

Economics

ECONOMIC FLASH!

economics.cibccm.com

September 17, 2024

US Retail sales (Aug): To each their own

by **Ali Jaffery** ali.jaffery@cibc.com

Retail Sales (monthly % chg, unless otherwise noted)	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Aug YoY SA
Retail & food service	0.1%	1.15%	-0.3%	0.2%	-0.2%	2.1%
• Ex-autos	0.1%	0.42%	0.5%	0.0%	0.1%	2.3%
Control Group ¹	0.3%	0.39%	0.9%	0.4%	-0.3%	3.9%
Motor vehicles, parts	-0.1%	4.39%	-3.6%	1.1%	-1.0%	1.3%
Furniture	-0.7%	1.75%	0.6%	0.9%	1.8%	-0.7%
Electronics	-1.1%	1.11%	-1.5%	1.6%	2.6%	1.9%
Building materials	0.1%	0.84%	1.5%	-0.5%	0.4%	-0.1%
Food, beverages	-0.7%	0.95%	0.2%	-0.1%	0.7%	1.6%
Health, personal care	0.7%	1.71%	0.7%	1.5%	-0.2%	3.5%
Gasoline stations	-1.2%	0.50%	-2.1%	-2.2%	1.6%	-6.8%
Clothing	-0.7%	0.11%	0.1%	1.3%	2.3%	1.0%
Sporting goods	0.3%	-0.88%	-0.1%	1.2%	-2.2%	-3.6%
General merchandise	-0.3%	0.82%	0.0%	0.1%	-0.9%	2.1%
• Department stores	-1.1%	-0.31%	0.4%	0.0%	0.5%	-2.1%
Miscellaneous	1.7%	-0.78%	1.6%	-1.4%	-1.8%	10.7%
Non-store retailers	1.4%	-0.44%	2.3%	0.5%	-1.3%	7.8%
Eating, drinking	0.0%	0.20%	0.1%	0.1%	0.6%	2.7%

Source: Haver Analytics.

- The American consumer ended the summer on a high note, with yet another above-census retail report in August. Headline retail sales rose by 0.1% m/m compared to expectations of a 0.2% contraction. July headline retail sales were revised up by one notch. The control group of retail sales, which feeds into non-auto core goods consumption in GDP, rose by 0.3% as expected, but the prior month was revised up one notch. In inflation-adjusted terms, the control group rose by an estimated 0.4% in August and consumption growth is headed for another quarter at 3% annualized or higher in Q3, assuming solid services spending. Consumer spending has been the main engine of the US economy, aided by greater spending out of wealth for retirees and a change in preferences, particularly with Americans wanting more durable goods as many work from home more often. But with the job market starting to turn, we expect that this pace of spending will be harder to sustain as income growth is crimped.
- Will the modest upside surprise in today's report shift the calculus for the Fed? That seems unlikely and we expect there will be FOMC members of both sides of the 25bps and 50bps divide. Our call had been for 25bps in September followed by two 50bps cuts to end the year. We stuck with an expected 25bps move in September after the Waller and Williams remarks which clearly leaned in that direction and the assumption that their clout in the FOMC would

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

prevail. Since then, the market has continued leaning in the other direction raising the odds of a 50bps move in September.

- We're not usually in this type of situation, as the Fed likes to choreograph near-term policy moves with forward guidance and the market typically obliges. But the big picture here is that the direction of rates is clear and the timing will depend on how the debate shakes out within the FOMC in a "to each their own" situation. We expect there to be a wide range of views within the committee and no strong consensus on the pace, but an unambiguous signal that rates are headed down.
- Eventually though, the FOMC will wrap its head around the notion that the real policy rate, which sits in the neighborhood of 3% is far too high, even if the neutral rate has been revised up a lot. The benefits of getting to more neutral stance quickly outweigh the Brainard Principle of moving slowly in the face of uncertainty that might be compelling to some in the FOMC. A few further ticks up in the jobless rate will make that uncertainty to go away and finally put an end to data-dependence for the rest of this cycle.
- All that being said, some are concerned about the solid momentum in the economy, and in particular, the strength of the consumer which today's report makes clear yet again. We view some part of the strength in consumer spending over the past year as structural with potential output growth accelerating in the neighborhood of 2.4-2.6% over that stretch given the increase in immigration, a high attachment to the labor force and excellent productivity growth.
- It's reasonable that these forces would show in consumption, aiding above-average growth numbers, rather than other components of GDP. Looking ahead, population growth will trend down in a material way with tighter border controls in place, largely since the beginning of the year, pushing potential GDP down gradually. But right now, it's high enough that we think there is a reasonable case for the GDP-based output gap to be almost closed (our estimate is 0.2% in Q3, including today's data). That would mean that it is not very far off from the signal we are getting from inflation, wages, and measures of labor market slack.

Implications & actions

Re: Economic forecast — Taking today's data at face value, our GDP nowcast models implies GDP growth at 2.3% up from our recent forecast of 2.0%.

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

CIBC Capital Markets is a trademark brand name under which Canadian Imperial Bank of Commerce ("CIBC"), its subsidiaries and affiliates (including, without limitation, CIBC World Markets Inc., CIBC World Markets Corp. and CIBC Capital Markets (Europe) S.A.) provide different products and services to our customers around the world. Products and/or services offered by CIBC include corporate lending services, foreign exchange, money market instruments, structured notes, interest rate products and OTC derivatives. CIBC's Foreign Exchange Disclosure Statement relating to guidelines contained in the FX Global Code can be found at www.cibccm.com/fxdisclosure. Other products and services, such as exchange-traded equity and equity options, fixed income securities and futures execution of Canadian securities, are offered through directly or indirectly held subsidiaries of CIBC as indicated below.

Distribution

This report is written by the economics team at CIBC Capital Markets and is not the product of a CIBC Capital Markets research department. This report is issued and approved for distribution: (a) in Canada, by CIBC World Markets Inc., a member of the Canadian Investment Regulatory Organization, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund; and (b) in the United States, by either: (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada and does not constitute an offer or solicitation to buy or sell any securities discussed herein, including (without limitation) in any jurisdiction where such offer or solicitation would be prohibited.

The distribution of this report in the United Kingdom is being made only to, or directed only at, persons falling within one or more of the exemptions from the financial promotion regime in section 21 of the UK Financial Services and Markets Act 2000 (as amended) ("FSMA") including, without limitation, to the following:

- authorised firms under FSMA and certain other investment professionals falling within article 19 of the FSMA (Financial Promotion) Order 2005 ("FPO") and directors, officers and employees acting for such entities in relation to investment;
- high value entities falling within article 49 FPO and directors, officers and employees acting for such entities in relation to investment; and
- persons who receive this presentation outside the United Kingdom.

The distribution of this report to any other person in the United Kingdom is unauthorised and may contravene FSMA. No person falling outside such categories should treat this report as constituting a promotion to them or rely or act on it for any purposes whatsoever. This report is distributed solely to eligible counterparties or professional clients and not retail clients as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.

For all other jurisdictions, this report is distributed solely to institutional clients and not retail clients as defined by the applicable securities legislation and regulation to which CIBC Capital Markets may be subject in any jurisdiction.

Miscellaneous

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

CIBC Capital Markets and the CIBC Logo Design are trademarks of CIBC, used under license.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC