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US Retail sales: Monetary restraint not impacting the US consumer

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Retail Sales (monthly % chg, unless otherwise noted)	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Sep YoY SA
Retail & food service	0.7%	0.8%	0.6%	0.2%	0.7%	3.8%
• Ex-autos	0.6%	0.9%	0.8%	0.1%	0.4%	3.2%
Control Group[1]	0.6%	0.2%	0.8%	0.3%	0.6%	3.8%
Motor vehicles, parts	1.0%	0.4%	-0.3%	0.5%	1.7%	6.2%
Furniture	0.0%	-0.6%	-1.6%	1.6%	-0.8%	-5.9%
Electronics	-0.8%	1.2%	-1.0%	0.3%	1.5%	-2.2%
Building materials	-0.2%	0.6%	0.1%	-1.3%	1.4%	-4.0%
Food, beverages	0.4%	0.3%	0.7%	-0.4%	0.0%	1.6%
Health, personal care	0.8%	1.1%	0.1%	0.3%	1.1%	8.3%
Gasoline stations	0.9%	6.7%	0.3%	-0.6%	-2.9%	-3.5%
Clothing	-0.8%	0.7%	1.2%	0.2%	0.2%	0.1%
Sporting goods	0.0%	-2.0%	1.7%	-0.7%	0.2%	-2.1%
General merchandise	0.4%	0.4%	1.0%	-0.1%	0.4%	2.0%
• Department stores	0.0%	0.3%	1.2%	-2.1%	0.2%	-4.7%
Miscellaneous	3.0%	-3.6%	-1.4%	1.3%	-1.0%	-0.2%
Non-store retailers	1.1%	0.4%	1.7%	0.8%	1.2%	8.4%
Eating, drinking	0.9%	0.4%	0.9%	0.7%	1.6%	9.2%

Source: Haver Analytics.

- Do not pick a fight with the US consumer. Yet another consensus smashing retail report in September suggests that monetary restraint is a far way off from impacting the US consumer. The control group of retail sales which feeds into non-auto core goods consumption in GDP rose by 0.6% m/m, above consensus expectations of 0.1% m/m increase. The prior month was also revised up one tick. Total retail sales jumped by 0.7% m/m, compared to expectations of 0.3% m/m. Combined with yesterday's CPI reading for core goods categories ex autos of -0.1% m/m, this implies another monthly increase in real spending in the control group and strong momentum for consumption heading into 23Q4. The long list downside risks has failed to make a serious dent in the US consumer's appetite in recent months. This should be more evidence for the Federal Reserve to continue fine-tuning with another rate rise in December.
- The increase in total retail sales was mostly driven by control group with the miscellaneous category and non-store retailers seeing the largest gains. Outside of the control group, motor vehicle and parts sales along with gasoline sales saw the largest nominal gains. Excluding gasoline stations, total sales were up 0.7% as there were either increases in 8 of the 13 categories. Non-store retailers have now sustained an average of a 1% monthly pace since

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

April of this year. Other discretionary categories such as general merchandise, health and personal care, eating and drinking posted increases, as tight labour markets throughout the summer have supported incomes.

- Auto sales continued to pick up by increasing 1.0% in September. A significant portion of that is likely a volume increases given the light vehicle sales report earlier this month. The UAW strike has not made a significant dent so far 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 contain inflation in goods.
- Categories tied to the interest-sensitive housing market were mixed in terms of monthly performance, but are below year-ago levels (-5.9% y/y furniture; -4.0% y/y building materials). Although housing market activity was has been solid through the mid-Summer, we don't expect a resurgence of housing activity, as higher interest rates are keeping would-be home buyers on the sidelines and will keep housing starts fairly weak going forward.

Implications & actions

Re: Economic forecast — Today's release implies a further upside surprise to 23Q3 consumption that could be worth a few more ticks of GDP Growth. Our estimate for GDP Growth in 23Q3 is 3.9%. But more importantly, the strength in the momentum for consumption implies a very strong start to GDP growth in 23Q4, where we had expected a slowdown just below 1%.

Re: Markets — Yields are up and have sustained their increase while the has retraced most of the increase so far.