CIBC

CIBC CAPITAL MARKETS

Economics

ECONOMIC FLASH!

economics.cibccm.com

January 17, 2024

US Retail sales: 2023 was the year of American consumer resilience

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

Retail Sales (monthly % chg, unless otherwise noted)	Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Dec YoY SA
Retail & food service	0.6%	0.3%	-0.3%	0.8%	0.7%	5.6%
• Ex-autos	0.4%	0.2%	-0.1%	0.8%	0.8%	4.5%
Control Group[1]	0.8%	0.5%	0.1%	0.6%	0.1%	5.6%
Motor vehicles, parts	1.1%	0.8%	-1.0%	1.1%	0.3%	10.3%
Furniture	-1.0%	2.4%	-2.2%	-0.3%	-1.5%	-4.7%
Electronics	-0.3%	-1.8%	0.6%	0.1%	1.4%	10.7%
Building materials	0.4%	-0.1%	0.1%	-0.3%	0.5%	-2.3%
Food, beverages	0.2%	0.2%	0.1%	0.4%	0.3%	1.3%
Health, personal care	-1.4%	-0.2%	1.3%	0.9%	1.5%	10.7%
Gasoline stations	-1.3%	-3.4%	-1.7%	1.0%	6.7%	-6.6%
Clothing	1.5%	1.0%	-0.1%	-1.2%	1.0%	4.3%
Sporting goods	0.3%	1.4%	0.0%	0.5%	-2.1%	0.9%
General merchandise	1.3%	-0.2%	0.0%	-0.3%	0.3%	3.3%
• Department stores	3.0%	-2.1%	-0.9%	-1.0%	0.2%	-2.7%
Miscellaneous	0.7%	-0.3%	0.9%	4.9%	-3.2%	6.9%
Non-store retailers	1.5%	1.2%	-0.3%	1.3%	-0.2%	9.7%
Eating, drinking	0.0%	1.7%	0.3%	1.7%	0.6%	11.1%

Source: Haver Analytics.

- 2023 will likely go down as the year of the American consumer's resilience and today's consensus smashing report is a fitting way to end the year. The control group of retail sales which feeds into non-auto core goods consumption in GDP rose by 0.8% m/m, compared to expectations of 0.2%. The prior month was also revised up one tick to 0.5%. Total retail sales rose by 0.6% m/m, coming in above expectations of a 0.4% gain and the 0.3% reading in the prior month. The strength was broad-based with increases in 9 of the 13 categories. Some of the largest increases were led by discretionary categories such as clothing, non-store retailers and general merchandise.
- Today’s report will reinforce the view in the FOMC that we do need restrictive policy for some time to allow the labour market to continue rebalancing. The Fed has mostly downplayed the underlying strength in demand, focusing on the improvement in the supply-side of the economy but another strong report will likely lead to a deeper dive and

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

reconsideration of the inflation implications and the drivers of consumption. All in all, today's report reinforces our view that the Fed is no hurry to cut rates and policy easing will only begin in the second half of the year.

- Why did sales accelerate and sustain their strength? One possible explanation is that with inflation coming down so quickly, real wages have firmed. Consumers are likely feeling more comfortable with their increased spending power on the back of a solid household balance sheets and perhaps still some excess savings available to them.
- But beyond that, something more structural seems also to be at play. Online sales now account for 30% of the control group of retail sales and are rising. The level shift in online sales has been sustained essentially since May 2020 despite a series of supply shocks and major shifts in monetary policy. While certainly income and saving dynamics are playing important roles, a change in preferences and habits as a result of increased remote work and other post-pandemic lifestyle changes could be part of this story. One would have thought that with the lumpiness of durable goods cycles (i.e., you don't need to buy appliances every year) and restrictive monetary policy, some pullback would have occurred. But the trend in durable goods consumption which has mostly been about online sales has been unabated throughout this entire cycle. Another possibility is that with housing unaffordable given high interest rates and constrained supply, households consumption budget has widened as they plan to stay put in their own homes or continue renting for sometime.
- For the Fed, the strength in goods consumption is actually coming at a not so bad time. While geopolitical risks remain, there has been a broad normalization in supply chains and strong disinflationary trends in emerging markets, including deflationary trends in China in consumer goods. All of that creates a favourable global backdrop to ward against a resurgence of core goods inflation despite solid demand at home. Added to this, the labour market does appear to be headed in the right direction, with an unemployment rate and the participation rate at or close to their equilibrium levels. Wage growth is also not very far away from a pace that is consistent with 2% inflation. So while the Fed will be concerned about today's report and more certain that easing sooner is a bad idea -- this likely won't force them far off the course plotted in the December projections.

Implications & actions

Re: Economic forecast — Today's release could add 0.4 to 0.7 percentage points to our GDP tracking, which was sitting at 1.9% for Q4 prior to the release. But given it is a December release, it will mean a very strong start to 2024Q1. Overall, once again, retail sales will lead to strong upward revision of the outlook.

Re: Markets — Yields and the dollar jumped today as markets took in the large positive shock to retail sales.

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