CIBC CAPITAL MARKETS

Economics

ECONOMIC FLASH!

economics.cibccm.com

June 15, 2022

US retail sales meet consumer resistance on higher prices

by **Katherine Judge** katherine.judge@cibc.com

Retail Sales (monthly % chg, unless otherwise noted)	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022	May YoY SA
Retail & food service	-0.3%	0.7%	1.2%	1.7%	2.7%	8%
• Ex-autos	0.5%	0.4%	2.0%	1.7%	1.6%	11%
Control Group[1]	0.0%	0.5%	0.6%	0.1%	3.0%	6%
Motor vehicles, parts	-3.5%	1.8%	-2.2%	1.4%	7.3%	-4%
Furniture	-0.9%	1.6%	0.0%	0.9%	6.9%	2%
Electronics	-1.3%	1.8%	2.1%	3.5%	0.5%	-4%
Building materials	0.2%	-0.2%	0.6%	0.3%	2.3%	6%
Food, beverages	1.2%	-0.1%	1.0%	-0.1%	0.5%	8%
Health, personal care	-0.2%	0.8%	1.0%	-1.1%	0.1%	5%
Gasoline stations	4.0%	-1.9%	10.7%	6.3%	-1.8%	43%
Clothing	0.1%	0.5%	2.7%	1.3%	0.4%	6%
Sporting goods	0.4%	0.2%	1.0%	0.4%	-1.0%	0%
General merchandise	0.1%	-0.5%	1.3%	-2.4%	3.0%	2%
• Department stores	0.9%	0.4%	0.0%	0.2%	11.0%	1%
Miscellaneous	-1.1%	2.1%	3.4%	3.2%	1.7%	26%
Non-store retailers	-1.0%	1.0%	-1.2%	1.3%	7.1%	7%
Eating, drinking	0.7%	2.5%	2.3%	6.6%	-2.6%	17%

Source: Haver Analytics.

- Retail sales took a step back in the US in May, showing that elevated prices are starting to meet consumer resistance. Total sales fell by 0.3%, below the consensus expectation for a gain of 0.1%, with the downside surprise compounded by a two-tick downward revision to the prior month's reading (now +0.7%). Excluding those categories along with restaurants and building materials, the control group of sales was flat, below the consensus expectation for a gain of 0.3%, and the April reading was revised down to +0.5% from +1.0% previously. Clearly, these figures will look worse in volume terms, and weigh on GDP forecasts for Q2. And while it's only one month of data, this is a sign that higher prices are starting to thwart consumer demand, which could be key to dampening inflation in the future, along with interest rate hikes. Odds are that this isn't enough to deter the Fed from a 75bps hike today, but it's in line with our view that there isn't enough spending power to sustain the current pace of inflation for long.
- Total sales were held back by plummeting auto sales, in line with the earlier released data on unit sales, and that came despite outsized advances in prices for both new and used cars. While vehicle availability is still an issue, it's

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

also possible that the erosion in purchasing power due to higher prices and borrowing costs are holding back demand for autos.

- Although Omicron sub-variants were spreading in different regions, that didn't seem to hold back sales at brick-and-mortar stores. In fact, it was the 1.0% drop in online shopping that accounted for over half of the drop in total sales, while it was offset in the control group by growth in other categories. We had expected a pullback in restaurant receipts due to the spread of Covid and data on restaurant reservations, and it's therefore likely that higher food prices accounted for most of the gain in restaurant sales. That's consistent with the surge in spending seen at grocery stores, although that also includes price increases.
- Categories that are exposed to the cooling in the housing market, including furniture (-0.9%) and building materials (+0.2%) showed weakness, with the latter category likely down in volume terms. Discretionary categories including electronics, clothing, and sporting goods are all likely to show contractions in volume terms as well, as higher inflation continues to squeeze incomes.

Implications & actions

Re: Economic forecast — With the control group of sales (ex. autos, restaurants, gasoline, and building materials) flatlining, and the April reading cut in half, Q2 GDP forecasts are set to be marked down. With real sales in the control group still roughly 7% above their pre-pandemic trendline, higher prices are likely to continue to thwart consumer demand ahead in discretionary categories as the excesses are trimmed. This reading isn't likely to dissuade the Fed from hiking by 75bps later today, as they attempt to keep inflation expectations contained, but it's in line with our view that the economy likely won't need rates as high as what the market is building in to see a sufficient slowdown to moderate prices ahead.

Re: Markets — Bond yields had dropped ahead of this release, and were unable to sustain the further decline that this release initially prompted.

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