



Economic Flash!

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Katherine Judge (416) 956-6527

US Holiday Shopping Season Starts on Strong Footing

Summary of the U.S. retail sales report for November from the Commerce Department

Department	Nov	Oct	Sep	Aug	Jul	Nov YoYSA	Nov YoYNSA
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Retail & food serv	0.2%	1.1%	-0.2%	-0.1%	0.6%	4.2%	4.9%
Ex-autos	0.2%	1.0%	-0.3%	0.1%	0.8%	4.9%	5.7%
Ex-autos & gas	0.5%	0.7%	-0.1%	-0.1%	0.8%	4.6%	5.4%
Ex-bld mat, auto							
dlrs, gas	0.6%	0.7%	-0.2%	-0.2%	0.9%	4.6%	5.5%
Ex-food serv& veh	0.4%	1.0%	-0.4%	0.3%	0.7%	4.8%	5.5%
Motor veh, parts	0.2%	1.5%	0.0%	-0.7%	0.0%	-0.1%	1.4%
Furniture	1.2%	-0.5%	0.5%	-1.1%	0.5%	0.3%	2.9%
Electronics	1.4%	1.7%	-1.2%	0.0%	0.1%	0.9%	5.0%
Building materials	-0.3%	1.5%	0.2%	0.8%	0.3%	0.0%	3.5%
Food, beverages	0.4%	0.3%	0.2%	-0.2%	0.7%	-0.1%	3.3%
Health, pers care	0.9%	-0.1%	0.0%	-0.4%	0.0%	0.6%	3.6%
Gasoline stns	-2.3%	3.2%	-1.3%	1.6%	0.4%	0.6%	8.7%
Clothing	-0.2%	1.3%	0.7%	-3.0%	1.6%	-1.0%	4.1%
Sporting goods	0.4%	1.1%	-1.8%	-1.5%	-1.3%	-2.2%	-7.8%
General merch	0.4%	0.8%	-0.5%	0.0%	1.1%	-0.2%	4.2%
Department							
stores	0.4%	1.2%	-1.2%	-0.8%	1.2%	-2.2%	-0.2%
Miscellaneous	0.4%	2.2%	-0.8%	2.0%	-2.4%	-1.5%	2.6%
Non-store							
retailers	2.3%	0.8%	1.1%	0.7%	1.6%	0.9%	12.1%
Eating, drinking	-0.5%	0.6%	-1.6%	-0.1%	1.2%	1.7%	6.9%

Source: Bloomberg

- Rising incomes and lower gasoline prices are giving American shoppers more ammunition this holiday season. Excluding the volatile gasoline and auto components, retail sales in the control group that feeds more directly into GDP were up a lofty 0.9% in November on the back of an upwardly revised prior month. Although soft unit auto sales in November will detract a bit, today's core figure leaves consumption in Q4 tracking higher than previously thought, and gives the Fed another reason to raise interest rates at its meeting next week.
- Headline retail sales advanced by 0.2%, weighed down by a fall in gasoline prices, and broadly flat auto purchases on the month left the ex-autos figure at 0.2% as well. Although softer auto sales are expected to continue as the full effects of interest rate increases propagate through the economy, the fall in gasoline prices has left households with more income to spend on holiday

purchases this year, something that will extend into December given further decreases in pump prices. The softness in housing market activity also implies that Americans have more income to spend on other purchases for now, although it may negatively impact housing-related durables.

- The control group that strips out gasoline, autos, building materials and food services, was miles above the 0.4% consensus forecast. However, history suggests that an upside surprise of that magnitude will likely be partially revised away in later releases of the data. Still, coming atop of an upwardly revised October reading, retailing is on more solid footing than it was in Q3, with the three-month average annualized pace of sales at 4.2% vs. 4.0% in Q3.
- A large portion of the increase in the control group was accounted for by a surge in online retail sales, which were up 2.3% on the month, the strongest reading in a year. However, the seasonal adjustment process appears to not yet have fully picked up the trend towards early Christmas shopping, suggesting that December could be a little softer as a result.
- Price impacts were apparent in components of the control group, as apparel sales fell by 0.2% on the month, in line with the 0.9% decline in apparel prices. Restaurant sales, which fell by 0.5% m/m, appear to be stabilizing at a lower level after a busy summer.

Implications & Actions

Re: Economic Forecast — American consumers are set to be a major driver of growth in Q4, with today's report consistent with our upwardly revised Q4 growth forecast of 2.3%. This confirms that although the impact of tax cuts is fading, higher wages from a tighter labour market are supporting continued strong household spending.

Re: Market — The positive surprise was supportive for the USD and negative for fixed income.

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