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Lower gas prices free Americans to spend elsewhere

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Retail Sales (monthly % chg, unless otherwise noted)	August 2022	July 2022	June 2022	May 2022	Apr 2022	August YoY SA
Retail & food service	0.3%	-0.4%	1.0%	0.4%	0.7%	9.1%
• Ex-autos	-0.3%	0.0%	1.1%	1.3%	0.5%	9.7%
Control Group[1]	0.0%	0.4%	1.1%	0.8%	0.5%	6.6%
Motor vehicles, parts	2.8%	-2.0%	0.6%	-3.4%	1.8%	6.7%
Furniture	-1.3%	-0.5%	-1.2%	-1.1%	1.5%	-1.6%
Electronics	-0.1%	0.5%	-0.5%	-2.6%	1.6%	-5.7%
Building materials	1.1%	1.3%	-0.3%	0.2%	-0.9%	10.5%
Food, beverages	0.5%	0.1%	1.1%	1.1%	0.0%	7.2%
Health, personal care	-0.6%	0.4%	1.3%	0.1%	0.6%	1.5%
Gasoline stations	-4.2%	-2.3%	2.7%	5.0%	-1.3%	29.3%
Clothing	0.4%	-0.8%	0.7%	-1.4%	0.0%	3.5%
Sporting goods	0.5%	0.0%	0.9%	0.9%	0.7%	5.5%
General merchandise	0.5%	-0.4%	2.3%	0.0%	-0.6%	3.6%
• Department stores	0.9%	-0.4%	-1.7%	0.9%	0.2%	0.7%
Miscellaneous	1.6%	-1.1%	3.8%	-2.2%	2.4%	15.3%
Non-store retailers	-0.7%	1.8%	0.3%	2.7%	1.1%	11.2%
Eating, drinking	1.1%	-0.8%	0.7%	1.0%	2.5%	10.9%

Source: Haver Analytics.

- Lower gasoline prices freed up some money for spending elsewhere in the US in August, helping to advance sales by 0.3%. To some extent, the drop in spending at gas stations provided the fuel for spending at restaurants and on autos, but that spending helped drive up prices, wiping out a lot of the growth in volume terms. A downward revision to the July print meant the latest news won't lift most tracking forecasts for quarterly GDP, especially within the context of no growth in August in the control group of sales (ex. gasoline, autos, restaurants, and building materials), and the drop in unit auto sales. Still, we estimate that control group real sales volumes are 7% above where their pre-pandemic trendline would imply they should be, showing that excesses remain in goods sectors, and that the Fed has more work to do in taming demand.
- The fact that spending in discretionary categories, including sporting goods, clothing, and restaurants, grew in August, shows that consumers aren't pocketing the savings from lower gas prices. Although gas prices were down by 11% in August, spending at gas stations retreated by a more modest 4%, implying an increase in real terms.

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

- The increase in auto sales reported was in contrast to the earlier released unit sales data, implying either a shift in demand to higher-priced cars and the increase in new car prices that increased nominal spending. Inventories of vehicles have trended higher this year, but coupled with pent-up demand, the inventory-to-sales ratio has remained relatively flat and well below pre-pandemic levels. A continued improvement in supply chains will boost auto sales ahead, but the erosion in purchasing power due to high prices and rising borrowing costs could become a limiting factor for sales gains.
- The strong increase in spending on building materials, despite the weakness in housing market activity, seems unsustainable, given how high interest rates are set to climb over the rest of the year, and against the backdrop of plummeting home sales. While there was some temporary relief from the climb in mortgage rates in August, they have resumed their ascent, and that should hold back spending on furniture, appliances, and building materials ahead.
- The strong 1.1% advance in restaurant sales will represent roughly 0.2% growth in volume terms, helping to offset what looks like a contraction in real spending at grocery stores. Restaurant traffic has risen further in September, suggesting another contribution to sales in that month.
- Online sales pulled back after a strong increase in July, and were a key factor in limiting sales in the control group, given that they account for almost one-third of sales in the group.

Implications & actions

Re: Economic forecast — Taken with the drop in unit auto sales and the negative revisions, real spending on goods looks to be on a weaker trajectory than previously thought in the third quarter, and will weigh on GDP forecasts. However, continued growth in discretionary spending categories, despite the erosion in purchasing power, shows that the Fed needs to do more to tamp demand down.

Re: Markets — Bond yields fell slightly and the USD lost some ground after the release, but with this not likely to change the Fed's hiking trajectory, the moves weren't sustained.

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