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US Retail sales: A well-deserved breather

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Retail Sales (monthly % chg, unless otherwise noted)	Jan 2024	Dec 2023	Nov 2023	Oct 2023	Sep 2023	Jan YoY SA
Retail & food service	-0.8%	0.4%	0.0%	-0.3%	0.8%	0.6%
• Ex-autos	-0.6%	0.4%	-0.1%	-0.1%	0.8%	1.2%
Control Group[1]	-0.4%	0.6%	0.2%	0.1%	0.6%	2.5%
Motor vehicles, parts	-1.7%	0.3%	0.3%	-1.0%	1.1%	-1.6%
Furniture	1.5%	-0.2%	2.7%	-2.2%	-0.3%	-9.8%
Electronics	-0.4%	-0.9%	-5.2%	0.6%	0.1%	-5.8%
Building materials	-4.1%	0.9%	-1.4%	0.1%	-0.3%	-8.3%
Food, beverages	0.1%	0.2%	0.3%	0.1%	0.4%	1.9%
Health, personal care	-1.1%	-1.6%	0.2%	1.3%	0.9%	5.0%
Gasoline stations	-1.7%	-0.8%	-3.7%	-1.7%	1.0%	-7.5%
Clothing	-0.2%	1.3%	1.2%	-0.1%	-1.2%	0.5%
Sporting goods	-0.2%	-0.7%	0.2%	0.0%	0.5%	-3.2%
General merchandise	0.0%	1.2%	-0.2%	0.0%	-0.3%	0.9%
• Department stores	0.5%	2.8%	-1.7%	-0.9%	-1.0%	-6.7%
Miscellaneous	-3.0%	-0.3%	0.1%	0.9%	4.9%	-2.7%
Non-store retailers	-0.8%	1.4%	0.4%	-0.3%	1.3%	6.4%
Eating, drinking	0.7%	0.2%	1.4%	0.3%	1.7%	6.3%

Source: Haver Analytics.

The American consumer took a well-deserved breather today, as retail sales pulled back by more than was expected. The control group of retail sales which feeds into non-auto core goods consumption in GDP contracted by 0.4% m/m, compared to expectations of 0.2% gain. The prior two months of the control group was revised down, with the level as of December lower by 0.2%. Total retail sales dropped by 0.8% m/m, coming in below expectations of a 0.2% drop. While today's report disappointed forecasters, it comes after a string of upside surprises. Given how restrictive monetary policy is, the level of consumption is still very strong and the labour market remains fairly tight. The Fed has been mostly silent about the underlying strength of the consumer. Powell has been more focused on supply-side improvements and the labour market. We expect just as they looked through the upswell in consumption -- which at least partly is due to firming real wage growth with inflation easing -- they will not be stressed about a modest and well overdue pullback in retail sales, especially if they believe we are back in a world where the link between slack and inflation is weak. Their focus remains on inflation staying around target and preventing the labour market from breaking when it comes to dialing back on policy. We expect the Fed to begin easing in the second half of this year.

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

- That being said, there are also likely some distortions in today's data. Just as we saw with the labour market data, inclement weather might have impacted the people's willingness to go out and spend. Seasonal adjustment in January and February is also not an easy job in the post-pandemic world. And the advanced release of retail sales is sometimes subject to material revisions. All these factors suggest cautious when reading too much into today's release and that it might not be possible to fully separate signal from the noise today.
- Regardless, that noise or signal, however, was fairly broad-based with 9 out of 13 categories posting declines this month. More interest sensitive categories such as motor vehicles and parts, electronics and building materials saw notable dips in the month while the larges drop was in the discretionary miscellaneous category. Non-store retailers -- 30% of the control group -- pulled back and accounted for most of the downward revision to the control group as November was materially revised down.
- Taking today's data at face value and assuming a return to a solid pace of growth in remaining months of the quarter, real consumption growth in Q1 is tracking around 2% annualized in our view, compared close to 3% which we had before today's downward surprise and revisions. Today's release could shave off 0.4 to 0.7pp from our GDP tracking which was at 2.3% prior to today.

Implications & actions

Re: Economic forecast — Today's release will bring down estimates of GDP growth but the momentum from 23Q4 is strong so GDP tracking is still likely to be solid in a range of 1.5% to 2% after today. Considering we are come off growth averaging around 4% in the second half of last year, without any pullback, that is still a very solid pace.

Re: Markets — Yields and the dollar dropped today as they took in the large negative shock to retail sales.

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