Economics

# ECONOMIC FLASH!

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## US Retail sales (June): Not enough to deter the Fed

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| Retail Sales (monthly % chg, unless otherwise noted) | Jun 2024 | May 2024 | Apr 2024 | Mar 2024 | Feb 2024 | Jun YoY SA |
|---|---|---|---|---|---|---|
| Retail & food service | 0.0% | 0.3% | -0.2% | 0.5% | 0.7% | 2.3% |
| • Ex-autos | 0.4% | 0.1% | 0.1% | 0.6% | 0.3% | 3.4% |
| Control Group[1] | 0.9% | 0.4% | -0.3% | 0.9% | 0.0% | 4.1% |
| Motor vehicles, parts | -2.0% | 1.0% | -1.0% | -0.1% | 2.2% | -2.2% |
| Furniture | 0.6% | 0.7% | 1.8% | -2.1% | -2.2% | -4.0% |
| Electronics | 0.4% | 0.3% | 2.6% | -2.6% | 2.9% | 2.7% |
| Building materials | 1.4% | -0.7% | 0.4% | -0.2% | 2.4% | -0.9% |
| Food, beverages | 0.1% | -0.2% | 0.7% | 0.3% | 0.2% | 1.9% |
| Health, personal care | 0.9% | 0.3% | -0.2% | 0.2% | -0.2% | 0.7% |
| Gasoline stations | -3.0% | -2.1% | 1.6% | 0.8% | 1.9% | -0.4% |
| Clothing | 0.6% | 1.2% | 2.3% | -2.4% | 0.0% | 4.3% |
| Sporting goods | -0.1% | 1.7% | -2.2% | -1.3% | 0.7% | -3.4% |
| General merchandise | 0.4% | 0.1% | -0.9% | 0.9% | 0.4% | 3.3% |
| • Department stores | 0.4% | 0.0% | 0.5% | -1.7% | -0.3% | 1.7% |
| Miscellaneous | 0.3% | -1.3% | -1.8% | 2.4% | 2.1% | 2.8% |
| Non-store retailers | 1.9% | 1.1% | -1.3% | 2.5% | -0.7% | 8.9% |
| Eating, drinking | 0.3% | 0.4% | 0.6% | -0.1% | 0.1% | 4.4% |

Source: Haver Analytics.

- Total retail sales surprised in June, coming in flat compared to expectations of a 0.3% m/m contraction. The prior month was revised up two ticks to a 0.3% gain. The control group of retail sales which feeds into non-auto core goods consumption in GDP surged in June with 0.9% increase, far above expectations of a 0.2% gain. Today's data is yet another reminder that you can never count out the American consumer, particularly as spending attitudes towards durable goods have changed post-pandemic. But does the strength in consumption shift the balance of evidence for the Fed and signal that demand in the economy could be heating up? We think not. The accumulation of evidence showing inflation and the labor market cooling will be more than enough to convince the Fed for a September cut. Also remember, monetary policy will remain in restrictive territory, just slightly less so. But taking a step back from today's strong pick up in the control group, the recent trend in consumer spending has been softer, and with wage gains cooling off, we think that trend will reassert itself in the coming months.
- There was a broad-based increase in the June report with ten of the thirteen retail sales categories posting gains in the month, with the largest increases coming from non-store retailers and building materials. Other interest-sensitive categories (furniture and electronics) also saw modest gains but car sales dropped significantly in the month. This

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

however is largely due to a software glitch impacted sales transactions in the month and we should see a rebound next month.

- The control group of retail sales on a six-month annualized basis is sitting at 2.8% in June, compared to the 4-6% range it was at over the second half of last year. Hence, while today is a clearly a sign that demand is far from collapsing, the big picture trend is still pointing to slowdown. We have never strongly believed that consumption growth would cater given the influence of wealthy retirees continue and increased work-from-home are forces keeping the level of goods spending far above pre-pandemic trends (See, The goods life: How boomers and work-from-home changed American spending patterns).
- But we think a slower pace of consumption is the likely path forward based on the direction of the labor market, although there will be more bumps and detours on the way. Underlying wage growth in the private sector is softening by a range of metrics and hiring rates are headed towards difficulty territory. Employment growth has been strong, but no small part of that is due to strong demand from government and health care, sectors that are more insulated from the broader business cycle. All of this points to labor income growth in the economy shifting down a few gears further.
- The other reason to be cautious about an upswell in demand based on today's data is the recent history of revisions associated with retail sales. Going back to Q3 data of last year, headline retail sales have been revised from by an average 0.1%-points on a m/m basis. The advanced release has systematically overstated the strength in consumer spending relative to the final release. The Fed very much likely has that on their mind given the large downward revisions that happened in Q1 of this year and will no doubt take today's surge in the control group with a grain of salt until future releases confirm it.

## Implications & actions

**Re: Economic forecast** — Taking today's data at face value, our GDP nowcast models implies consumption and GDP growth in the range of 1.7 to 2%, an increase of about 0.2%-points on the range for GDP growth. We will update our published GDP forecast soon. The Fed will likely compare the first half of 2024 to the second half of 2023, and will see a slower pace of growth. That picture lines up with the labor market softening and inflation coming down. Hence, we continue to expect the Fed to ease policy twice in 2024, starting in September and then again in December.

**Re: Markets** — Bond yields and the US$ rose following the upside surprise in today's retail sales data.