

United States

Retailers on course for best calendar quarter for over three years

- Retail sales +0.3 in May, April revised up to +0.5%
- Sales so far up 2.0% in second quarter compared to +0.2% in first quarter
- Data add to signs of economy rebounding in second quarter

Retailers are on course for their best calendar quarter in terms of sales for over three years, providing further evidence that the US economy is warming up from the cold spell earlier in the year.

Retail sales rose 0.3% in May, below the 0.6% increase expected by analysts polled by Reuters. However, the disappointment was due to a marginal 0.1% increase in April being revised up to an impressive 0.5%. So far in the second quarter, retail sales are up 2.0% on the first quarter, which would be the strongest quarterly gain since the first quarter of 2011.

The increase follows a modest 0.2% rise over the first quarter as a whole, a weakening that had been widely linked to shoppers being deterred by extreme winter weather across many states.

The upbeat retail sales data corroborate the signal from Markit's two PMI surveys that the US economy could grow at an annualised rate of 3.0% or more in the second quarter after the 1.0% fall in the first three months of the year. The surveys showed the [services](#) economy growing at the fastest rate for just over two years in May and the [manufacturing](#) sector enjoying its strongest expansion of output for over three years.

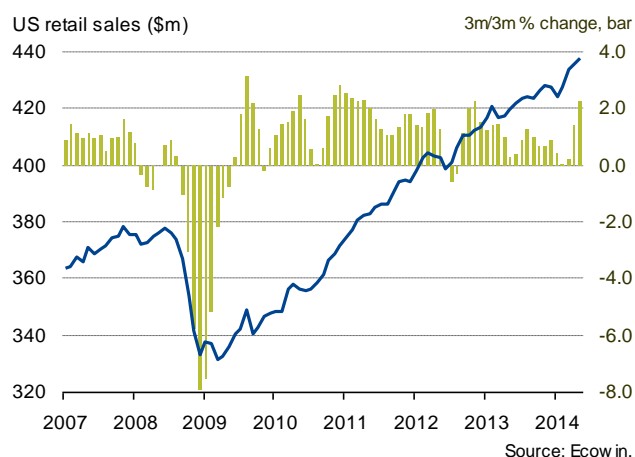
Fed to continue taper

The data also help to validate the Fed's view that the underlying trend in the pace of economic growth remains healthy and robust, having been only temporarily halted in the first quarter by the adverse weather. A further \$10 billion tapering of asset purchases is therefore on the cards at next week's FOMC meeting.

More importantly, Yellen's press conference will hopefully provide updated guidance on when interest rates are likely to start rising. Current expectations are

for mid-2015. With inflation running at 2.0% in April, and core CPI rising to 1.8%, we could start seeing those expectations being pulled forward if growth and price data continue to surprise to the upside.

US retail sales



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