

Solid US retail sales set the stage for bumper GDP

As US consumers continue to splash the cash, we think the economy grew by around 4% annualised in the second quarter. This should keep the Fed on track for two further rate hikes this year



Source: iStockphoto

Another month, another solid set of retail sales numbers from the US. June saw sales rise by 0.5% overall, boosted by strong car purchases and rising gasoline prices. Admittedly, dig a little deeper and the control group – which excludes these more volatile items – was unchanged on the month, weighed down by lower clothing, food and electronic sales.

However, that was more-or-less offset by sizeable upward revisions across the board. Taking the second quarter retail data as a whole, it's clear the consumer remains in a very strong position. That, combined with encouraging data more generally, suggests that the economy grew at roughly a 4% annualised rate in the second quarter.

And the outlook remains bright too. Consumers are the most confident they've been since the early-2000s, as household finances are boosted by the tight jobs market, rising wage growth and more recently, the Trump tax cuts.

Of course, the mounting trade tensions are a key risk to the outlook, and it's really too early to see the impact on consumer behaviour at this stage. However, given that the size of the tariffs that have come into effect so far has been fairly limited, we suspect the positive effect of economic strength and fiscal stimulus will continue to dominate in the near-term.

For that reason, we continue to expect two further rate rises from the Fed this year. However, we anticipate a more gradual pace of tightening in 2019 as the combined impact of higher borrowing costs and trade uncertainty gradually begin to bite.

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