U.S. RETAIL SALES END Q2 ON A STRONG NOTE

*U.S. retail sales increased by 0.4% m/m in June (consensus: 0.2%), lifting its Q2 annualized increase to 7.5% q/q, the strongest quarterly increase since Q4 2017, suggesting that retail activity has regained momentum and is accelerating after the stunning drop-off at the end of 2018 (Chart 1).

*Control retail sales (excludes gasoline stations, food services and drinking places, building materials, and auto sales) that factor directly into GDP, increased by 0.7% m/m (consensus: 0.3%), the fourth consecutive monthly increase. Control retail sales increased by 7.5% q/q annualized in Q2, the strongest gain since Q4 2005 (Chart 2).

*Strong June sales raise the starting point for consumption in Q3.

*The robust retail performance supports our forecast for broader consumption (includes services) to increase by ~4% q/q annualized in Q2 and contribute significantly to Q2 GDP growth after a subpar Q1. Healthy consumption growth is especially important now amid the U.S. and global industrial slump that we expect to contribute to an outright decline in real business fixed investment in Q2 and as manufacturers continue to work off the inventory overhang. The consumer has risen to the challenge thus far.

In June, 11 out of the 13 primary categories of retail sales increased - since March at least eight categories have increased each month (Chart 3).

Most discretionary sales categories increased in June, reflecting strong consumer confidence:

1) Sales at food services and drinking places increased for the sixth consecutive month (+0.9% m/m) and probably best reflects the healthy state of the U.S. consumer (Chart 4).
2) Furniture store sales increased by 0.5% m/m, lifting its yr/yr change to 0.8% from 0.2%.
3) Motor vehicle and parts sales increased by 0.7% m/m for the second consecutive month, lifting its yr/yr change to 4.1% from 3.3%.
4) Sales at electronics and appliance stores declined by 0.3% m/m. This has been one of the weaker performing categories, with its sales down 5% m/m from 12 months ago.
5) Sales at clothing and accessory stores increased by 0.5% m/m. This strong increase at least partly reflects the increase in the CPI's estimate of apparel prices in June (+1.1% m/m).

Nonstore retail sales (includes online) - most indicative of contemporary retail trends - increased by a strong 1.7% m/m for the second consecutive month, boosting its yr/yr change to 13.4% from 12.1% (Chart 5). Department store sales on the other hand declined by 1.1% m/m, continuing its longer-run structural decline.

We remain optimistic about consumption because of robust consumer fundamentals: healthy increases in inflation-adjusted average hourly earnings, solid job growth, low initial jobless claims, elevated consumer confidence, low interest rates and the strong equity market rally.

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Chart 1: U.S. Retail Sales (q-o-q annualized % change and y-o-y % change)

Source: Census Bureau/Haver Analytics

Source: Quarterly data. Source: Census Bureau and Haver Analytics

Chart 2: Control Retail Sales (q-o-q annualized % change)

Source: Census Bureau/Haver Analytics

Source: Quarterly data. Source: Census Bureau and Haver Analytics
Chart 3: Number of Primary Categories of Retail Sales Increasing (out of 13)

Source: Monthly data. Source: Census Bureau and Berenberg Capital Markets

Chart 4: Retail Sales - Food Services and Drinking Places

Source: Monthly data. Source: Census Bureau and Haver Analytics
Chart: Nonstore Retail Sales (year-over-year, %)

Source: Census Bureau/Haver Analytics

Source: Monthly data. Source: Census Bureau and Haver Analytics
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