

# Economics

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### US Retail sales: Q3 US goods consumption is off to a roaring start

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Retail Sales (monthly % chg, unless otherwise noted)	July 2023	June 2023	May 2023	Apr 2023	Mar 2023	July YoY SA
Retail & food service	0.7%	0.3%	0.7%	0.4%	-0.9%	-0.7%
• Ex-autos	0.4%	0.2%	0.4%	0.3%	-0.8%	-0.5%
Control Group <sup>1</sup>	0.6%	0.5%	0.6%	0.7%	-0.8%	0.0%
Motor vehicles, parts	1.7%	0.7%	1.7%	0.9%	-1.3%	-1.1%
Furniture	-0.8%	1.4%	-0.8%	-2.2%	-2.5%	-6.5%
Electronics	1.5%	0.7%	1.5%	-0.9%	-0.5%	-0.2%
Building materials	1.4%	-1.5%	1.4%	-0.1%	-3.5%	0.2%
Food, beverages	0.0%	-0.4%	0.0%	-0.1%	-0.3%	0.4%
Health, personal care	1.1%	0.1%	1.1%	0.8%	0.3%	1.6%
Gasoline stations	-2.9%	-1.3%	-2.9%	-1.0%	-0.9%	-1.8%
Clothing	0.2%	0.0%	0.2%	0.1%	-1.3%	-2.5%
Sporting goods	0.2%	-0.5%	0.2%	-0.3%	0.0%	-1.4%
General merchandise	0.4%	0.0%	0.4%	0.8%	-2.5%	-0.1%
• Department stores	0.2%	-2.3%	0.2%	-1.4%	-3.8%	-1.5%
Miscellaneous	-1.0%	1.4%	-1.0%	1.4%	0.0%	-2.0%
Non-store retailers	1.2%	1.5%	1.2%	1.2%	0.0%	0.9%
Eating, drinking	1.6%	0.8%	1.6%	0.5%	0.1%	-2.3%

Source: Haver Analytics.

- Today's above-consensus July US retail report suggests that Q3 real goods consumption has gotten off to a roaring start. The control group of retail sales which feeds more directly into non-auto core goods consumption in GDP rose by 1.0% m/m, well above consensus expectations of 0.5% m/m. Combined with the weak reading for core goods ex autos prices in last week's July CPI data and strong momentum from the June retail survey, this implies a strong start to real spending in the quarter. Goods consumption has been jumping around a sideways trend since the middle of 2021 as restrictive monetary policy works its way through the economy and household preferences for good spending have shifted in the post-pandemic environment. The Fed will put more weight on the broader consumption picture, and in particular, less volatile service consumption. But today's release is another signal of strong underlying demand. We retain our call for a final 25 bp Fed hike in September.
- The headline US retail sales rose 0.7% in July, above consensus expectations of 0.4%. There were fairly broad-based increases with 9 of 13 sub-groups posting gains in the month. Nonstore retailers posted the strongest increase again,

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

rising 1.9% in the month, likely supported by discounts from a large online retailer. Other discretionary categories such as clothing, sporting goods, general merchandise and eating and drinking were also up after a more subdued June, as tight labour markets are supported incomes.

- Gasoline sales rose 0.4%, but stripping out price gains from last week's CPI report implies a modest volume gain in the month. Auto sales were weak in the month dropping 0.3% in the month, and at least partly reflected softer prices from price incentives at dealerships. The inventory-to-sales ratio at car dealerships has been trending up, but remains below pre-pandemic levels, in contrast to other retailers. 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 (-5.0% y/y furniture; -3.3% y/y building materials). Although housing market activity was solid in June, with housing starts and new home sales still above recent lows, we expect that strength to prove temporary, as higher interest rates ahead will limit activity.

## Implications & actions

**Re: Economic forecast** — Today's release suggests core goods ex autos consumption will be higher than expected in Q3 and is another sign that demand remains firm in the US. We retain our call for a final 25bps Fed hike in September. Tighter monetary policy will continue to slow the labor market which should work to limit retail sales in discretionary categories, in combination with the depletion of pandemic-accumulated excess savings.

**Re: Markets** — Bond yields and the USD appreciated following the upside surprise in the control group of sales, but both moves weren't sustained.

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