

## Strong US retail sales point to robust start to third quarter

With confidence and employment at high levels, consumers are clearly happy to spend. This offers hope for a 3% GDP figure for 3Q17



Source: iStockphoto

The US retail sales figures for July are very good, rising 0.6% month-on-month in July versus the consensus 0.3% forecast. There were also big upward revisions from -0.2%MoM to +0.3%MoM for June. There were broad based gains with 10 of the 13 broad retail categories reporting rising sales. This suggests the household sector is strong and, in our view, bodes well for a 3% GDP figure for 3Q17 growth. With consumer confidence at firm levels, employment continuing to rise and wages showing some evidence of picking up we remain optimistic about the prospects for consumer spending.

The details of the report show that gasoline sales were a drag (-0.4%) due to lower prices and with this category excluded sales were up 0.7%. There were strong performances from motor vehicles and building materials (both up 1.2%) with internet, department stores and miscellaneous stores also performing strongly. The only areas of disappointment were electronics (-0.5%) and clothing (-0.3%).

Markets continue to focus on current low inflation rates, but with the labour market tightening and

the growth story looking ok, the prevailing view within the Fed is likely to remain that low inflation is merely "transient". We think inflation will be back at the 2% target by the end of the year and also predict a December Fed rate hike. We continue to expect two more 25bp hikes next year.

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