

# United States

## Stagnation of retail sales bodes ill for third quarter GDP

- Retail sales were unchanged in July, with 'core' sales up just 0.1%
- Data point to weak start to consumer spending in the third quarter
- PMI surveys paint more upbeat picture of healthier economic growth rate

Hopes of the US economy enjoying a strong third quarter were dampened as retail sales showed no change in July. Sales growth has now slowed for three successive months.

Data from the Commerce Department showed no change in retail sales in July, defying analysts' expectations of a 0.2% rise. Sales excluding volatile items such as building materials, motor vehicles and gasoline rose 0.1%, up 1.2% in the latest three months.

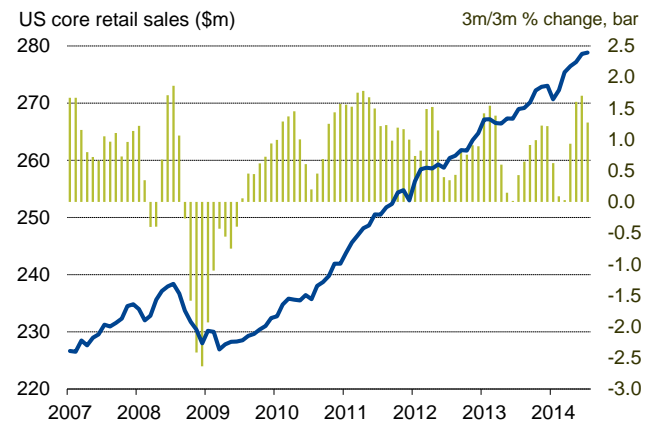
The stagnation follows five months of continuous growth, meaning July saw the worst retail performance since sales shrank 0.9% in January, when extreme weather hit parts of the country.

The disappointing headline sales figure bodes ill for the economy's start to the third quarter. After GDP rebounded with 4% annualised growth in the three months to June, all eyes are on Q3 to see if the second quarter was merely a rebound from the weather-affected first quarter, or whether there is a more meaningful and sustainable upturn underway.

Markit's PMI surveys have raised hopes that the third quarter will be a strong one. The survey data covering both manufacturing and services signalled a rate of economic growth in July only marginally below June's post-crisis high. The weakness of the retail sales data in July therefore comes as a surprise in the light of these PMI numbers.

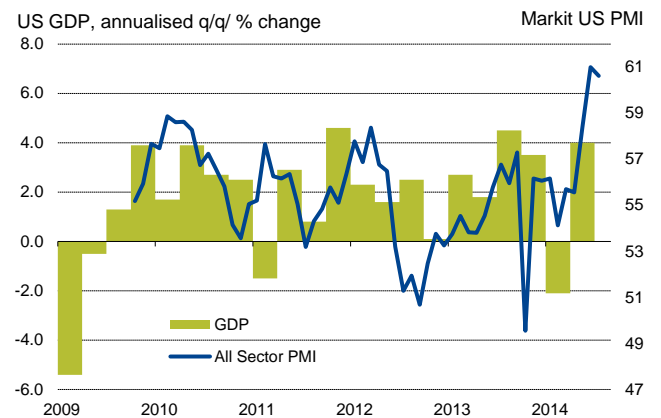
The contrast between the surveys and the retail sales data suggests that, at this stage, we should not get too worried about one month's disappointing sales growth. However, the further slowing in the sales trend will encourage policymakers to be wary of raising interest rates too early.

### Core retail sales



Source: Ecwin.

### PMI surveys and GDP



Sources: Markit, Ecwin.

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