

Economics

ECONOMIC FLASH!

economics.cibccm.com

September 14, 2023

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

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

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 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.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2023 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

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