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US Retail sales: Summer spending vibe isn't done yet

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Retail Sales (monthly % chg, unless otherwise noted)	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Aug YoY SA
Retail & food service	0.6%	0.5%	0.2%	0.7%	0.4%	2.5%
• Ex-autos	0.6%	0.7%	0.1%	0.4%	0.3%	2.0%
Control Group[1]	0.1%	0.7%	0.3%	0.6%	0.7%	3.6%
Motor vehicles, parts	0.3%	-0.4%	0.5%	1.7%	0.9%	4.4%
Furniture	-1.0%	-1.9%	1.6%	-0.8%	-2.2%	-7.8%
Electronics	0.7%	-1.1%	0.3%	1.5%	-0.9%	-1.8%
Building materials	0.1%	0.2%	-1.3%	1.4%	-0.1%	-4.9%
Food, beverages	0.4%	0.7%	-0.4%	0.0%	-0.1%	2.1%
Health, personal care	0.5%	0.1%	0.3%	1.1%	0.8%	7.8%
Gasoline stations	5.2%	0.1%	-0.6%	-2.9%	-1.0%	-10.3%
Clothing	0.9%	0.9%	0.2%	0.2%	0.1%	1.3%
Sporting goods	-1.6%	1.7%	-0.7%	0.2%	-0.3%	-1.4%
General merchandise	0.3%	0.8%	-0.1%	0.4%	0.8%	2.0%
• Department stores	0.3%	1.2%	-2.1%	0.2%	-1.4%	-3.4%
Miscellaneous	-1.3%	-1.0%	1.3%	-1.0%	1.4%	-0.4%
Non-store retailers	0.0%	1.5%	0.8%	1.2%	1.2%	7.2%
Eating, drinking	0.3%	0.8%	0.7%	1.6%	0.5%	8.5%

Source: Haver Analytics.

- Bucking the trend of cooling off, today's above consensus August retail sales report suggests US consumers have decided that the summer spending vibe isn't done just yet. The control group of retail sales which feeds into non-auto core goods consumption in GDP rose by 0.1% m/m, above consensus expectations of 0.1% m/m decline. Total retail sales jumped by 0.6% m/m driven, compared to expectations of 0.1% m/m. Combined with yesterday's CPI reading for core goods categories ex-autos, real spending in the control group was about flat. While that is a significant slowdown from prior months, it isn't the pullback we were expecting and will push our views on consumption growth slightly higher in the quarter. Going forward, we expect the consumer outlook to continue to weaken as excess savings are depleted, student loan repayments re-start and labour income growth keeps slowing.
- The increase in total retail sales was mostly driven by strong gasoline sales. Gasoline sales rose 5.2% in the month, but this was entirely driven by an almost 11% surge in gasoline prices implying negative growth in volume terms. Excluding gasoline stations, total sales were up 0.2% as there were either modest or no gains in 9 of the 13 categories. Non-store retailers saw flat growth, a significant slowdown from their 1.2% average pace over the previous

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

four months. Other discretionary categories such as clothing, general merchandise, and eating and drinking posted increases, as tight labour markets throughout the summer have supported incomes.

- Auto sales rebounded by increasing 0.3% in August, after a decline in the previous month. However, almost all of that is likely prices as we expect volumes to have declined given the light vehicle sales report. The inventory-to-sales ratio at car dealerships has been generally trending up, but remains below pre-pandemic levels, in contrast to other retailers. We expect higher interest rates to weigh on demand for autos ahead, and continued improvement in supply chains should also keep the inventory-to-sales ratio on an upward track, helping to contain inflation in goods.
- Categories tied to the interest-sensitive housing market were mixed in terms of monthly performance, but are below year-ago levels (-7.8% y/y furniture; -4.9% y/y building materials). Although housing market activity was has been solid through the mid-Summer, we don't expect a resurgence of housing activity, as higher interest rates are keeping would-be home buyers on the sidelines and will keep housing starts fairly weak going forward.

Implications & actions

Re: Economic forecast — Today's release shows a material slowdown in core goods ex autos consumption but not the pullback we were expecting. However, the slowdown in goods consumption, combined with mild inflation numbers and a slowing labour market, should be enough for the Fed to hold in September. The outlook for consumption is expected to weaken as excess saving is depleted, student loan repayments begin and labour income growth slows.

Re: Markets — Both yields and the broad dollar are up following the upside surprise in the retail control group.