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US Retail sales (May): A sign that the trend is bending

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Retail Sales (monthly % chg, unless otherwise noted)	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024	May YoY SA
Retail & food service	0.1%	-0.2%	0.5%	0.7%	-1.1%	2.3%
• Ex-autos	-0.1%	-0.1%	0.6%	0.3%	-0.8%	2.5%
Control Group[1]	0.4%	-0.5%	0.9%	0.0%	-0.4%	3.1%
Motor vehicles, parts	0.8%	-0.4%	-0.1%	2.2%	-2.2%	1.3%
Furniture	-1.1%	0.9%	-2.1%	-2.2%	0.1%	-6.8%
Electronics	0.4%	2.2%	-2.6%	2.9%	3.2%	1.8%
Building materials	-0.8%	0.3%	-0.2%	2.4%	-3.9%	-4.3%
Food, beverages	-0.2%	0.7%	0.3%	0.2%	-0.4%	1.6%
Health, personal care	0.1%	-0.3%	0.2%	-0.2%	-1.6%	-0.7%
Gasoline stations	-2.2%	1.9%	0.8%	1.9%	-1.4%	1.6%
Clothing	0.9%	1.7%	-2.4%	0.0%	-0.7%	2.4%
Sporting goods	2.8%	-2.4%	-1.3%	0.7%	0.0%	-2.6%
General merchandise	0.1%	-0.9%	0.9%	0.4%	0.1%	2.7%
• Department stores	0.0%	0.3%	-1.7%	-0.3%	1.0%	-1.6%
Miscellaneous	0.4%	-1.6%	2.4%	2.1%	0.3%	7.3%
Non-store retailers	0.8%	-1.8%	2.5%	-0.7%	-0.7%	6.8%
Eating, drinking	-0.4%	0.4%	-0.1%	0.1%	-0.9%	3.8%

Source: Haver Analytics.

- Total retail sales disappointed in May, rising by 0.1% compared to expectations of a 0.3% gain. The prior month was also revised down two ticks to 0.2% decline. The control group of retail sales which feeds into non-auto core goods consumption in GDP increased by a healthy 0.4% in May, a shade below expectations of a 0.5% gain. However, the prior month reading on the control group was revised down by two notches to a 0.5% contraction. Today's data suggests the US consumer's voracious appetite could be normalizing. The pace of consumer spending has slowed this year after a very strong second half of 2023, a sign that the trend is bending. That is good news for the Fed and some more evidence that demand in the economy is cooling, consistent with the broad rebalancing of the labor market. We expect the Fed to cut twice this year, in September and December.
- Eight of the thirteen retail sales categories posted gains in the month, with the largest increases coming from sporting goods, clothing and non-store retailers. Interest-sensitive categories (cars, furniture, electronics and building materials) were mixed in month. So overall, some solid breath to May increase.

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

- The big story in retail sales is that, as the dust is settling with data revisions, the pace of consumer spending on goods has clearly shifted down a gear or two in the first half of this year. Core retail sales on a six-month annualized basis is sitting at 1.8% in May, compared to the 5-6% range it was during most of the second half of the year. The vast majority of that slower pace is due to softer gains in non-store or online retailing. American homes are full to the brim of stuff and the pace of spending on goods is slowing as a result. In pre-pandemic times, one would expect a larger pullback, but with wealthy retirees and increased work-from-home, the level of goods spending is unlikely to adjust back to where the pre-pandemic trend would suggest it should be.
- With the labor market cooling very gradually, and wages-adjusted for productivity very close to a pace consistent to 2%, nominal consumer spending in the 5-6% certainly seems out of a reach now and a further deceleration in consumer spending is equally possible. A saving rate in the mid 3% range also seems unsustainable, and households will want to increase their rainy day funds as they see their employers being more cautious. While the consumer is partly insulated from higher rates through long-dated mortgages, tighter monetary policy is bearing down on their employers. Businesses are facing higher financing costs for a prolonged period of time, and as a result, they are passing on fewer wage gains and have slowed the pace of hiring. An increase in the supply of labor is no doubt is helping this transition as well.
- The Fed has not said too much about the consumer, including during the incredible run in second half of 2023, and we expect spending data sits firmly third in the pecking order behind inflation and labor, but they should not doubt look at this data as favorable and more confident that the economy is indeed gradually slowing. The consumer has been the main engine of growth over the past three quarters and while spending on services remains solid, the rebound in goods consumption after last quarter's contraction is looking fairly modest.

Implications & actions

Re: Economic forecast —Today’s data suggest consumption growth in Q2 is tracking close to 2.5% driven by a rebound in real goods consumption after last quarter's contraction. Our GDP tracking is unchanged at 2.4% after today's data. Downward revisions to prior months offset a strong real increase in core retail sales consumption in May. We continue to expect the Fed to ease policy twice in 2024, starting in September and then again in December.

Re: Markets — Bond yields fell and the US$ depreciated following the downward surprises in today's retail sales data.

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