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Flash Macro Update (08/15/2019)

Two days ago, global financial markets welcomed US' decision to postpone some of the tariffs on China by around three months. Yesterday, the whole pricing turned to negative after German GDP data and global recession fears including US surfaced again. Amid this volatile and erratic pricing behaviour July US retail sales data was out today and the data clearly suggested that US economy is not in recession. At least, the data suggested that consumption is doing better than expected. External factors made FED to cut its interest rate by 25 bps at its last FOMC meeting, but domestic data do not justify FED's rate cut yet. Please note that FED's next FOMC meeting will be held on September 17-18 and if macroeconomic data continues to be that strong until the meeting, it will be difficult to cut the rate again for FED despite external uncertainties and political pressure.

According to the data, retail sales rose by 0.7% m-o-m in July 2019 compared to the consensus of +0.3%. It is worth noting that June retail sales reading was revised down very slightly from +0.4% to +0.3% m-o-m. In addition, July core retail sales that exclude autos posted a 1.0% m-o-m increase against the consensus forecast of +0.4%. Furthermore, core retail sales for June were revised down also very slightly from +0.4% m-o-m to +0.3% m-o-m. With the July data we observe that retail sales were up on a m-o-m basis consecutively in the last five months.

Consumer spending is the main source of growth in the U.S. economy, consisting of more than two-thirds of economic output. The recent data should further trigger some upward revisions in the 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 2.1%.

When we look at the details of the data, we observe that as usual online retail sales (+2.8%) did post sizeable m-o-m increase in July, while department store sales this time increased as well by 1.2% m-o-m. Auto sales registered a 0.6% decline in July.

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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