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US Retail sales (Apr): Resilient consumers send mixed signals

by **Karyne Charbonneau** karyne.charbonneau@cibc.com

Retail Sales (monthly % chg, unless otherwise noted)	Apr 2023	Mar 2023	Feb 2023	Jan 2023	Dec 2022	Apr YoY SA
Retail & food service	0.4%	-0.7%	-0.7%	2.8%	-0.7%	1.6%
• Ex-autos	0.4%	-0.5%	-0.5%	1.9%	-0.5%	2.1%
Control Group[1]	0.7%	-0.4%	0.0%	1.7%	0.2%	4.2%
Motor vehicles, parts	0.4%	-1.4%	-1.1%	6.8%	-1.7%	-0.5%
Furniture	-0.7%	-2.0%	-6.5%	10.2%	-1.8%	-6.4%
Electronics	-0.5%	-0.3%	-0.2%	12.4%	-0.6%	-7.3%
Building materials	0.5%	-3.8%	0.2%	0.4%	0.8%	-3.7%
Food, beverages	-0.2%	-0.3%	0.4%	-0.5%	-0.5%	3.7%
Health, personal care	0.9%	0.4%	1.6%	4.5%	-3.3%	7.9%
Gasoline stations	-0.8%	-0.7%	-1.8%	-0.4%	-5.6%	-14.6%
Clothing	-0.3%	-1.4%	-2.5%	3.5%	-0.5%	-2.3%
Sporting goods	-3.3%	-0.7%	-1.4%	0.8%	0.3%	-5.4%
General merchandise	0.9%	-0.9%	-0.1%	1.9%	0.1%	4.3%
• Department stores	-1.1%	-1.7%	-1.5%	5.5%	2.1%	-1.4%
Miscellaneous	2.4%	-0.5%	-2.0%	6.0%	0.4%	2.6%
Non-store retailers	1.2%	0.4%	0.9%	-0.1%	2.2%	8.0%
Eating, drinking	0.6%	0.3%	-2.3%	4.9%	-0.4%	9.4%

Source: Haver Analytics.

- US retail sales rebounded in April, as consumers, who ended the first quarter on a cautious note, opened their wallet once again. Total retail sales increased by 0.4%, only half of the pace expected by consensus, as gasoline sales fell on the month. Things were much better elsewhere, particularly in the control group of sales (ex. autos, building materials, gasoline, and restaurants), which grew 0.7%, much stronger than the 0.3% expected by consensus. Although clothing, furniture and sporting goods sales declined, restaurant spending grew on the month, suggesting that overall, consumers, supported by the strong labor market, are still not fully pulling back on discretionary spending. This supports our call that a recession is not imminent and that the Fed will not cut rates until 2024.
- Control group categories were a mixed bag despite the strong headline number. The strength reflected growth in sales at health and personal care stores, general merchandise stores, miscellaneous stores, as well as another solid advance in online shopping. Meanwhile, spending on categories such as clothing, electronics, furniture, sporting

[1] This calculation removes food services, gas, building materials & autos from total retail & food service sales.

goods, food and beverage and department stores all declined. Consumers are therefore pulling back on some, if not all, discretionary spending.

- The smaller advance in total retail sales was attributable to a decline in sales of gasoline. This is despite an increase in gasoline prices on the month. The weakness might have been partly due to a shortage of gas that affected Florida in April. As expected, auto sales rebounded in April, with a 0.4% gain. Inventories are still strained in the auto sector, and it's likely that pent-up demand will support car sales as more supply becomes available along with supply chain improvement. Building materials sales (+0.5%) also bounced back somewhat after a large decline the previous month.
- Restaurant sales grew in April, while grocery store sales decreased modestly. That likely at least partly reflects the higher pace of inflation at restaurants relative to grocery stores in recent months, as higher labor costs feature more prominently into restaurant food prices. Nevertheless, consumers are still willing to pay the higher price to enjoy a night out.
- Strong gains in the control group suggest a solid contribution to GDP from goods consumption to start the second quarter. The continued strength of the labor market has resulted in solid payrolls gains, but it should eventually weaken and with pandemic-accumulated excess savings falling, we continue to expect consumption to slow ahead.
- US industrial production for April was released separately this morning, and showed an advance of 0.5% on the month, much stronger than the no growth expected by consensus. Gains in manufacturing, particularly motor vehicles and parts, and mining were large enough to more than offset a drop in utilities.

Implications & actions

Re: Economic forecast — Today's retail sales release suggests that consumers are not pulling back on spending as much as was anticipated. Combined with stronger than expected IP numbers, this should assuage fears that a recession is imminent and supports our call that the Fed will not cut interest rates before 2024.

Re: Markets — Bond yields rose following the data as recession fears eased.