

United States

Retail sales growth disappoints in August, but unlikely to deter Fed tapering

- Retail sales rose 0.2% in August, half the expected 0.4% rise
- Core sales also up 0.2% against expected 0.3% rise

A smaller-than-anticipated increase in retail sales in August adds to evidence that the US economy is likely to have slowed in the third quarter, but the recovery nevertheless continues, suggesting the Fed remains on course to start tapering its stimulus next week.

Retail sales rose 0.2% in August against expectations of a 0.4% rise. Core sales (excluding autos, building materials and gasoline), also rose 0.2%, lower than expectations of a 0.3% rise and down from 0.5% in July.

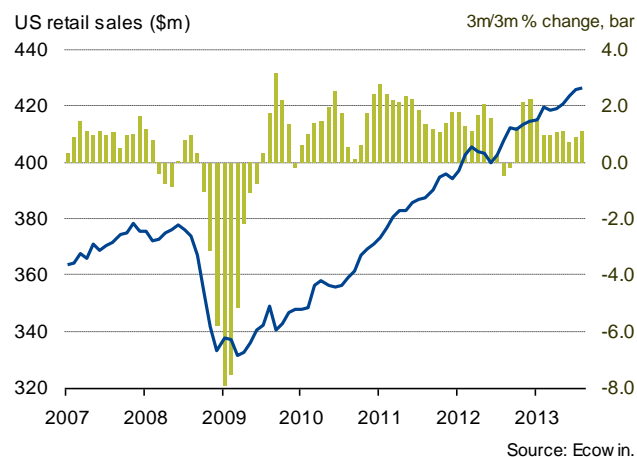
Sales have nevertheless now risen in nine of the past ten months, the exception being last March, indicating that shoppers have not been deterred from spending by issues such as the payroll tax rise at the start of the year and worries about the fiscal cliff, as many had feared.

With the latest rise building on a 0.4% increase in July, it looks like retail sales will help drive economic growth again in the third quarter, though it seems unlikely that the contribution will be as large as the 0.9% rise in sales had in the second quarter.

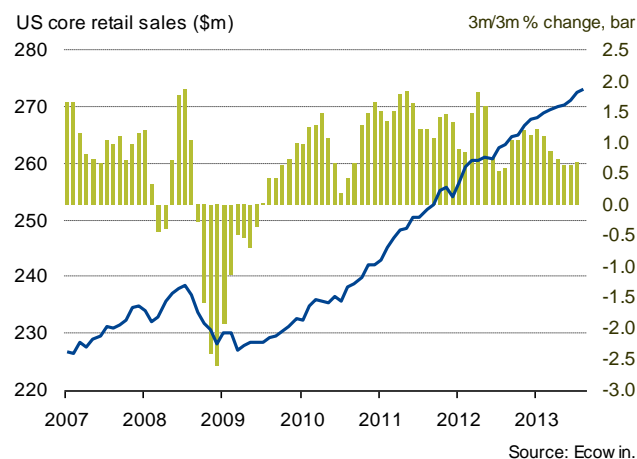
The message from the various official data that are available is therefore that the economy continued to grow in the third quarter, but that growth is likely to have slipped from the 2.5% annualized pace seen in the second quarter.

Although weaker than expected, the retail data are unlikely to stop the Fed starting to withdraw its stimulus at next week's FOMC meeting. However, the Fed is most likely to make only a small but symbolic reduction to the stimulus programme, perhaps reducing the asset purchases by \$5bn per month, due to the fragility of the upturn. Importantly, any tapering is likely to be accompanied by a statement of reassurance that any further tightening of policy will be carefully considered to ensure it does not set back the recovery.

US retail sales



Core sales (excl. building materials, autos & gas)



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