

# United States

## Retail sales rise in April, but upturn fails to revive weak underlying trend

- Retail sales rise 0.1% in April, with core sales up 0.5%
- Weak data in prior months mean three-month growth rate for core sales slipped to weakest since October

The US Fed will be reassured by better than expected sales growth in April, but will be cautious about reading too much into one month's data. Instead, an ongoing weakening in the trend rate of sales growth will most likely encourage policymakers to refrain from easing back on policy stimulus any time soon and await more data. The sales upturn will nonetheless ensure talk of scaling back the stimulus remains firmly on the table.

### Reassuring rise in 'core' sales

In the detail, US retail sales rose 0.1% in April, according to official data, representing a welcome improvement after sales had dropped 0.5% in March (revised from -0.4%). Core sales, which exclude building materials, car dealers and gasoline, were even perkier, rising 0.5% after a 0.1% increase in March. The data were better than expected. Analysts had been expecting sales to have fallen 0.3% and for core sales to have risen by 0.3%, according to Reuters' polling unit.

The upturn adds to evidence that US consumer confidence has shown surprising resilience so far this year. Many had feared the combination of payroll and income tax hikes at the start of the year, government job cuts and ongoing worries about the impact of future government spending cuts would hit consumer spending, but there is little sign of a steep downturn.

### But trend growth rate weakens again

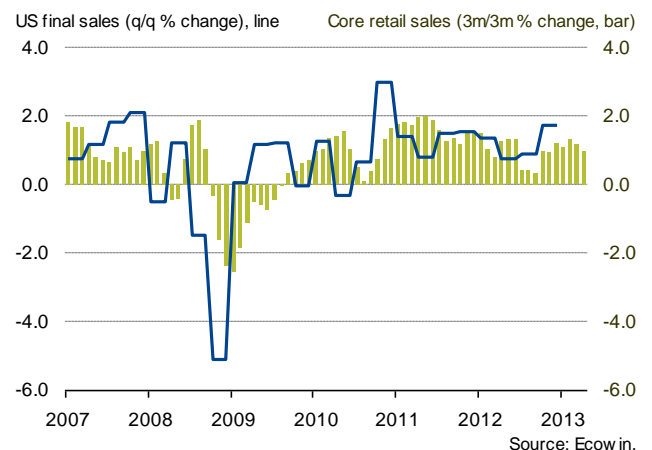
However, although holding up well, consumer confidence indicators nevertheless remain far below pre-crisis levels and, despite the upturn in sales in April, the trend rate of growth remains weak, suggesting there's a limit to the potential for consumers to drive economic growth in the second quarter. Core retail sales in the three months to April were up just 0.9% on

the previous three-month period; the weakest rate of expansion since last October and down from 1.3% at the start of the year. Meanwhile, manufacturing output growth is also showing some signs of faltering. Markit's Manufacturing PMI fell sharply to reach a six-month low in April. The drop in the PMI bodes ill for the start of the second quarter, and followed recent official data which showed output falling for the second time in three months in March.

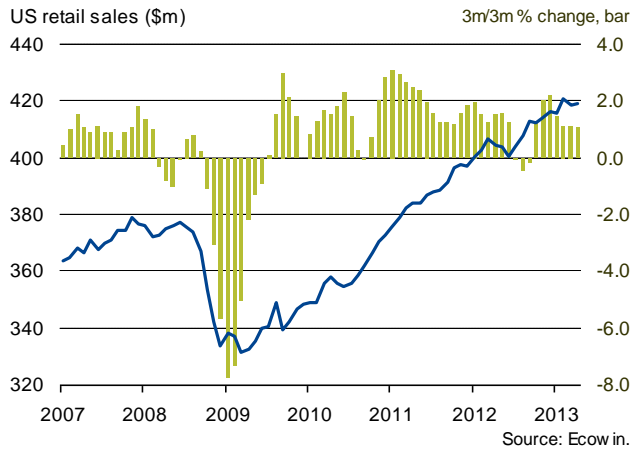
### Can labour market gains be sustained?

The main area of brighter news in recent weeks has therefore come from the labour market, with stronger than expected employment growth in April accompanied by upward revisions to previous months' payroll growth. However, changes in employment often lag behind indicators of output, and the recent weakness of the latter raising the risks of job creation tailing off once again.

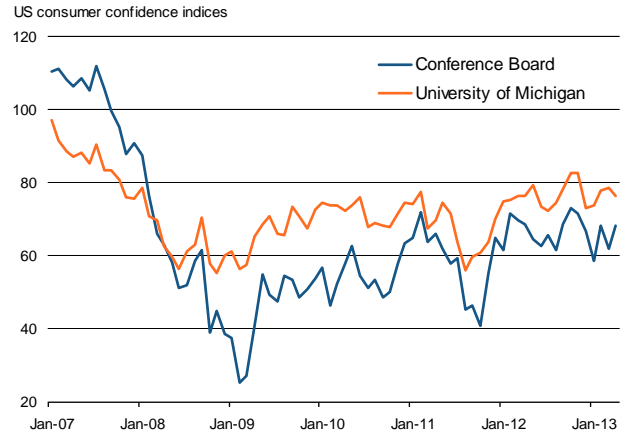
### Core retail sales tracked against total 'final' sales (GDP less inventories)



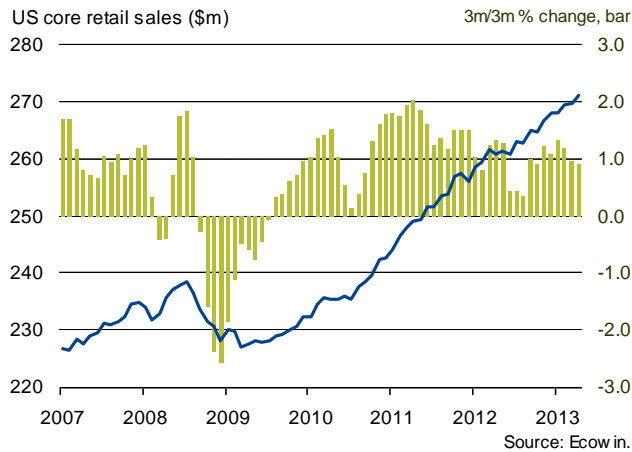
**Retail sales**



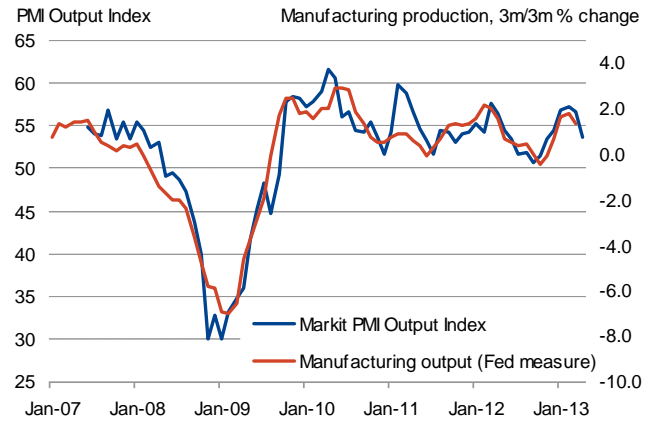
**Consumer confidence**



**'Core' retail sales**



**Manufacturing output**



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