CIBC

CIBC CAPITAL MARKETS

Economics

ECONOMIC FLASH!

economics.cibccm.com

October 14, 2022

US Retail sales flat line in mixed bag report

by **Karyne Charbonneau** karyne.charbonneau@cibc.com (613 552-1341)

Retail Sales (monthly % chg, unless otherwise noted)	Sep 2022	August 2022	July 2022	June 2022	May 2022	Sep YoY SA
Retail & food service	0.00%	0.4%	-0.4%	1.0%	0.4%	8.2%
• Ex-autos	0.09%	-0.1%	-0.1%	1.1%	1.3%	8.9%
Control Group[1]	0.35%	0.2%	0.4%	1.1%	0.8%	6.6%
Motor vehicles, parts	-0.40%	2.8%	-2.0%	0.6%	-3.4%	5.6%
Furniture	-0.73%	0.9%	0.1%	-1.2%	-1.1%	0.9%
Electronics	-0.77%	-0.4%	-0.3%	-0.5%	-2.6%	-8.6%
Building materials	-0.36%	1.4%	1.1%	-0.3%	0.2%	9.7%
Food, beverages	0.39%	0.3%	0.0%	1.1%	1.1%	6.4%
Health, personal care	0.48%	0.4%	0.6%	1.3%	0.1%	4.3%
Gasoline stations	-1.40%	-5.2%	-2.2%	2.7%	5.0%	20.6%
Clothing	0.46%	0.9%	-0.4%	0.7%	-1.4%	3.1%
Sporting goods	-0.66%	0.6%	0.0%	0.9%	0.9%	3.7%
General merchandise	0.74%	0.4%	-0.4%	2.3%	0.0%	3.7%
• Department stores	1.30%	1.0%	-0.1%	-1.7%	0.9%	1.8%
Miscellaneous	-2.52%	0.2%	-1.3%	3.8%	-2.2%	8.2%
Non-store retailers	0.53%	-0.3%	1.7%	0.3%	2.7%	11.6%
Eating, drinking	0.53%	1.8%	-0.8%	0.7%	1.0%	11.4%

Source: Haver Analytics.

- Retail sales flat lined in the US in September as consumers pulled back on spending in many areas. Spending fell in 7 of 13 categories in the month, leaving the headline number below consensus expectations for a 0.2% advance. This was partly offset by a positive revision to the prior month (now 0.4%, previously 0.3%). The control group of sales (ex. gasoline, autos, restaurants, and building materials) grew by a strong 0.4% on the month, above expectations for a 0.3% gain, which was compounded by a positive revision for August (now 0.2%, previously 0.0%). This leaves real sales for that group 6.7% above their pre-pandemic trend. While this report is mixed, the Fed will put much more weight on yesterday's CPI release when deciding on the rate path. As a result, the Fed is now likely to raise rates by 75 bps in November and could be on its way to a higher terminal point than previously thought.
- Spending on discretionary categories was a mixed bag, much like the overall report. Consumers spent less on sporting goods and, given the strong increase in restaurant prices, look to have pulled back on dining out in volume

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

terms. They, however, spent more on clothing, as retailers cut prices to attract demand. Much like last month, the decline in gasoline prices was larger than the decline in sales, implying another gain in real terms.

- In a reversal of last month's pattern, the fall in auto sales was in contrast to the earlier released unit sales data, implying monthly volatility in the types of cars purchased. The auto industry remains under pressure from low inventory levels and supply chain disruptions that are slow to improve. Pent-up demand should boost auto sales ahead, but the increase in interest rates could act as a strong offset.
- Spending on categories linked to the housing market, notably furniture, appliances and building materials, fell in September. Mortgage rates were rising in the month, and have since continued to do so, which should act to further hold back sales in these categories as home sales continue to fall.
- Online sales rebounded in September after a decline in August, and were a key factor in pushing up sales in the control group, given that they account for almost one-third of sales in the group.
- Though arriving late in the month, hurricane Ian likely pushed up spending on the margin in some categories as households prepared for the storm. It also could have acted as a small drag in areas such as dining out. The aftermath of the devasting storm are likely to continue impacting the data in October as people start the process of rebuilding.

Implications & actions

Re: Economic forecast — While this release was a mixed bag, and despite positive revisions, real spending on goods likely declined in the third quarter and will act as a drag on GDP growth. Some categories, including those tied to the housing market, show signs of weakening, but that will not be enough to slow down the Fed, which will put much more weight on yesterday's surprisingly high CPI numbers when deciding on the rate path. As a result, the Fed is now likely to raise rates by 75 bps in November and could be on its way to a higher terminal point than previously thought.

Re: Markets — Bond yields and the USD were already lower than yesterday prior to the release, and there weren't any sustained move after the release.