CIBC CAPITAL MARKETS

Economics

ECONOMIC FLASH!

economics.cibccm.com

February 15, 2023

US Retail sales: Fireworks to start the New Year

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

Retail Sales (monthly % chg, unless otherwise noted)	Jan 2023	Dec 2022	Nov 2022	Oct 2022	Sep 2022	Jan YoY SA
Retail & food service	3.0%	-1.1%	-1.1%	1.1%	-0.2%	6.4%
• Ex-autos	2.3%	-0.9%	-0.8%	1.0%	-0.1%	7.3%
Control Group[1]	1.7%	-0.7%	-0.5%	0.4%	0.5%	4.4%
Motor vehicles, parts	5.9%	-1.8%	-2.2%	1.5%	-0.5%	2.8%
Furniture	4.4%	-1.6%	-1.1%	2.0%	-2.1%	3.8%
Electronics	3.5%	-1.1%	-5.9%	-1.2%	-1.4%	-6.3%
Building materials	0.3%	1.1%	-3.3%	1.2%	-0.7%	1.1%
Food, beverages	0.1%	-0.1%	0.5%	1.2%	0.8%	6.2%
Health, personal care	1.9%	-1.8%	0.3%	-0.2%	0.8%	3.6%
Gasoline stations	0.0%	-4.8%	-1.4%	3.3%	-4.0%	5.7%
Clothing	2.5%	-0.6%	-0.2%	-0.4%	1.0%	6.3%
Sporting goods	0.2%	0.2%	0.1%	0.6%	-0.4%	6.9%
General merchandise	3.2%	-0.8%	-0.2%	-0.3%	1.1%	4.5%
• Department stores	17.5%	-6.5%	-3.2%	-2.5%	1.2%	5.4%
Miscellaneous	2.8%	1.5%	-4.8%	-1.0%	0.4%	6.7%
Non-store retailers	1.3%	-1.0%	-0.9%	1.0%	-0.1%	3.0%
Eating, drinking	7.2%	0.0%	-0.2%	1.2%	1.0%	25.2%

Source: Haver Analytics.

- The new year brought fireworks for US retailers, as sales surged by 3.0%, more than making up for a weak end to the holiday shopping season. That was well above the 2.0% expected by the consensus, and the strength was widespread across categories, as the control group of sales, which feeds more directly into non-auto goods consumption in GDP, posted an impressive 1.7% rise, also beating the 1.0% expected by the consensus. This data confirms that the quarter is off to a stronger start than previously thought and cements the need for higher interest rates for longer, as this leaves sales volumes in the control group 6% above their pre-pandemic trendline, reflecting a roughly 1.4% m/m increase in control group volumes.
- Most categories more than rebounded following broad-based declines in December. It's possible that the seasonal adjustment process biased these figures up a bit, as the unusually weak holiday shopping season meant that January didn't look as bleak as normal in non-seasonally adjusted terms.

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

- The climb in restaurant spending was implied by reservation data and coincided with an improvement in weather in many parts of the country, which also likely supported shopping at brick-and-mortar stores. Restaurant reservation data for February so far don't look as encouraging, and seem to suggest a pullback in dining out during the month. While sales at in-person stores were strong, online shopping also increased by a solid 1.3%, and accounted for almost a quarter of the advance in the control group.
- The jump in auto sales was implied by earlier released data on unit sales, and suggests that higher interest rates on loans aren't yet holding back demand as auto inventory levels recover from supply chain disruptions. Note that this figure includes fleet sales to businesses, so the growth implications could be split between consumption and business capital spending depending on the mix of activity.
- The increases in discretionary categories including autos, clothing, electronics, and department stores, alongside restaurants, are a reminder that solid payrolls gains are supporting household incomes to start 2023. That underscores the Fed's desire to see a deceleration in employment as a key indicator of both a slowing in the economy, and a reduction in demand-side pressures on prices.
- Gasoline receipts were flat, despite a rise in prices at the pump, suggesting lower volumes were purchased at a higher price, leaving more money in consumers' wallets for spending elsewhere. Gasoline prices will likely have a floor under them this year, in line with the rebuilding of Strategic Petroleum Reserves, ongoing OPEC+ production curtailments, and the re-opening of China's economy.
- Inventory levels (ex. autos) for many retailers were drawn down over the fourth quarter as price discounts enticed consumers, a source of disinflation that vanished in January, and a negative sign for the Fed.

Implications & actions

Re: Economic forecast — This data adds to the plethora of upside surprises that January has brought for the US economy, and will clearly lift GDP tracking forecasts. It shows that the US economy is still weathering higher interest rates, as wage gains are helping to offset any draw down in excess savings. We have two more quarter point Fed hikes in our forecast for 2023, and no rate cuts until 2024, but reports like this one suggest that risks to that call are still on the hawkish side.

Re: Markets — Bond yields and the USD rose following the upside surprise, as this adds to the evidence supporting the need for higher interest rates for longer.