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US Retail sales (Aug): To each their own

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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, its 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.