

Economics

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US Retail sales (Sep): Millennials are driving spending

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Retail Sales (monthly % chg, unless otherwise noted)	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Sep YoY SA
Retail & food service	0.4%	0.1%	1.2%	-0.3%	0.2%	1.7%
• Ex-autos	0.5%	0.2%	0.5%	0.5%	0.0%	2.2%
Control Group ¹	0.7%	0.3%	0.4%	0.9%	0.4%	4.0%
Motor vehicles, parts	0.0%	-0.4%	4.4%	-3.6%	1.1%	-0.3%
Furniture	-1.4%	-0.4%	1.5%	0.6%	0.9%	-2.3%
Electronics	-3.3%	-1.7%	0.1%	-1.5%	1.6%	-4.6%
Building materials	0.2%	0.0%	0.9%	1.5%	-0.5%	0.5%
Food, beverages	1.0%	-0.5%	0.9%	0.2%	-0.1%	2.5%
Health, personal care	1.1%	0.6%	1.9%	0.7%	1.5%	4.6%
Gasoline stations	-1.6%	-1.2%	0.5%	-2.1%	-2.2%	-10.7%
Clothing	1.5%	-0.8%	0.2%	0.1%	1.3%	3.5%
Sporting goods	0.3%	0.1%	-1.0%	-0.1%	1.2%	-3.5%
General merchandise	0.5%	-0.4%	0.8%	0.0%	0.1%	2.6%
• Department stores	0.4%	-1.0%	-0.3%	0.4%	0.0%	-1.2%
Miscellaneous	4.0%	0.3%	-0.8%	1.6%	-1.4%	7.9%
Non-store retailers	0.4%	1.6%	-0.3%	2.3%	0.5%	7.1%
Eating, drinking	1.0%	0.5%	0.6%	0.1%	0.1%	3.7%

Source: Haver Analytics.

- The American consumer started the fall season on a high note, with yet another above-consensus retail sales report in September. Headline retail sales rose by 0.4% m/m compared to expectations of a 0.3% gain. The control group of retail sales, which feeds into non-auto core goods consumption in GDP, jumped by 0.7% compared to expectations of a 0.3% rise. In inflation-adjusted terms, the control group rose by an estimated 0.5% in September, and consumption growth is likely headed for above 3% annualized growth in Q3. The benchmark revisions clarified some of the mystery behind a resilient consumer and a cooling job market. They showed that American households actually had much higher incomes, particularly asset income, resulting in a saving rate that is only a bit below normal. In that context, today's solid report is not a huge surprise, and makes us more confident that the potential or long-run growth rate for the US economy is well above 2%. That means the economy is actually operating not far from its "new normal", and rates are likely still too high for a jobs market roughly in balance. We expect the Fed to cut by a quarter-point in November.
- The market continues to expect about quarter point moves in November and December, in line with our call. The Fed has not reacted to the swings in consumer spending much over the past year -- a period of which inflation came down

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

materially and the labor market cooled. So today's surprise should make them more comfortable that they don't need to take bigger steps right now, but not deter them from the need to bring rates gradually into neutral territory.

- Today's report saw 10 out of 13 categories posting gains, with the largest increases coming from discretionary categories such as miscellaneous, clothing and footwear and health and personal care. Interest sensitive sectors such as motor vehicles, furniture, electronics and building materials were generally weak again in the month.
- Who is driving the strength in consumer spending? Recent research from Fed staff points to highly-educated, high-income, millennial-aged and long-term home owners as the groups with largest increases in retail spending (Chylak et al, 2024). Strong income and wealth gains, combined with limited exposure to higher rates all adds up, but the demographic part of the story is also very important. Millennial retail spending is far above other demographic groups in their study. That too is not all that surprising. In addition to entering into their high earning years, they are the first digitally savvy generation part of the "attention economy", able to navigate a myriad of online shopping platforms and take advantage of short delivery times. In fact, spending by Millennials was outpacing other generations prior to the pandemic as well, so it is not only a post-pandemic phenomenon. Growing research shows they are open to spending a bit more on discretionary items than their parents, favoring leisure and more work-life balance which also adds up to more spending. The influence of millennials is only going to grow and that has to factor into why the speed limit of the economy is faster.

Implications & actions

Re: Economic forecast — Today's data implies more upside to GDP growth than our early October forecast of 2.5%. Our nowcast is tracking closer to 3% with today's data.

Re: Markets — Bond yields and the US\$ rose following the surprise in today's retail sales data.

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