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US retail sales (Sep): A breather

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Retail Sales (monthly % chg, unless otherwise noted)	Sep	Aug	Jul	Jun	May	Sep YoY SA
Retail & food service	0.2%	0.6%	0.6%	1.0%	-0.8%	4.3%
• Ex-autos	0.3%	0.6%	0.4%	0.9%	-0.1%	4.1%
Control Group ¹	-0.1%	0.6%	0.5%	0.9%	0.3%	4.1%
Motor vehicles, parts	-0.3%	0.6%	1.6%	1.2%	-3.8%	5.1%
Furniture	0.6%	-2.0%	0.9%	0.1%	-0.5%	1.2%
Electronics	-0.5%	-0.3%	1.4%	0.4%	-0.4%	6.3%
Building materials	0.2%	0.3%	-0.8%	1.4%	-2.7%	-2.4%
Food, beverages	0.2%	0.6%	0.3%	0.8%	-0.6%	2.7%
Health, personal care	1.1%	-0.1%	1.7%	1.1%	0.6%	5.6%
Gasoline stations	2.0%	0.4%	1.3%	0.7%	-0.7%	3.1%
Clothing	-0.7%	1.0%	1.7%	1.4%	0.5%	6.7%
Sporting goods	-2.5%	1.0%	1.5%	-0.1%	0.9%	-0.2%
General merchandise	0.1%	0.1%	0.3%	0.1%	-0.1%	1.6%
• Department stores	-0.7%	-0.9%	0.8%	-0.9%	-0.1%	-3.3%
Miscellaneous	2.9%	-2.9%	-0.5%	3.0%	4.6%	8.2%
Non-store retailers	-0.7%	1.6%	0.2%	1.3%	0.7%	6.0%
Eating, drinking	0.7%	1.0%	0.1%	0.8%	-0.2%	6.7%

Source: Haver Analytics.

- After spending big during the summer months, the American consumer took a breather in September, with headline retail sales rising by 0.2% and falling below expectations of a 0.4% gain in the month. The control group of sales, which feeds more directly into non-auto goods consumption in GDP, declined by 0.1% (vs. +0.3% consensus) but that comes after several strong prints. 8 out of 13 categories posted gains in September. A decline in online shopping, which accounts for 17% of headline retail sales, was the main reason for this softer print. A couple of years of high spending, worries about the job market, and tariffs are all factors that could be causing the consumer to slow the pace of spending, which we expect to become a more durable trend over time. With Black Friday around the corner, households might also be willing to be more patient and selective for the right deal in this environment.
- Our estimates point to consumption growth tracking close to 3% annualized in Q3 and also close to that range in year-over-year terms, an GDP growth in the mid-2% range given the government shutdown. The consumer has been red hot throughout the past several years, in part because of a shift in preferences, greater responsive to wealth shocks

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

and an overall improvement in household balance sheets post-COVID (Hagler and Patki, 2025). Those forces will likely continue to dominate over softer labor demand and tariffs in the near-term.

- Businesses have been cautious about passing-through tariff increases quickly with tariff policy shifting around, and the latest legal challenges being heard by the Supreme Court will likely slow tariff pass-through through the end of the year as firms await to see what is ultimately ruled. That should also support consumption through the holiday season.
- The trouble for the consumer lies ahead in 2026. Higher tariff pass-through seems likely, even if stretched out to manage a period of softer demand. The Supreme Court striking down global tariffs under IEEPA will help, but the administration has powers to reinstate tariffs at least temporarily to about the same level for 150 days.
- Where does this leave the Fed? In a tough spot. The last employment report was overall decent, showing solid employment gains but a tick higher on the unemployment rate. Today's retail sales numbers and PPI lean in the direction of a slower economy with more most price pressures, and the doves are sounding louder although not exactly pounding the table for a cut in December. The direction of interest rates is clearly lower over the medium-term, but December will depend on how confident Powell is about leaning fully into worries about the job market, over and above inflation that looks stuck at 3%. A confident Fed would try to balance both parts of its mandate, recognizing that inflation is likely at more risk than "non-linear" shifts in the job market, a tone that seemed apparent in the minutes. But that does take nerves of steel, and pushing financial conditions lower faster and sooner to support the job market would no doubt be a crowd pleaser. They have so far leaned in the latter direction and the market is cheering them back in that direction. December will be a close call and the Fed could look more divided than they have been in a long time.

Implications & actions

Re: Economic forecast — We still expect the Fed to be on hold in December, preferring to wait for more data before resuming rate cuts in the new year. But it could end up being a close call, with possibly four dissents on the books right now, although Powell still has enough votes for a pause as it looks right now.

Re: Markets — Bond yields and the dollar fell around this morning on the downside surprises in retail sales and PPI.

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