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US Retail sales: Some signs of fatigue

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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.

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