

Economics

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US Retail sales (Nov): Strong start to the holiday season

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

Retail Sales (monthly % chg, unless otherwise noted)	Nov	Oct	Sep	Aug	Jul	Nov YoY SA
Retail & food service	0.7%	0.5%	0.9%	-0.1%	1.2%	3.8%
• Ex-autos	0.2%	0.2%	1.0%	-0.1%	0.5%	3.2%
Control Group ¹	0.4%	-0.1%	1.3%	-0.2%	0.4%	4.3%
Motor vehicles, parts	2.6%	1.8%	0.6%	-0.3%	4.4%	6.5%
Furniture	0.3%	-0.7%	1.1%	-0.1%	1.5%	0.7%
Electronics	0.3%	2.4%	-2.9%	-2.4%	0.1%	1.2%
Building materials	0.4%	0.8%	1.1%	0.3%	0.9%	4.1%
Food, beverages	-0.2%	-0.1%	0.8%	-0.4%	0.9%	1.8%
Health, personal care	0.0%	-1.1%	2.1%	0.4%	1.9%	1.8%
Gasoline stations	0.1%	0.1%	-1.4%	-0.9%	0.5%	-3.9%
Clothing	-0.2%	0.4%	0.8%	-0.9%	0.2%	2.2%
Sporting goods	0.9%	-0.6%	1.4%	0.3%	-1.0%	-1.4%
General merchandise	-0.1%	0.0%	0.7%	-0.3%	0.8%	3.1%
• Department stores	-0.6%	-0.1%	0.4%	-1.1%	-0.3%	1.4%
Miscellaneous	-3.5%	-0.8%	2.2%	1.0%	-0.8%	0.8%
Non-store retailers	1.8%	0.1%	2.1%	0.0%	-0.3%	9.8%
Eating, drinking	-0.4%	0.9%	0.8%	0.6%	0.6%	1.9%

Source: Haver Analytics.

- The American consumer started the holiday shopping season on a strong note largely as expected. Headline retail sales rose by 0.7% m/m compared to expectations of 0.6%. October headline retail sales were revised up by one notch. The control group of retail sales, which feeds into non-auto core goods consumption in GDP, rose by 0.4% as expected. In inflation-adjusted terms, the control group rose by an estimated 0.1% in November. Consumption growth is tracking a bit below 3% annualized in Q4, assuming solid services spending, largely because of strong momentum from Q3. Taking a step back, the trend in retail sales growth on an annual basis is about back to normal with, with the control group spending bouncing around between 3.5-4.0% in year-over-year terms this year – which is what it averaged for most of the pre-pandemic period. We never saw that great rotation back to services with the level of goods spending, particularly online shopping, remaining permanently higher.
- Today's report won't sway the FOMC's deliberations for December. They remained focused on the job market and the last mile to 2%. We expect another quarter point cut tomorrow, but with an economy that isn't screaming out for a lot of rate relief, Powell will provide a bit more fuzzy forward guidance tomorrow and open the door to some skips in

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

2025. The market is locked in for a cut tomorrow and is about 60% priced for March, with a skip essentially priced in January as of writing.

- Today's report saw 7 out of 13 categories posting gains, with the largest increases coming from autos, online sales and sporting goods. Items tied to housing and typically considered interest rate sensitive have started to turn up since March of this year. Three-month annualized growth in building materials has steady between 9-11% since August suggesting and furniture store sales have also turned up after a year of negative monthly growth.
- Long-rates have moved around a bit, but have stayed around 4% which is still far above their pre-pandemic highs. So it's hard to tie the pick up in some of these items to rates and when looking at the cycle as a whole, it's difficult not to conclude that very little of the consumption basket has been interest-sensitive as much of our empirical work suggests.
- Households are benefitting from solid real wage gains and large gains in asset income, and research out of the Fed suggests millennials are the main demographic cohort behind strong spending. Millennials are entering their prime earning and parenting years, and have different preferences for goods (particularly adopting and replacing technologies sooner). These fundamental forces are pushing a faster pace of consumer spending and the demographic forces are structural. This is yet another sign that the neutral rate in the US is likely higher and one of the reasons the Fed will be entertaining pauses in 2025.

Implications & actions

Re: Economic forecast — The solid handoff to Q4 suggests that consumption growth will remain strong just under 3% annualized in the quarter.

Re: Markets — Very modest reaction to the retail sales report largely because it was in line.

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