CIBC

CIBC CAPITAL MARKETS

Economics

ECONOMIC FLASH!

economics.cibccm.com

January 16, 2024

US Retail sales (Dec): Can consumer strength be sustained under Trump?

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

Retail Sales (monthly % chg, unless otherwise noted)	Dec	Nov	Oct	Sep	Aug	Dec YoY SA
Retail & food service	0.4%	0.8%	0.6%	0.9%	-0.1%	3.9%
• Ex-autos	0.4%	0.2%	0.2%	1.0%	-0.1%	2.9%
Control Group[1]	0.7%	0.4%	0.0%	1.3%	-0.2%	4.1%
Motor vehicles, parts	0.7%	3.1%	2.2%	0.6%	-0.3%	8.4%
Furniture	2.3%	1.3%	0.6%	1.1%	-0.1%	8.4%
Electronics	0.4%	0.9%	3.0%	-2.9%	-2.4%	5.8%
Building materials	-2.0%	-0.8%	-0.3%	1.1%	0.3%	-1.8%
Food, beverages	0.8%	-0.2%	0.3%	0.8%	-0.4%	3.1%
Health, personal care	-0.2%	0.3%	-1.3%	2.1%	0.4%	3.4%
Gasoline stations	1.5%	0.2%	0.2%	-1.4%	-0.9%	-1.2%
Clothing	1.5%	-0.8%	1.1%	0.8%	-0.9%	2.4%
Sporting goods	2.6%	-0.3%	-0.4%	1.4%	0.3%	1.8%
General merchandise	0.3%	0.0%	0.1%	0.7%	-0.3%	2.6%
• Department stores	0.1%	-0.4%	-0.4%	0.4%	-1.1%	-1.8%
Miscellaneous	4.3%	-3.9%	-1.0%	2.2%	1.0%	3.7%
Non-store retailers	0.2%	1.7%	0.0%	2.1%	0.0%	6.0%
Eating, drinking	-0.3%	0.1%	0.9%	0.8%	0.6%	2.4%

Source: Haver Analytics.

- Yet another large upside surprise on retail sales as the American consumer finishes what was an impressive year on a very strong note. The control group of retail sales, which feeds into non-auto core goods consumption in GDP, rose by 0.7% m/m, three notches above expectations in December. Headline retail sales came below expectations of 0.6%, but was still very solid at 0.4%. November headline retail sales were revised up by one notch. This brings our consumption growth tracking above 3% annualized in Q4. Today's report adds to the reasons why the Fed is likely to be on hold, and possible for a long stretch. Growth is strong, the labor market is no longer cooling rapidly and inflation is still a bit above target.
- Looking at the year as a whole, headline retail sales growth slowed from 3.6% in 2023 to 2.6% and the control group from 4.8% to 3.7% in annual terms. That brings the growth rates back to around their 2019 levels, which is impressive given the level of spending is substantially well above that trend and we saw no major pullback in goods spending over the past four years. Nonstore retailers, or online shopping, saw growth slip a bit more than its pre-pandemic pace

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

but it still grew at almost 8% in the year and now sits at 31% share of the control group as of the end of 2024, about a percentage-point higher than the year prior.

- We've argued that the solid underlying trend in consumption reflects a combination of solid labor income, an increased sensitivity to wealth and the demographic dominance of millennial consumers, a mostly secular force (Chylak et al, 2024). Millennials are approaching peak income-earnings years, starting or growing their families, and have a higher comfort with investing and online shopping that is amplifying their spendthrift attitude.
- Can this underlying strength be sustained under a Trump administration? Tariffs and slower immigration will take a bite out of the strength in consumer spending, but the starting point matters. Consumption growth is averaging about 3% over the past two years, and has been robust to a number of shocks since the pandemic -- including global supply disruptions, rapid monetary policy tightening and higher-for-longer. That suggests there is some buffer to the downside forces coming from Trump.
- The US consumer will very likely end up paying for the tariffs, at least tariffs on final goods, and slower population growth will take away demand for discretionary purchases. Labor supply will also be less plentiful, creating some pockets of shortages and reducing some of the dynamisms of the job market. Tariff revenue funding an extension and modest expansion of Trump's tax cuts won't provide a material enough boost to the incomes of consumers to offset these forces. Corporates will pass on tax savings in the form higher dividends and share buybacks like they did last time, and the overall impact on GDP, income and inflation will likely be modest as was assessed when the tax cuts were first implemented (Gale et al, 2024). Of course, the size, timing and combination of the policies matter, as well as how monetary policy reacts to all of this. But the bottom line is the incoming administration's policies could put a small to moderate dent in the pace of consumer spending over the coming years.

Implications & actions

Re: Economic forecast — Today's data implies real GDP growth will come in around 3% in Q4 and annual GDP in 2024 at 2.8%.

Re: Markets — Very modest reaction to the retail sales report in the bond market and in the dollar.

CIBC Capital Markets is a trademark brand name under which Canadian Imperial Bank of Commerce (“CIBC”), its subsidiaries and affiliates (including, without limitation, CIBC World Markets Inc., CIBC World Markets Corp. and CIBC Capital Markets (Europe) S.A.) provide different products and services to our customers around the world. Products and/or services offered by CIBC include corporate lending services, foreign exchange, money market instruments, structured notes, interest rate products and OTC derivatives. CIBC’s Foreign Exchange Disclosure Statement relating to guidelines contained in the FX Global Code can be found at www.cibccm.com/fxdisclosure. Other products and services, such as exchange-traded equity and equity options, fixed income securities and futures execution of Canadian securities, are offered through directly or indirectly held subsidiaries of CIBC as indicated below.

Distribution

This report is written by the economics team at CIBC Capital Markets and is not the product of a CIBC Capital Markets research department. This report is issued and approved for distribution: (a) in Canada, by CIBC World Markets Inc., a member of the Canadian Investment Regulatory Organization, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund; and (b) in the United States, by either: (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors (“MII”) (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada and does not constitute an offer or solicitation to buy or sell any securities discussed herein, including (without limitation) in any jurisdiction where such offer or solicitation would be prohibited.

The distribution of this report in the United Kingdom is being made only to, or directed only at, persons falling within one or more of the exemptions from the financial promotion regime in section 21 of the UK Financial Services and Markets Act 2000 (as amended) (“FSMA”) including, without limitation, to the following:

- authorised firms under FSMA and certain other investment professionals falling within article 19 of the FSMA (Financial Promotion) Order 2005 (“FPO”) and directors, officers and employees acting for such entities in relation to investment;
- high value entities falling within article 49 FPO and directors, officers and employees acting for such entities in relation to investment; and
- persons who receive this presentation outside the United Kingdom.

The distribution of this report to any other person in the United Kingdom is unauthorised and may contravene FSMA. No person falling outside such categories should treat this report as constituting a promotion to them or rely or act on it for any purposes whatsoever. This report is distributed solely to eligible counterparties or professional clients and not retail clients as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.

For all other jurisdictions, this report is distributed solely to institutional clients and not retail clients as defined by the applicable securities legislation and regulation to which CIBC Capital Markets may be subject in any jurisdiction.

Miscellaneous

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient’s particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient’s convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

CIBC Capital Markets and the CIBC Logo Design are trademarks of CIBC, used under license.

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