales were flat in May.

However, on the service side of the retail report, food services & drinking places' sales were strong, up 1.3 percent in May after dropping 0.3 percent the previous month. This means that there are also signs that the service side of personal consumption expenditures (PCE) may also be relatively stronger during the second quarter of the year.

Sustaining This Pace Needs Higher Income Growth

Overall, the May retail sales report was very positive for the performance of the U.S. consumer in the second quarter of the year after a disappointing performance during the first quarter. This is clear by looking at the result for control group sales, whose index increased a stronger-than-expected 0.5 percent, while April's increase was revised up from a 0.4 percent increase to a 0.6 percent increase.

The recovery in PCE during the second quarter of the year has been front and center for the past several months in the news and this retail sales report is just a confirmation of a very strong recovery by the U.S. consumer expected during the second quarter of the year. The relatively strong print by automobile sales is, perhaps, the realization by the American consumer that higher interest rates are here to stay and they should move ahead of even higher interest rates in the future. However, not all is good news for the U.S. consumer and for the U.S. economy, as we have also seen a slowdown in credit card borrowing, a further decline in the saving rate and much higher gasoline prices. Thus, Americans will need an improvement in income growth in order to continue down this path of growth in retail sales and PCE.



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