

Economic Analysis

# June Retail Sales Show Broad Weakness

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- **Purchases of goods drop by 0.3% in 8 out of 13 categories despite higher expectations**
- **Core retail sales were down 0.2%, below consensus for a 0.4% rise**
- **Estimates for April and May revised down to 0% and 1%, respectively**

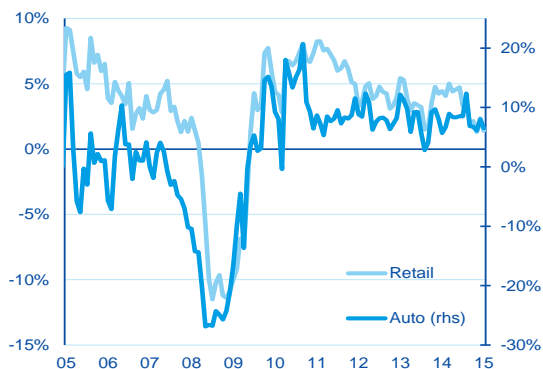
June's retail sales report dampened any expectations for a strong rebound in consumer spending in 2Q15, coming in at \$442 billion, a decrease of 0.3% MoM. Retail sales ex auto and gas were expected to rise 0.4% MoM, but shifted in the other direction, falling 0.2% MoM.

The drop in retail sales was broad-based. Sales in only five out of 13 categories rose, as consumers spent more on gasoline, electronics and appliances, health and personal care, sporting goods and hobbies, and general merchandise. The bounce in gasoline prices gave gas stations a 0.8% MoM boost in sales, but this was significantly lower than May's surge of 3.7% MoM.

Auto sales tumbled 1.1%. Notably, sales of building materials and garden equipment dropped for the third month in a row, falling 1.3% MoM in June, despite the onset of summer weather. Furniture sales dropped 1.6% MoM—the largest MoM decrease since January 2014. Clothing sales and restaurant sales were also at their lowest levels since 2014, contradicting expectations for stronger spending in light of June's robust consumer confidence report.

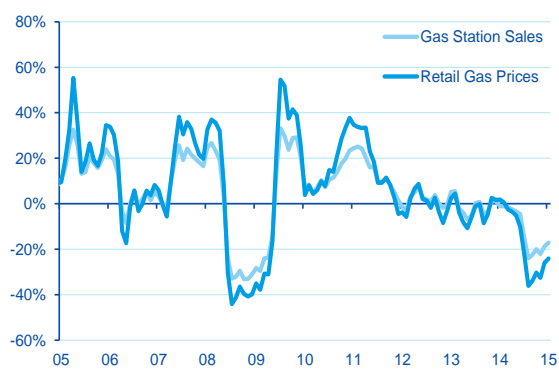
Based on our forecasts for inflation, real retail sales for June will contract 0.2% MoM, nevertheless resulting in a 0.9% QoQ increase in 2Q15, up from the 0.3% QoQ decrease in 1Q15. However, considering disappointing employment and small business confidence reports, the economy seems to have lost some momentum in the second quarter. Labor force participation declined 0.3pp MoM and the Small Business Optimism Index sharply dropped 4.2 points to its lowest level in over a year. A key concern in June's employment report was the lack of wage growth; stronger gains in income will be necessary for a rise in consumer spending in the second half of the year.

Chart 1  
**Retail and Auto Sales**  
YoY %



Source: US Census Bureau

Chart 2  
**Gas Prices and Sales**  
YoY %



Source: US Census Bureau/ EIA

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