

## Dip in US retail sales unlikely to last

The decline in US retail sales during April was relatively modest given the strong growth seen in March. With wage growth grinding higher, we think the outlook for consumers looks fairly bright, and is a key reason why we aren't expecting a Fed rate cut in the near future



Shoppers in Fairfax, USA

At face value, markets may be left a little disappointed by the latest set of US retail sales numbers. The headline spending figure dipped by 0.2%, masking a fairly noticeable fall in car sales, which was more-or-less offset by greater spending at gasoline stations (pump prices have risen by around 30% off their January lows).

That said, it's worth noting that this latest decline comes after a very strong month for consumer spending in March, and more generally, we think the outlook for retail sales looks reasonably good. While wage growth has levelled off a bit since the start of the year, the tight jobs market and associated skill shortages should continue to keep the pressure on employers to lift pay faster to attract/retain talent. The Federal Reserve's Beige Book has also been highlighting increased usage of so-called 'non-wage benefits' – things like extra vacation, improved healthcare provision, sign-on bonuses etc.

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There are a couple of headwinds to spending though. The sudden rise in fuel prices will hit real wages to some degree, while the lingering threat of tariffs on the remainder of Chinese imports could also weigh on spending if they come to pass.

For the time being though, we think the positives will continue to outweigh the negatives for consumption. This, combined with some better investment activity (particularly from the residential side), suggests that growth should continue to perform solidly over the next few quarters.

We are expecting 2.5% overall growth in 2019, which when combined with our forecast for a gradual rise in core inflation, suggests that Fed rate cuts are not currently on the horizon.

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