US retail sales add to optimism

US retail sales bounced back strongly in March and jobless claims fell to new lows, boosting hopes for a 2.5% 1Q GDP reading next week

1.6%MoM

US retail sales growth for March

Better than expected

Upside risk for 1Q GDP

US retail sales surged 1.6% higher in March - the best reading since September 2017, and better than market expectations of a 1.1% gain. Motor vehicles and parts jumped 3.1% month on month, which was flagged by very firm new car sales numbers from manufacturers earlier in the month while gasoline station sales were also strong (+3.5%MoM) due to the significant rise in gasoline prices over recent months. Gasoline bottomed at $2.23/gallon on 8 January according to the American Automobile Association while the national average stands at $2.84 today.

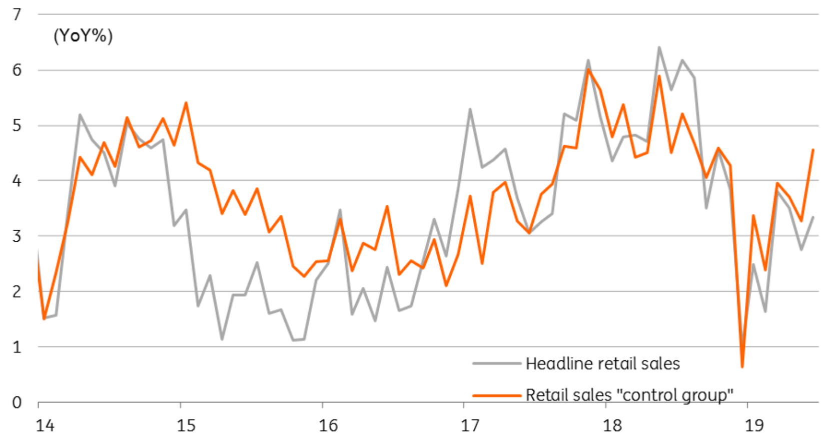
Even outside of these volatile sectors the story is encouraging with 12 of the 13 subcomponents reporting growth. Furniture saw sales rise by 1.7%, clothing was up 2% and non-store retail rose

1.2%. Sporting goods were the one negative, falling, 0.3%MoM. This means that the "control group", which removes autos, food, gasoline and building materials and better matches the consumer spending component of GDP rose 1%MoM versus the consensus estimate of a 0.4%MoM increase.

> *There is a clear upside risk to our GDP growth forecast of 2.1% and the 1.8% consensus on Bloomberg definitely looks too pessimistic*

As the chart shows, retail sales appear to be bouncing back after a weak end to 2018. With employment continuing to rise, wage growth picking up and consumer sentiment remaining firm, we look for consumer spending to make an ongoing positive contribution to US GDP growth. Currently, the Atlanta Federal Reserve GDPNow model is suggesting the economy expanded at a 2.4% annualised rate in 1Q19, but after today's figures, this is likely to push towards 2.6%. As such, there is a clear upside risk to our 2.1% forecast and the 1.8% consensus on Bloomberg definitely looks too pessimistic - the report is due for release on April 26.

US retail sales recover



Source: Bloomberg

Better labour data too... jobless claims lowest since 1969

Separately, initial jobless claims data fell by 5,000 to 192,000, leaving it at its lowest level since 1969!

This reinforces the message from yesterday's Federal Reserve Beige Book that the labour market is incredibly tight with firms struggling to both hire new workers and retain current ones. This suggests wage pressures will continue to build with the Beige Book citing increased signing bonuses and expanded benefits packages. This will put more money in consumers' pockets and offer further support for our view that consumer spending will remain robust.

Given this positive growth backdrop, which would get a further boost from a US-China trade deal, we remain of the view that the Federal Reserve will not need to cut interest rates this year.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com

Disclaimer