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US Retail sales: control group extends strength

by **Katherine Judge** katherine.judge@cibc.com

Retail Sales (monthly % chg, unless otherwise noted)	Feb 2023	Jan 2023	Dec 2022	Nov 2022	Oct 2022	Feb YoY SA
Retail & food service	-0.4%	3.2%	-0.8%	-1.1%	1.1%	5.4%
• Ex-autos	-0.1%	2.4%	-0.6%	-0.8%	1.0%	6.8%
Control Group[1]	0.5%	2.3%	-0.3%	-0.5%	0.4%	7.0%
Motor vehicles, parts	-1.8%	7.1%	-1.8%	-2.2%	1.5%	-0.2%
Furniture	-2.5%	5.7%	-2.0%	-1.1%	2.0%	0.1%
Electronics	0.3%	6.5%	-0.3%	-5.9%	-1.2%	-2.8%
Building materials	-0.1%	0.4%	1.0%	-3.3%	1.2%	0.6%
Food, beverages	0.5%	-0.4%	-0.5%	0.5%	1.2%	5.5%
Health, personal care	0.9%	3.1%	-1.5%	0.3%	-0.2%	8.0%
Gasoline stations	-0.6%	-1.0%	-5.2%	-1.4%	3.3%	-1.9%
Clothing	-0.8%	2.9%	-0.4%	-0.2%	-0.4%	4.3%
Sporting goods	-0.5%	0.4%	0.2%	0.1%	0.6%	3.9%
General merchandise	0.5%	4.3%	0.5%	-0.2%	-0.3%	10.5%
• Department stores	-4.0%	18.1%	-6.3%	-3.2%	-2.5%	2.5%
Miscellaneous	-1.8%	5.6%	1.5%	-4.8%	-1.0%	4.8%
Non-store retailers	1.6%	1.8%	-0.4%	-0.9%	1.0%	8.5%
Eating, drinking	-2.2%	5.6%	0.8%	-0.2%	1.2%	15.3%

Source: Haver Analytics.

- February painted a mixed picture for US retailers on the surface, as total sales dropped off by 0.4%, but the closely watched control group of sales, which feeds more directly into non-autos goods consumption in GDP, rose by a strong 0.5%. That increase was in contrast to expectations for a 0.3% decline following a surge in January that was revised even stronger today, although February's increase will look less impressive in volume terms. Still, continued resilience in spending in many discretionary categories underscores the need for further Fed tightening, supporting our call for a 25bp hike at next week's FOMC.
- Online shopping accounted for 86% of the increase in control group sales, while many discretionary brick-and-mortar stores saw moderate declines following surges in January, including sporting goods, clothing, and department stores. Although many retail categories outside of the auto sector saw an improvement in inventory-to-sales ratios at the end of 2022, core goods prices (ex. used cars) have accelerated in recent months, a worrisome sign for the Fed in combination with still strong consumer demand.

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

- The drop in auto sales was implied by earlier released unit sales data. That isn't necessarily going to show up in weak consumer demand, however, as that figure also includes fleet sales to businesses, accounted for within capital expenditures in GDP, and the fall in used car prices could have also biased that figure down. Inventories are still strained in the auto sector, and it's likely that pent-up demand will boost car sales as more supply becomes available along with supply chain improvement.
- The drop in restaurant spending was in contrast to reservation data and despite still mild weather conditions relative to seasonal norms. It's possible that cooler temperatures in March could hold that category back. Grocery store sales increased only moderately in comparison to the drop in restaurant spending. That likely partly reflects the higher pace of inflation at restaurants (+0.8% m/m in February) relative to grocery stores (+0.3% m/m), as higher labor costs feature more prominently into restaurant food prices.
- Even though many discretionary areas pulled back in February, they generally did not offset the surges seen in January, as solid payrolls gains are supporting household incomes, with wage gains, tax credits, and state tax cuts helping to offset the drawdown in pandemic-accumulated excess savings. The February data implies that real control group sales are 6.7% above where pre-pandemic trends imply that they should be, showing that demand-side pressures remain in goods sectors.
- Gasoline receipts fell, despite a rise in prices at the pump, suggesting lower volumes were purchased at a higher price, which left more money in consumers' wallets for spending on discretionary items.

Implications & actions

Re: Economic forecast — This data adds to the upside surprise in the payrolls data, and the stronger-than-expected core CPI reading, and shows that consumers aren't yet feeling much of the impact of higher interest rates, which will bolster the Fed's case for a 25bp hike at next week's FOMC.

Re: Markets — Markets remain focused on the fallout in the US banking sector, and the PPI data released alongside retail sales showed tamer price pressures than anticipated, explaining why yields weren't boosted by the strong retail sales control group reading.