

Economics

ECONOMIC FLASH!

economics.cibccm.com

March 14, 2024

US Retail sales: Some signs of fatigue

by **Ali Jaffery** ali.jaffery@cibc.com

Retail Sales (monthly % chg, unless otherwise noted)	Feb 2024	Jan 2024	Dec 2023	Nov 2023	Oct 2023	Feb YoY SA
Retail & food service	0.6%	-1.1%	0.1%	0.0%	-0.3%	1.5%
• Ex-autos	0.3%	-0.8%	0.1%	-0.1%	-0.1%	1.5%
Control Group ¹	0.0%	-0.3%	0.3%	0.2%	0.1%	2.2%
Motor vehicles, parts	1.6%	-2.1%	0.2%	0.3%	-1.0%	1.4%
Furniture	-1.1%	0.2%	-2.2%	2.7%	-2.2%	-10.1%
Electronics	1.5%	2.8%	0.2%	-5.2%	0.6%	1.9%
Building materials	2.2%	-4.3%	0.9%	-1.4%	0.1%	-6.1%
Food, beverages	0.1%	-0.3%	-0.3%	0.3%	0.1%	0.4%
Health, personal care	-0.3%	-1.4%	-2.2%	0.2%	1.3%	1.7%
Gasoline stations	0.9%	-1.4%	-0.8%	-3.7%	-1.7%	-4.5%
Clothing	-0.5%	-0.8%	1.4%	1.2%	-0.1%	1.3%
Sporting goods	0.0%	-0.4%	-0.8%	0.2%	0.0%	-3.0%
General merchandise	0.4%	0.0%	0.7%	-0.2%	0.0%	0.7%
• Department stores	-0.2%	1.0%	3.1%	-1.7%	-0.9%	-4.4%
Miscellaneous	0.6%	0.2%	-0.4%	0.1%	0.9%	3.2%
Non-store retailers	-0.1%	-0.3%	1.3%	0.4%	-0.3%	6.4%
Eating, drinking	0.4%	-1.0%	-0.5%	1.4%	0.3%	6.3%

Source: Haver Analytics.

- The American consumer might be showing some signs of fatigue. Total retail sales rose by 0.6% m/m, coming in a bit below expectations of a 0.8% gain. However, the prior month was revised down three ticks to a 1.1% drop. The control group of retail sales which feeds into non-auto core goods consumption in GDP was flat in the month, compared to expectations of a 0.4% gain. The January reading in the control group was revised up a notch to a 0.3% decline. While weather may have impacted last month's reading, downward revisions on total retail sales and a smaller than expected rebound this month could be a sign of a return to a more normal pace of consumption. Consumption exploded in the second half of 2023 with solid real wage growth and American households being largely insulated from the direct impact of higher rates due to long-term mortgages. The labor market is rebalancing at a healthy pace and wage growth is decelerating now. Today's data might be telling us the days of rapid goods consumption growth seen in 2023 are behind us.
- How will the Fed react to today's number and the risk of a slowdown in retail sales? We expect they won't be very phased. Typically, a surge in goods consumption is followed by a period of pullback. Once you purchase a television, refrigerator, or a chair, you usually don't go out and buy another one until you need to replace it. That is especially

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

true if you have not moved into a new house which Americans are mostly not doing given where mortgage rates are. The dip in January and the weak rebound may be a sign that a pullback is starting to materialize after a year of impressive goods consumption. Real goods consumption grew by 3.4% in 2023 (Q4/Q4), compared to essentially flat growth the year prior. Powell barely talked about the source of that surprise surge in goods consumption or its inflation implications. He was very focused on the labor market while that was occurring, particularly the improvement in labor supply. In the same vein, if goods demand starts to wane, his attention will be on what that means for labor demand and whether that means a faster labor market rebalancing. That is the more enduring signal for future inflation, not necessarily the wiggles in goods consumption even though that can have an outsized impact on GDP. If we just focus on the prices of goods, that has a significant global component and is influenced by the broader dollar. Those trends have been broadly favorable as of late. It is also worth noting that services consumption has been heating up recently and the level of goods consumption remains incredibly strong even with what will be a pullback in 24Q1.

- Underneath the hood of the report, gains were broad-based with 9 out of 13 categories posting increases. More interest sensitive categories such as motor vehicles and parts, electronics and building materials were strong in the month although furniture saw the largest drop in the month. Non-store retailers -- 30% of the control group -- contracted for the second consecutive month and is probably the clearest sign that goods consumption might be losing a bit of steam. The last time that happened was in late 2013. That being said, the level of non-store retailing or online sales remains incredibly solid.
- Taking today's data at face value and assuming a modest 0.2% volume increase in the control group in March, real consumption growth in Q1 is still tracking around 2% annualized. The upward revision of the control group in January partly offsets the surprise of the flat reading in February. Real goods consumption is tracking at -1.1% in the quarter, after averaging 4% annualized in the last two quarters. So overall, our views on GDP are broadly unchanged today with our tracking remaining in the 1.5 to 2% range.

Implications & actions

Re: Economic forecast — Today's release has no impact on our estimates of GDP for the quarter. We expect growth to average 1.5% to 2% in Q1 assuming a moderate pace of consumption in March. Considering we are coming off headline GDP growth averaging around 4% in the second half of last year, that is still a very solid pace.

Re: Markets — Yields and the dollar rose today, likely impacted by the positive surprise in the PPI report.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2024 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC