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US Retail sales (July): Still some spending power left

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

Retail Sales (monthly % chg, unless otherwise noted)	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Jul YoY SA
Retail & food service	1.0%	-0.2%	0.2%	-0.2%	0.5%	2.7%
• Ex-autos	0.4%	0.5%	0.0%	0.1%	0.6%	3.1%
Control Group[1]	0.3%	0.9%	0.4%	-0.3%	0.9%	3.7%
Motor vehicles, parts	3.6%	-3.4%	1.1%	-1.0%	-0.1%	0.8%
Furniture	0.5%	0.2%	0.9%	1.8%	-2.1%	-2.4%
Electronics	1.6%	-1.1%	1.6%	2.6%	-2.6%	5.2%
Building materials	0.9%	1.5%	-0.5%	0.4%	-0.2%	0.4%
Food, beverages	0.9%	0.2%	-0.1%	0.7%	0.3%	2.9%
Health, personal care	0.8%	0.4%	1.5%	-0.2%	0.2%	3.4%
Gasoline stations	0.1%	-1.8%	-2.2%	1.6%	0.8%	0.5%
Clothing	-0.1%	0.1%	1.3%	2.3%	-2.4%	2.5%
Sporting goods	-0.7%	0.0%	1.2%	-2.2%	-1.3%	-6.8%
General merchandise	0.5%	0.2%	0.1%	-0.9%	0.9%	2.7%
• Department stores	-0.2%	0.4%	0.0%	0.5%	-1.7%	-0.3%
Miscellaneous	-2.5%	1.7%	-1.4%	-1.8%	2.4%	3.2%
Non-store retailers	0.2%	2.2%	0.5%	-1.3%	2.5%	6.7%
Eating, drinking	0.3%	0.1%	0.1%	0.6%	-0.1%	3.4%

Source: Haver Analytics.

- Total retail sales beat expectations in July, coming in at 1.0% compared to expectations of a 0.4% m/m gain. The prior month was revised down two ticks to a 0.2% decline. Headline retail sales were flattered a bit a sharp rebound in auto sales (+3.6%) which were artificially depressed last month (-3.4%) due to a software glitch at car dealerships. The control group of retail sales which feeds into non-auto core goods consumption in GDP rose by 0.3%, above expectations of a 0.1% gain. That also comes after a 0.9% surge in June. In inflation-adjusted terms, the control group rose by an estimated 0.4% in July, implying a strong start consumption growth in the quarter. Although hiring has cooled off, American workers are still benefitting from solid inflation-adjusted wage growth around 1% year-over-year which is still providing spending power and supporting growth. With inflation headed towards target and the job market gradually cooling, we continue to expect the Fed to cut rates by 25bps in each of its remaining meetings this year.
- There was a broad-based increase in the July report with ten of the thirteen retail sales categories posting gains in the month, with the largest increases coming from autos and electronics. Other interest-sensitive categories (furniture and

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

building materials) also saw modest gains. Autos should pull back next month as the sales pattern normalizes with the software issues at dealerships resolved now.

- The control group of retail sales on a six-month annualized basis is sitting at 4.4% in July, its highest rate of the year and not far from the 4-6% range it was at over the second half of last year. A slew of online shopping deal days in July could be behind the strength in the control group, holding up the level of online sales in the month. That also could suggest that spending growth could ebb a bit in the months ahead. But we are not betting on a sharp and sustained pullback in consumer spending (so long as the Fed eases fairly gradually). We've long argued that American spending patterns are fundamentally different in the post-pandemic era and large adjustment to the level of goods spending seems unlikely to us (See, The goods life: How boomers and work-from-home changed American spending patterns).
- Today's data pours some cold water on those calling for a jumbo rate cut in September, and market pricing appears to be moving closer to a normal-sized rate cut in September (30bps as of writing). The Fed's attention will shift towards the next job data to see if labor market is deteriorating faster, but it should take some comfort from the range of activity data over the past few months that suggests domestic demand remains solid and its not obvious that it needs to be a hurry to get to neutral, particularly given that it can ease financial conditions with words and moving around some dots. The rise in the unemployment rate is undoubtedly unnerving irrespective of the role of strong labor force growth, and that is why another job report matters. But most other recent major indicators, whether labor market or activity measures, are lining up in 25bps cut column rather than the 50bps column.

Implications & actions

Re: Economic forecast — Taking today's data at face value, our GDP nowcast models implies consumption growth in the range of 2.5-3.2%, which means GDP growth tracking is in the range of 1.8 to 2.3%, up from 1.6%. The Fed still needs to ease policy given soft inflation and risks to the labor market don't require real rates to be where they are. We continue to expect three quarter point rate cuts this year.

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

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