

United States

Retail sales downturn adds to doubts on US economic health

- **Retail sales fall for second month running**
- **Core sales barely rebound from December's fall**
- **Sales data correspond with weak signal from Markit PMI surveys**

US retail sales fell for a second successive month in January, adding further to evidence suggesting that the health of the economy is on the wane.

Official data showed retail sales volumes dropping 0.8% in January, building on a 0.9% decline in December. Taking the latest three months as a whole, sales were down 0.3% on the prior three months period. That's the first such decline since August 2012.

Core sales, which strip out volatile items such as autos and fuel, building materials and food services, rose 0.1%, but that disappointed expectations of a 0.4% rebound following December's 0.3% drop.

Analysts were surprised by the weak consumer spending trend signalled by the retail data. They had expected lower fuel and energy prices to have freed up income to be spent on other items.

This easing could prove crucial to the economy's strength in the first quarter. Gross domestic product rose at an annualised rate of 2.6% in the fourth quarter of last year, down almost half from the third quarter and reliant on the largest rise in consumer spending since 2006. Any weakness in consumer spending in the first quarter therefore leaves the economy vulnerable to a further slowdown.

Cooling economy

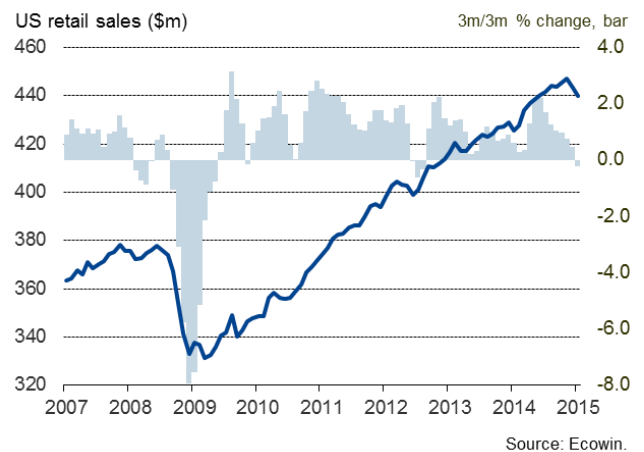
The data contrast with buoyant job creation, with the US apparently having created a net 1,000,000 new job in the three months to January according to non-farm payroll data.

However, the poor spending data tally with official statistics showing only meagre pay growth persisting into January (with average pay up just 2.2% on a year ago) and downbeat business survey data. Markit's PMI data accurately anticipated the slowing of the economy seen in the GDP data for the fourth quarter, and

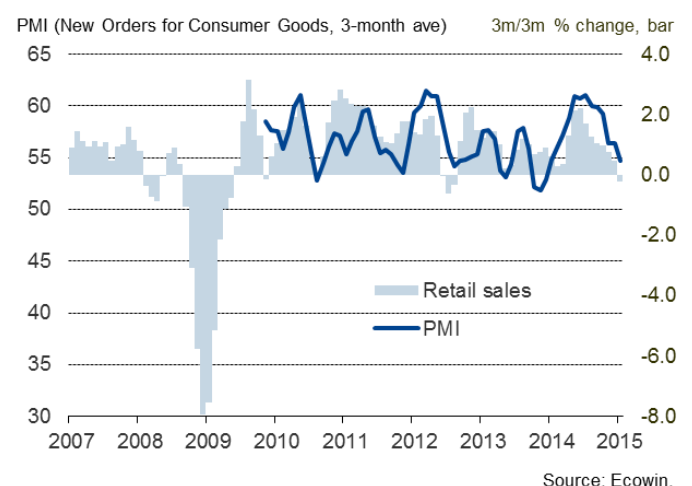
suggest that the rate of expansion remains subdued at the start of the year.

Of note, Markit's surveys also showed that new orders for consumer goods have been on a downward growth trend in recent months, with January seeing the weakest trend for just over a year and boding ill for any revival of sales growth in February.

US retail sales



Markit US PMI consumer goods orders index



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