

# Economics

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### US Retail sales cool in May

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Retail Sales (monthly % chg, unless otherwise noted)	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023	May YoY SA
Retail & food service	0.3%	0.4%	-0.9%	-0.7%	2.8%	1.6%
• Ex-autos	0.1%	0.4%	-0.8%	-0.5%	1.9%	1.0%
Control Group <sup>1</sup>	0.2%	0.6%	-0.8%	0.0%	1.7%	3.6%
Motor vehicles, parts	1.4%	0.4%	-1.3%	-1.1%	6.8%	4.4%
Furniture	0.4%	-2.2%	-2.5%	-6.5%	10.2%	-6.4%
Electronics	0.2%	-1.1%	-0.5%	-0.2%	12.4%	-5.0%
Building materials	2.2%	0.5%	-3.5%	0.2%	0.4%	-0.9%
Food, beverages	0.3%	-0.1%	-0.3%	0.4%	-0.5%	3.1%
Health, personal care	0.0%	0.8%	0.3%	1.6%	4.5%	7.8%
Gasoline stations	-2.6%	-0.9%	-0.9%	-1.8%	-0.4%	-20.5%
Clothing	0.0%	0.1%	-1.3%	-2.5%	3.5%	-0.2%
Sporting goods	0.3%	0.0%	0.0%	-1.4%	0.8%	1.2%
General merchandise	0.4%	0.9%	-2.5%	-0.1%	1.9%	2.0%
• Department stores	0.3%	-1.1%	-3.8%	-1.5%	5.5%	-3.5%
Miscellaneous	-1.0%	1.9%	0.0%	-2.0%	6.0%	4.5%
Non-store retailers	0.3%	1.0%	0.0%	0.9%	-0.1%	6.5%
Eating, drinking	0.4%	0.3%	0.1%	-2.3%	4.9%	8.0%

Source: Haver Analytics.

- Retail sales decelerated slightly in the US in May, with many discretionary categories seeing slower sales after surging in April. Total retail sales rose by 0.3%, in contrast to the consensus expectation for a 0.2% decline, with a solid rise in auto sales supporting that figure. The more important control group of sales (ex. autos, restaurants, building materials, and gasoline), which feeds more directly into non-auto goods consumption in GDP, showed a more modest 0.2% advance. That implies that real control group sales are still 3.9% above their pre-pandemic trendline, leaving excesses to be drained.
- In contrast to the earlier released unit auto sales data, receipts at car dealerships were up strongly, although some of that will reflect higher prices for used cars. Inventories at car dealerships are still strained, and pent-up demand remains following shortages during the height of the pandemic, which has made demand in the sector less sensitive to higher interest rates during this hiking cycle.

<sup>1</sup> This calculation removes food services, gas, building materials & autos from total retail & food service sales.

- Key discretionary categories including restaurants, online shopping, sporting goods, and department stores saw further increases in sales, although the pace eased off in most categories after surging in the prior month. Clothing sales were flat, while miscellaneous retailers were the only major category in the control group to see an outright decline. Taking into account prices, the control group likely eked out a 0.1% increase in volume terms. However, restaurant prices were up strongly, as labor costs feature more prominently into service prices, and volumes were likely flat in that category as a result.
- Categories tied to housing market activity, namely building materials and furniture, rebounded from declines in April, but we expect the climb in bond yields ahead to add pressure to the housing market, and retail sales in the related categories. Sales of building materials are down by 0.9% from year-ago levels, and furniture sales are 6.4% below year-ago levels, in line with the deterioration in existing home sales.
- The industrial production data released for May following the retail sales report showed a 0.2% decline (vs. +0.1% consensus), as drops in mining (-0.4%) and utilities (-1.8%) offset a 0.1% increase in manufacturing activity. However, that follows a stronger-than-expected gain of 0.5% in April.

## Implications & actions

**Re: Economic forecast** — Today's release leaves control group sales up by 1.1% annualized on a three-month average basis. A slowdown in the labor market ahead should work to cool retail sales further from here, in combination with the depletion of pandemic-accumulated excess savings. That will be a key to stalling growth in the quarters ahead in order to get inflation back to target.

**Re: Markets** — There was little market reaction to the retail sales data, as the control group was in line with expectations.

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