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Flash Macro Update (09/13/2019)

Financial markets, which were pricing in a severe global recession expectation just two weeks ago, are now celebrating ECB's new easing, favourable US macro data and the 'smoother' course of trade talks between US and China. Such mood swings in financial markets started to take place more frequently in the last 12 months, which each time faced with a new cycle of monetary easing that overshadows real/structural problems in global economy, such as growing global debt, fragile banking systems, deteriorating income equality, etc. Amid these volatilities, today, August retail sales data was released in the US.

Retail sales data in August re-confirmed that US economy is not in recession. According to the data, retail sales were up by 0.4% m-o-m in August 2019 compared to the consensus of +0.2%. It is worth noting that July retail sales reading was revised up very slightly from +0.7% to +0.8% m-o-m. In addition, August core retail sales that exclude autos were flattish m-o-m against the consensus forecast of +0.1%. With the August data we observe that retail sales were up on a m-o-m basis consecutively in the last six months. We calculate that core retail sales were up by 3.3% y-o-y in the first eight months of the year confirming the strength of consumption.

Consumer spending is the main source of growth in the U.S. economy, consisting of more than two-thirds of economic output. We think that the recent data despite some slowdown confirms the recent GDP growth forecasts for the third quarter, which hover at around 2.0%. Please recall that GDP growth in the second quarter of the year was also 2.0%.

When we look at the details of the data, we observe that as usual online retail sales (+1.6%) did post sizeable m-o-m increase in August, while department store sales fell by 1.1% m-o-m. Apart from the aforementioned usual suspects, we observe that in August eight sectors registered m-o-m declines in sales, which usually was around 3-4 sectors in previous months. It might be a one-off thing, but it might also be a signal that retail sales might not be as strong as before in the coming months.

Although uncertainties regarding global economy and ongoing trade talks could still weigh on expenditure decisions of consumers and companies going forward, we continue to believe that a recession in the US does not look imminent at this stage.

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