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CONY Flash Macro Note **July 16, 2019**

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Flash Macro Update (07/16/2019)

June retail sales data was out today, and the data was slightly better than expected confirming the views of FED that consumption is doing better than business investments. Naturally, after the data, yields in the US increased slightly, since strong macroeconomic reading in the US reduces the probability of larger rate cuts. At this stage, we do not think that the June retail sales would be a deal breaker for a 25 bps rate cut in FED's upcoming FOMC meeting scheduled to take place at the end of this month. But some market players were hoping that FED's possible rate cut in July would turn into a monetary policy easing cycle which might not be the case at this stage.

According to the data, retail sales rose by 0.4% m-o-m in June 2019 compared to the consensus of +0.1%. However, May retail sales reading was revised down from +0.5% to +0.4% m-o-m. In addition, June core retail sales that exclude autos posted a 0.4% m-o-m increase against the consensus forecast of +0.1%. Furthermore, core retail sales for May were revised down from +0.5% m-o-m to +0.4% m-o-m. With the June data we observe that retail sales were up on a m-o-m basis consecutively in the last four months.

When we look at the details of the data, we observe that as usual online retail sales (+1.7%) did post sizeable m-o-m increase in June, whereas department store sales were weak in June declining by 1.1% m-o-m. Another eye-catching development was on the gasoline front, which posted a decline of 2.8% m-o-m.

Despite concerns that US economy is slowing down fast, retail sales data suggest that the sales were actually doing better than expected. It is worth noting that 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 and revisions should trigger some further upward revisions in the GDP growth forecasts for the second quarter, which hover at around 1.5%. Please recall that GDP growth in the first quarter of the year was 3.1%.

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 looks imminent at this stage.

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