

US DECEMBER RETAIL SALES EX-AUTOS TILT SOFT, BUT FUTURE LOOKS BRIGHT

**Total US retail sales ended the year at a fast pace, advancing 0.6% m/m in December, driven by motor vehicles and parts, elsewhere sales tilted soft with control retail sales up only 0.2% m/m*

**Holiday shopping season was likely strong, with nonstore retail sales (includes online sales) up a strong 1.3% m/m and up 12% qtr/qtr (annualized)*

**Future household consumption is setting up to be robust with likely cuts in individual income tax rates and improving consumer fundamentals*

Total US retail sales ended the year at a fast pace, advancing 0.6% m/m in December, driven primarily by motor vehicle and parts sales posting their strongest monthly gain since April. Elsewhere sales tilted soft as sales excluding autos and control retail sales -- that portion of sales counted directly in consumption in GDP while excluding motor vehicles, gasoline, building materials, and food services and drinking places sales -- both advanced only 0.2% m/m after strong gains at the start of the quarter (see Chart 1).

The softer-than-expected control retail sales in December suggest that private consumption, which also includes services spending, may have tilted weak. However, personal consumption started Q4 at a robust pace, so any softness in activity will have only a negligible impact on the quarter in aggregate -- expect consumption to grow near 2.5% in Q4.

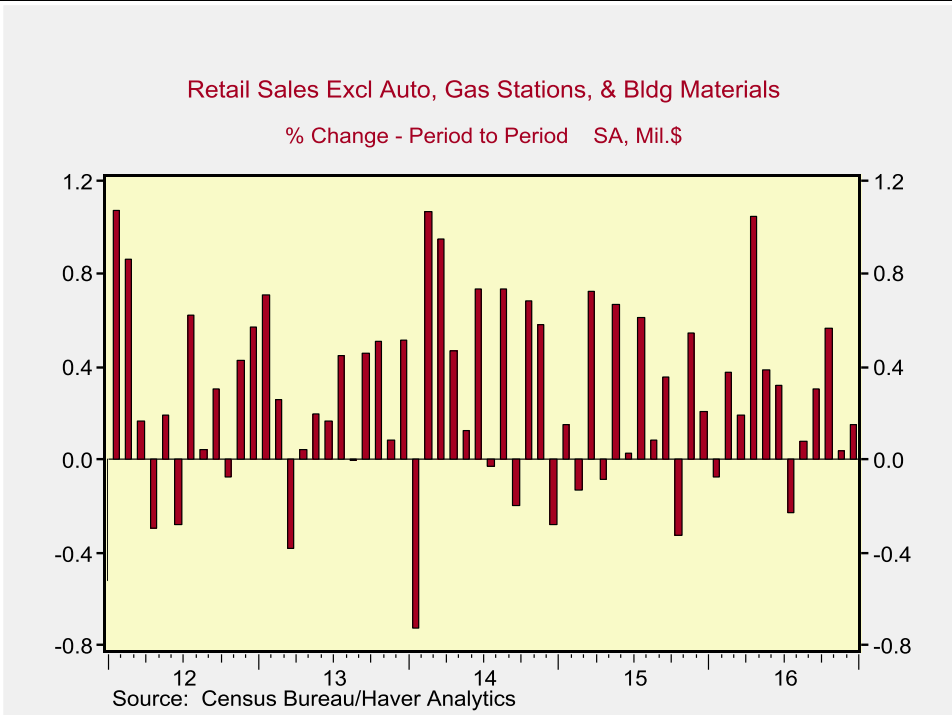
The details show that the holiday shopping season proceeded at a robust pace, with nonstore retail sales (includes online sales) that account for a rapidly growing share of shopping up by a strong 1.3% m/m and an annualized 12% qtr/qtr. Evidence of this shift from brick and mortar stores is clear with general merchandise stores sales down 0.5% m/m (annualized -0.45% qtr/qtr) (See Chart 2).

Future household consumption is setting up to be robust with likely cuts in individual income tax rates from the Trump Administration. Moreover, wage growth is continuing to pick up, revolving consumer credit (includes credit cards) growth has been very robust -- an indication of increased confidence in consumer finances -- and consumer sentiment has been more optimistic since the US presidential elections (see Chart 3). There is upside risk to our forecast for private consumption to increase under 3% this year and next.

In financial markets, following the US presidential elections, the S&P 500 retail index has underperformed the S&P 500 composite index since mid-December, but has made up ground recently (see Chart 4).

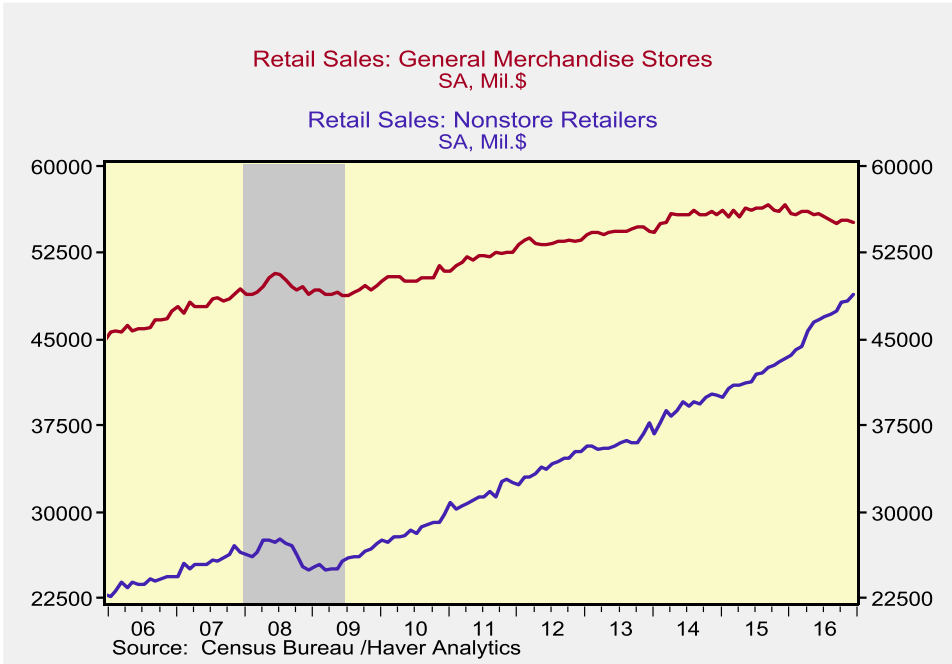
13 January 2017

Chart 1: Control Retail Sales (Month-Over-Month, %)



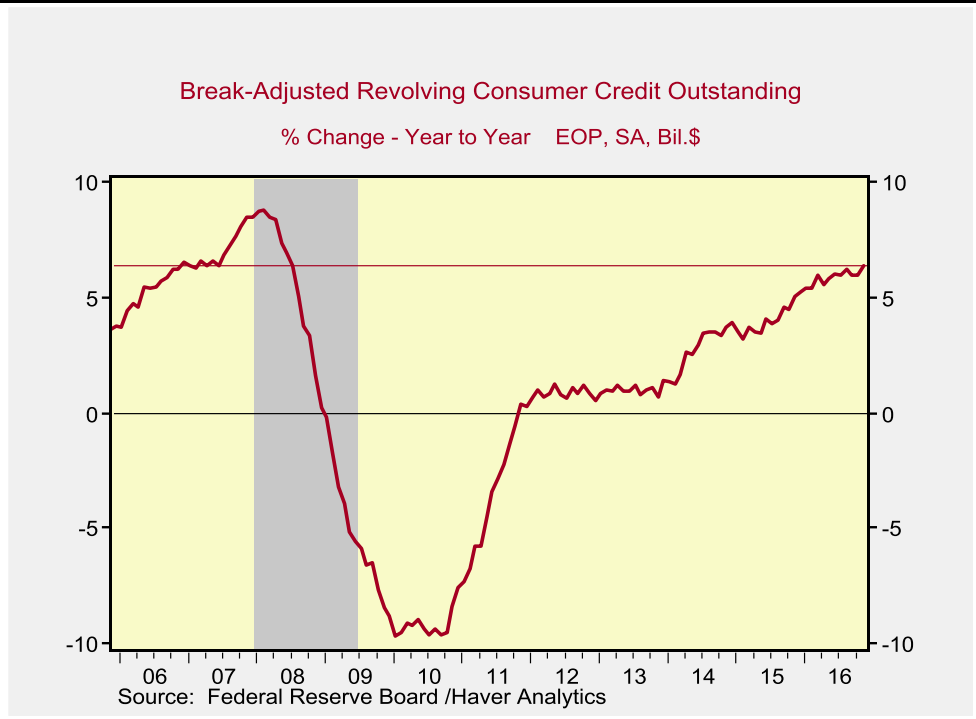
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 2: Sales at General Merchandise Stores vs Nonstore Retailers



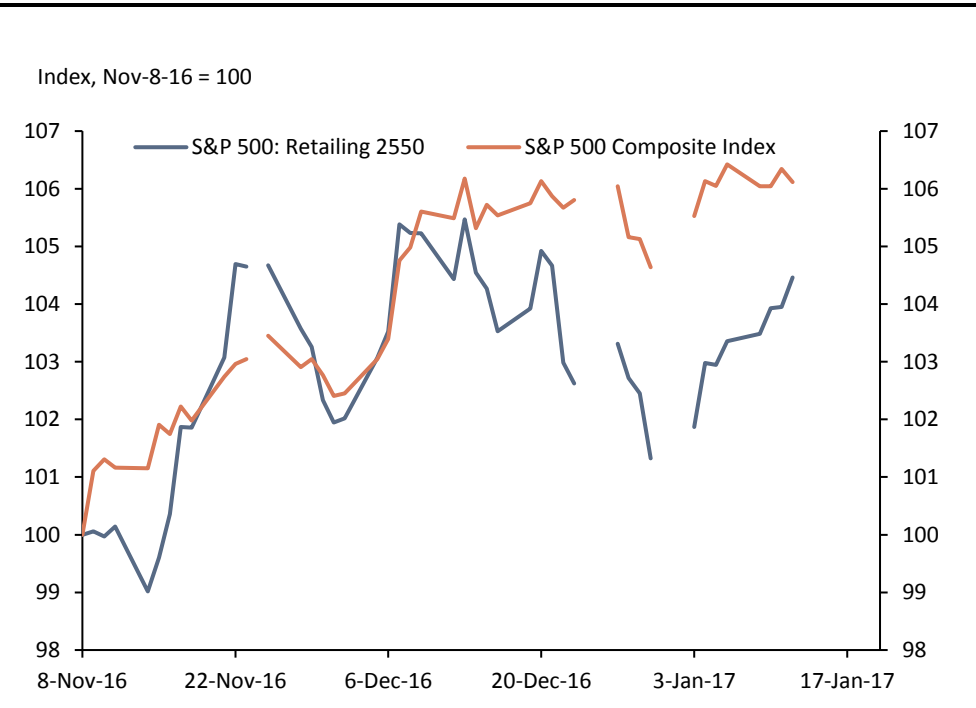
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 3: Revolving Consumer Credit Growth (y-o-y, %)



Source: Monthly data. Source: Federal Reserve and Haver Analytics

Chart 4: S&P Retail vs Composite Index since US Elections



Note: Data as of January 12, 2017. Source: Standard & Poor's, Berenberg Capital Markets and Haver Analytics

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