

United States

Retail sales pick up ahead of Fed meeting

- **Retail sales rise 0.2% in November, core sales up 0.6%**
- **But Q4 increase set to be one of weakest seen over past two years in sign of sales trend easing**

November saw a marked improvement in US consumer spending, tilting the odds further towards the Fed hiking rates next week, something which already looks a near certainty. However, the data also contain a note of caution to policy makers, in that the underlying retail sales trend may be weakening.

Core retail sales, which strip out volatile spending on cars and fuel, as well as building and food services, rose 0.6% to register the largest monthly increase since May. Overall retail sales rose 0.2% in November, missing expectations of a slightly stronger 0.3% rise but nevertheless signalling the best increase since July.

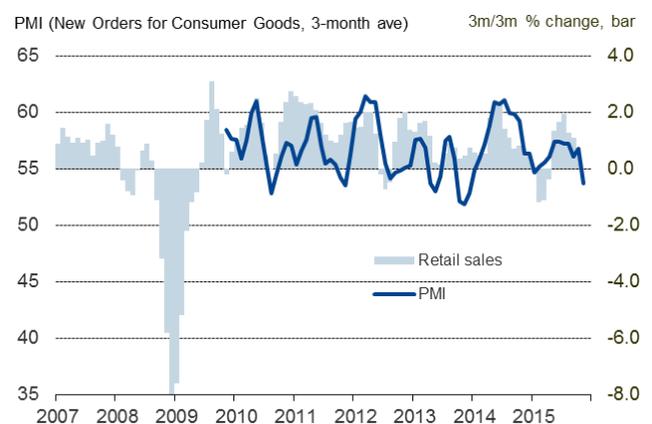
So far in the fourth quarter, core sales are 0.7% higher than the third quarter, thereby supporting other indicators which point to the economy being on course to enjoy another quarter of 2-2.5% annualised growth in the closing months of 2015.

The data will no doubt be seen as further encouragement to policy makers who have already signalled their intent to hike interest rates next week for the first time in nine years. However, the data also suggest that the underlying spending trend could be waning, which adds to the view that spending is not galloping away and the Fed will need to be cautious in timing future hikes, pointing to a gently rate trajectory path.

The 0.7% rise in sales so far in the fourth quarter compares with a 1.1% rise in the third quarter and a 1.2% increase in the second quarter. In fact, barring the weather-torn first quarter, core sales growth is on course to be the weakest for almost two years. Markit's PMI data also show a deteriorating trend in new orders at factories that produce consumer goods, suggesting retailers are buying few goods from wholesalers, most likely due to weaker than expected sales.

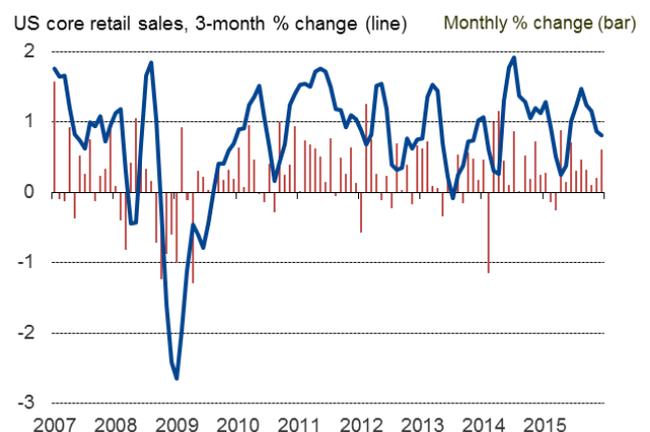
While consumers have benefitted from low inflation and falling fuel prices, the prospect of higher interest rates may be starting to have an impact on people's propensity to spend.

Markit PMI and retail sales



Sources: Markit, Datastream.

Core sales growth



Source: Datastream.

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