

Economics

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A gloomy end to the holiday shopping season for US retailers

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Retail Sales (monthly % chg, unless otherwise noted)	Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Dec YoY SA
Retail & food service	-1.1%	-1.0%	1.1%	-0.2%	0.7%	6.0%
• Ex-autos	-1.1%	-0.6%	1.0%	-0.1%	0.2%	7.0%
Control Group ¹	-0.7%	-0.2%	0.4%	0.5%	0.4%	6.7%
Motor vehicles, parts	-1.2%	-2.6%	1.5%	-0.5%	2.9%	1.8%
Furniture	-2.5%	-2.2%	2.0%	-2.1%	0.6%	0.3%
Electronics	-1.1%	-1.2%	-1.2%	-1.4%	-2.0%	-5.6%
Building materials	0.3%	-3.1%	1.2%	-0.7%	1.7%	2.3%
Food, beverages	0.0%	0.4%	1.2%	0.8%	0.4%	6.9%
Health, personal care	-0.9%	0.6%	-0.2%	0.8%	0.0%	2.8%
Gasoline stations	-4.6%	-1.6%	3.3%	-4.0%	-5.0%	5.2%
Clothing	-0.3%	-0.8%	-0.4%	1.0%	1.0%	2.9%
Sporting goods	0.1%	-0.3%	0.6%	-0.4%	1.1%	3.9%
General merchandise	-0.8%	-0.2%	-0.3%	1.1%	0.3%	3.8%
• Department stores	-6.6%	-3.2%	-2.5%	1.2%	0.8%	-0.6%
Miscellaneous	-1.1%	-5.6%	-1.0%	0.4%	0.2%	2.4%
Non-store retailers	-1.1%	0.1%	1.0%	-0.1%	0.6%	13.7%
Eating, drinking	-0.9%	-0.1%	1.2%	1.0%	2.5%	12.1%

Source: Haver Analytics.

- Retail sales fell sharply in the US in December, with the 1.1% retreat slightly below the consensus expectation for a 0.9% decline. That included plummeting auto sales, and lower receipts at gas stations as prices fell, but that also included a 0.7% decrease in the control group of sales (excluding autos, gasoline, restaurants, and building materials), which feeds more directly into non-auto goods consumption in GDP. That was well below the consensus expectation of -0.3% for that group, and shows that consumers are becoming increasingly cautious about spending on discretionary items amidst higher interest rates, although some of that drop reflects lower prices that have been on offer due to bloated inventory levels. This is a piece of good news for the Fed as it looks to trim the excesses from goods sectors.
- The drop in auto sales was implied by earlier released data on unit sales and prices, and suggests that higher interest rates on loans are holding back demand as auto inventory levels recover from supply chain disruptions. Importantly, this figure doesn't feature directly in the GDP consumption data given that it contains fleet sales to businesses as well.

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

- Bloated inventories led many retailers to start holiday sales early this year, and price discounts extended into December, contributing to the decline in control group sales. Discretionary categories including furniture, electronics, clothing, department stores, and online shopping all dropped off. The decline in online shopping accounted for 48% of the drop in control group sales, but that still leaves sales volumes in that group roughly 5% above where the pre-pandemic trendline implies they should be. It's also possible that winter storms could have added to the downside for brick-and-mortar stores.
- Bad weather likely also factored into the 0.9% drop in restaurant spending, but restaurant reservation data suggests that January is showing signs of a turnaround, although we expect that to be limited by the squeeze from higher interest rates ahead. Surprisingly, there wasn't an offset in receipts at grocery stores in December, where sales were flat despite higher food prices.
- The deterioration in the housing market is linked to the downtrend in furniture, appliance, and electronic sales. Building material sales have shown more resilience, as residential construction spending has shifted towards renovation activity, and away from new housing.
- Gasoline receipts were down only moderately in comparison to the drop in prices at the pump, suggesting higher volumes were purchased at a discounted price. Prices appear to have a floor under them and have trended higher in January so far, consistent with expectations around the rebuilding of Strategic Petroleum Reserves, and ongoing OPEC+ production curtailments. That will leave less money in consumers' wallets for spending elsewhere in January.

Implications & actions

Re: Economic forecast — A strong start to the quarter for goods consumption suggests that Q4 GDP will still get a lift from that category, although the trend in spending clearly suggests that will wane in early 2023, compounded by the materialization of the effects of past interest rate increases. This is a positive development from the Fed's viewpoint, as slower goods consumption will cap inflationary pressures from that side of the economy, while indicators of services activity also look to be turning weaker.

Re: Markets — Bond yields and the USD fell slightly following the release, as it increases the odds of a 25bps hike at the next FOMC.

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