

Economics

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US Retail sales: Underlying control group strengthens

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Retail Sales (monthly % chg, unless otherwise noted)	June 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	June YoY SA
Retail & food service	0.2%	0.5%	0.4%	-0.9%	-0.7%	1.5%
• Ex-autos	0.2%	0.3%	0.3%	-0.8%	-0.5%	0.6%
Control Group ¹	0.6%	0.3%	0.7%	-0.8%	0.0%	3.8%
Motor vehicles, parts	0.3%	1.5%	0.9%	-1.3%	-1.1%	5.3%
Furniture	1.4%	-0.4%	-2.2%	-2.5%	-6.5%	-4.6%
Electronics	1.1%	2.1%	-0.9%	-0.5%	-0.2%	0.9%
Building materials	-1.2%	1.4%	-0.1%	-3.5%	0.2%	-3.2%
Food, beverages	-0.7%	0.0%	-0.1%	-0.3%	0.4%	1.3%
Health, personal care	-0.1%	0.2%	0.8%	0.3%	1.6%	6.3%
Gasoline stations	-1.4%	-2.1%	-1.0%	-0.9%	-1.8%	-22.7%
Clothing	0.6%	0.3%	0.1%	-1.3%	-2.5%	0.7%
Sporting goods	-1.0%	-0.1%	-0.3%	0.0%	-1.4%	-1.3%
General merchandise	-0.1%	0.3%	0.8%	-2.5%	-0.1%	0.5%
• Department stores	-2.4%	0.2%	-1.4%	-3.8%	-1.5%	-5.2%
Miscellaneous	2.0%	-1.3%	1.4%	0.0%	-2.0%	1.5%
Non-store retailers	1.9%	0.7%	1.2%	0.0%	0.9%	9.4%
Eating, drinking	0.1%	1.2%	0.5%	0.1%	-2.3%	8.4%

Source: Haver Analytics.

- Total US retail sales increased only modestly in June, with the 0.2% advance below the consensus expectation of 0.5%. The downside surprise on the headline was compounded by a sharp drop in gasoline sales and building materials, as well as a sharp slowdown in restaurant spending, but the prior month's print was revised up by two ticks to +0.5%. Spending looked stronger elsewhere, as the tight labor market supported incomes in June. Indeed, the control group of sales (ex. gasoline, building materials, restaurants, and autos), which feeds more directly into non-auto goods consumption in GDP, rose by 0.6%, above the consensus expectation of 0.3%. That included a 1.9% surge in online spending after a slowdown in May, and mixed readings amongst other sub-categories, which will leave the Fed on track for a 25bp rate hike in both July and September.
- Discretionary categories sent mixed signals in June, with many increasing (clothing, electronics, furniture, online shopping), and others dropping off (sporting goods, department stores, building materials). Overall, the advance in the control group suggests a respectable increase in volume terms in June for non-auto goods consumption, but the

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

quarter as a whole looked soft, as demand was generally directed towards services. The weakness in restaurant sales coincided with a deceleration in restaurant prices, and implies lower volume terms in June. Surprisingly, grocery store sales were down sharply despite flat prices on the month.

- Although prices at the pump were higher in June, gasoline sales continued to fall, implying lower volume terms. The advance in unit auto sales was mostly erased by price incentives at dealerships in the spending data, with sales increasing by a modest 0.3%. The inventory-to-sales ratio at car dealerships has been trending up, but remains below pre-pandemic levels, in contrast to other retailers. We expect higher interest rates to weigh on demand for autos ahead, and continued improvement in supply chains should also keep the inventory-to-sales ratio on an upward track, helping to contain inflation in goods.
- Categories tied to the interest-sensitive housing market were mixed in terms of monthly performance, but are below year-ago levels (-4.6% y/y furniture; -3.2% y/y building materials). Although housing market activity was surprisingly strong in May, with housing starts and new home sales jumping, we expect that strength to prove temporary, as higher interest rates ahead will limit activity.
- The industrial production data released for June following the retail sales report showed a 0.5% decline (vs. 0.0% consensus), as manufacturing, mining, and utilities production all dropped off, and that was compounded by a negative revision to the prior month (now -0.5% vs. -0.2% previously). That still left production up by 0.7% annualized in the second quarter, due to a strong April reading, a rebound from -0.3% in Q1.

Implications & actions

Re: Economic forecast — Today's release left control group sales up by 2.1% annualized over the second quarter, less than half the pace seen in Q1, and suggesting that goods consumption will be a modest negative for GDP in Q2, leaving services as the driver of consumption. A slowdown in the labor market ahead should work to limit retail sales in discretionary categories further from here, in combination with the depletion of pandemic-accumulated excess savings, which will be key to stalling growth in the quarters ahead in order to get inflation back to target.

Re: Markets — Bond yields rose and the USD appreciated following the upside surprise in the control group of sales, but the move in bond yields wasn't sustained.

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