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US Retail sales: Autumn chill slows US consumer a touch

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Retail Sales (monthly % chg, unless otherwise noted)	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	Oct YoY SA
Retail & food service	-0.1%	0.9%	0.7%	0.6%	0.2%	2.5%
• Ex-autos	0.1%	0.8%	0.8%	0.8%	0.1%	2.3%
Control Group[1]	0.2%	0.7%	0.1%	0.8%	0.3%	3.5%
Motor vehicles, parts	-1.0%	1.1%	0.3%	-0.3%	0.5%	3.3%
Furniture	-2.0%	-0.6%	-1.5%	-1.6%	1.6%	-11.8%
Electronics	0.6%	0.4%	1.4%	-1.0%	0.3%	0.9%
Building materials	-0.3%	-0.3%	0.5%	0.1%	-1.3%	-5.6%
Food, beverages	0.6%	0.2%	0.3%	0.7%	-0.4%	1.0%
Health, personal care	1.1%	0.5%	1.5%	0.1%	0.3%	9.6%
Gasoline stations	-0.3%	1.0%	6.7%	0.3%	-0.6%	-7.5%
Clothing	0.0%	-0.8%	1.0%	1.2%	0.2%	0.8%
Sporting goods	-0.8%	0.1%	-2.1%	1.7%	-0.7%	-3.8%
General merchandise	-0.2%	0.4%	0.3%	1.0%	-0.1%	1.9%
• Department stores	-1.2%	-0.1%	0.2%	1.2%	-2.1%	-4.1%
Miscellaneous	-1.7%	4.8%	-3.2%	-1.4%	1.3%	1.2%
Non-store retailers	0.2%	1.4%	-0.2%	1.7%	0.8%	7.6%
Eating, drinking	0.3%	1.6%	0.6%	0.9%	0.7%	8.6%

Source: Haver Analytics.

- An autumn chill appears to have slowed down the US consumer a touch with October retail sales growth moderating in line with consensus expectations. The control group of retail sales which feeds into non-auto core goods consumption in GDP rose by 0.2% m/m, after a scorching 0.7% increase in September. However, the prior month was also revised up one tick. Total retail sales decreased by 0.1% m/m, coming in above expectations of 0.3% drop in spending in October. Combined with yesterday's CPI flat reading for core goods categories ex autos, this implies another monthly increase in real spending in the control group and strong momentum for consumption in 23Q4 which we are tracking at about 2% annualized, including with today's data. However, we expect the monthly pace of consumption to not accelerate much from here with the labour market rebalancing showing further progress, excess savings mostly having dwindled and student loan repayments starting to bite.
- The increase in total retail sales was mostly driven by major discretionary items such as food and beverage, health stores and non-store retailers. Non-store retailers saw growth of just 0.2% m/m, compared an average close to 1% over the previous five months. Accounting for now 30% of the control group, a meaningful slowdown in goods consumption will need to see this pace or slower out of this category. Beyond these core discretionary categories,

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

there was broad-based weakness with only 6 out of 13 categories posting increases in the month. Gasoline spending also declined in the month by 0.3%. Excluding gasoline and autos, retail sales were up a modest 0.1%.

- The drop in auto sales reflects both volume and price declines. Light vehicle sales earlier this month also showed a pullback in volume terms in October and yesterday's October CPI showed auto prices dipped in the month. The UAW strike has likely not made a significant dent in the inventory-to-sales ratio. We expect higher interest rates to weigh on demand for autos ahead, and continued improvement in supply chains should also keep the inventory-to-sales ratio on an upward track, helping to keep inflation in goods.
- Interest-sensitive categories generally saw the greatest weakness with contractions in furniture, motor vehicles and building materials. Furniture spending has now contracted for four months straight, likely reflecting the slowdown in housing.

Implications & actions

Re: Economic forecast — Today's release implies US consumption will remain solid in 23Q4. Our tracking for GDP Growth in 23Q4 is 1.5% as real retail sales in the control group broadly came in line with our expectations.

Re: Markets — Both yields and the dollar are up and have sustained their increases so far.