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Flash Macro Update (11/15/2019)

Progress in US-China trade talks and diminishing fears of a hard Brexit seem to have a positive impact on consumer behaviour in the US. In financial markets, recession pricings smoothed out and mild global growth scenario is priced in nowadays. Amid that ongoing pricing normalization, today, October retail sales data was released in the US.

Retail sales data in October showed that consumption continued to remain strong. Maybe not as strong as in the first half of the year but still strong... According to the data, retail sales were up by 0.3% m-o-m in October 2019 compared to the consensus of +0.2%. However, it is worth reminding that September retail sales reading was in the negative territory. In addition, October core retail sales that exclude autos were up by 0.2% m-o-m against the consensus forecast of +0.4%. But again, September core retail sales were showing a mild contraction. With the October data we calculate that core retail sales were up by 3.3% y-o-y in the first ten 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 2% GDP growth, which was validated by the third quarter data, is preserved in the last quarter of the year. We know that it is too early to comment on the state of economic activity for 4Q19 but it appears that fourth quarter GDP growth could be around 2% as well.

When we look at the details of the data, we see a mixed picture there. Furniture, electronics, sport equipment, clothing sectors recorded m-o-m sales declines whereas motor vehicles and online store sales remained strong. Weakness in traditional department stores continued as usual despite some recovery in October.

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. FED recently switched to a wait-and-see approach. And October retail sales data will not be a game changer at this stage.

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