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US Retail sales: You can't have your cake and eat it too

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Retail Sales (monthly % chg, unless otherwise noted)	Mar 2024	Feb 2024	Jan 2024	Dec 2023	Nov 2023	Mar YoY SA
Retail & food service	0.7%	0.9%	-0.9%	0.1%	0.0%	4.0%
• Ex-autos	1.1%	0.6%	-0.6%	0.1%	-0.1%	4.3%
Control Group ¹	1.1%	0.3%	-0.1%	0.3%	0.2%	5.2%
Motor vehicles, parts	-0.7%	2.5%	-2.1%	0.2%	0.3%	2.8%
Furniture	-0.3%	-0.3%	0.6%	-2.2%	2.7%	-6.1%
Electronics	-1.2%	1.3%	2.4%	0.2%	-5.2%	-0.6%
Building materials	0.7%	2.3%	-3.9%	0.9%	-1.4%	-0.6%
Food, beverages	0.5%	0.2%	-0.4%	-0.3%	0.3%	1.4%
Health, personal care	0.4%	0.0%	-1.5%	-2.2%	0.2%	2.3%
Gasoline stations	2.1%	1.6%	-1.1%	-0.8%	-3.7%	-0.7%
Clothing	-1.6%	0.2%	-0.9%	1.4%	1.2%	1.4%
Sporting goods	-1.8%	0.7%	-0.6%	-0.8%	0.2%	-3.9%
General merchandise	1.1%	0.6%	0.6%	0.7%	-0.2%	5.7%
• Department stores	-1.1%	-0.4%	1.0%	3.1%	-1.7%	-2.5%
Miscellaneous	2.1%	1.0%	0.0%	-0.4%	0.1%	6.1%
Non-store retailers	2.7%	0.2%	0.2%	1.3%	0.4%	11.3%
Eating, drinking	0.4%	0.5%	-0.9%	-0.5%	1.4%	6.5%

Source: Haver Analytics.

- As they say, never bet against the US consumer! Total retail sales rose by 0.7% m/m in March, coming above expectations of a 0.4% gain. The prior month was also revised up three ticks to a 0.9% gain. The control group of retail sales which feeds into non-auto core goods consumption in GDP surged by 1.1% in March, compared to expectations of a 0.4% gain. The February reading on the control group was also revised higher by three notches to a 0.3% increase. Today's data unambiguously suggests the underlying trend in consumption remains firm. Until today, there were concerns that the consumer might be feeling a little stretched, as the last two retail reports were less than stellar. But part of that has been revised away today, and has also been compensated for by service consumption heating up. The bottom line here is the US consumer continues to drive the economy and we expect another strong growth performance in 24Q1. Today's data puts our GDP nowcast at around 2.6% annualized in the quarter, a clear upside risk to our published forecast of 2%. That will be the 7th consecutive quarter in which the economy will be operating at or above its potential growth rate of about 2%.
- The pick up in retail sales was broad-based, with increases in 8 out of 13 categories and with discretionary components seeing the largest increases. Notably, the February report was revised up materially, now reporting 12

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

out of 13 categories saw increases compared to 9 at the initial release. Two-thirds of the March increase in total retail sales was due to online retailers which surged by 2.7% m/m in the month, up from 0.2% in February (which itself was revised up by three notches). Miscellaneous sales, gas stations and general merchandise stores also saw material gains in the month. Interest-sensitive categories were generally weak in the month with electronics, motor vehicles and parts, and furniture sales contracting.

- Powell has repeatedly shown limited concern about growth surprises, appealing to a "you can have your cake and eat it too" type-theory of the economy. His view has been that growth has mostly been driven by supply-side factors, and those forces in turn are creating some demand. However, that demand is not likely to add to inflation because supply is improving more than demand. In other words, the capacity of the economy or potential GDP is could be higher. That story worked pretty well then because inflation was coming down, and fairly rapidly. Rather, the Fed was more focused on the risk of the labor market slowing as the unemployment rate crept up and the range of JOLTS indicators showed a labor market rebalancing. But now that we have hit some "bumps" on the road to the inflation target, does that view still hold?
- There is a very good chance after today they start to re-think that theory, or at least parts of it. We agree that it does seem reasonable to believe that potential GDP growth or the underlying trend of the economy could be higher now. But does it seem reasonable to believe that all these forces -- solid productivity, higher immigration and a shallower decline in the trend participation rate -- mean that the trend rate of growth could be north of 3-3.5% which is what actual GDP growth has been since the second half of last year? Probably not. The risk of discounting that some of the strength in the economy could reflect more demand than previously believed is high, even if you believe in a world where the link between slack and inflation is not very strong. We expect that the Fed will realize you can't have your cake and it too (at least all the time) and will increasingly see a need for more cooling of the economy and the labor market to smoothen out some of the bumps that have appeared on the path to 2% inflation.
- Hence, today's data clearly puts at risk our call for three cuts this year as that might amount to a big bet against the US consumer. The labor market and inflation data will continue to be the focus but we are also watching to see whether Fed speakers, as a whole, change their tune about the broader supply-demand balance in the economy.

Implications & actions

Re: Economic forecast — Today's release puts our GDP nowcast around 2.6% annualized in 24Q1, a clear upside risk to our published forecast of 2%. It also puts at risk our call for three rate cuts this year. We'll be watching for more evidence of slower progress on the inflation front and how patient Fed speakers as a whole are.

Re: Markets — Yields and the broad dollar are higher today after the upside surprise.

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