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Economic Flash!

October 15, 2018

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US Retail Sales: Headline Hindered but Core Still Strong

	Sep	Aug	Jul	Jun	May	Sep YoYSA	Sep YoYNSA
Retail & food serv	0.1%	0.1%	0.6%	0.2%	1.2%	4.7%	3.1%
Ex-autos	-0.1%	0.2%	0.8%	0.3%	1.4%	5.7%	4.3%
Ex-autos & gas	0.0%	0.1%	0.8%	0.3%	1.2%	5.0%	3.5%
Ex-bld mat,auto dlrs,gas	0.0%	0.0%	0.9%	0.3%	1.2%	5.3%	3.8%
Ex-food serv & veh	0.3%	0.4%	0.7%	0.4%	1.4%	5.4%	4.1%
Motor veh, parts	0.8%	-0.5%	0.0%	-0.1%	0.6%	0.2%	-1.3%
Furniture	1.1%	-0.8%	0.5%	0.3%	-1.8%	2.7%	1.5%
Electronics	0.9%	0.6%	0.1%	0.9%	0.1%	0.6%	4.6%
Building materials	0.1%	0.8%	0.3%	0.0%	2.1%	-0.6%	-0.3%
Food, beverages	0.2%	-0.3%	0.7%	-0.1%	0.1%	0.4%	2.1%
Health, pers care	-0.3%	0.5%	0.0%	0.6%	1.6%	1.2%	1.8%
Gasoline stations	-0.8%	1.1%	0.4%	0.6%	2.9%	0.4%	10.8%
Clothing	0.5%	-2.8%	1.6%	-1.0%	2.9%	1.5%	3.1%
Sporting goods	0.7%	-0.5%	-1.3%	-2.2%	-1.0%	-0.6%	-6.3%
General merchandise	0.3%	0.1%	1.1%	-0.2%	1.4%	-0.5%	3.5%
Department stores	-0.8%	-0.9%	1.2%	-2.2%	1.5%	0.5%	-1.7%
Miscellaneous	0.1%	2.7%	-2.4%	-1.5%	1.9%	0.0%	0.1%
Non-store retailers	1.1%	0.5%	1.6%	0.9%	0.3%	1.2%	8.9%
Eating, drinking	-1.8%	0.3%	1.2%	1.7%	2.8%	-0.2%	5.8%

Source: Bloomberg

- Weather and softer gasoline prices washed out nearly all of the growth in US retail sales in September, but there were still some positive signals for consumer activity. Although headline retail sales came in miles below expectations in September, the “control group” measure that strips out gasoline, autos, building materials and food services registered a healthy 0.5% advance. The hurricane in the Carolinas may have been responsible for some of the headline weakness. Still, headline sales and control group sales registered an annualized gain of roughly 5% in Q3, a healthy pace, but still a fair deceleration from Q2, consistent with our forecast for a gradual slowdown in growth over the remainder of the year, and our 3.2% real GDP pace for Q3.
- Headline retail sales expanded by 0.1% for the second consecutive month in September, well below expectations for a 0.6% advance. Excluding autos, sales contracted by 0.1%, showing that the bump in auto sales, which was weaker than industry reports suggested, was matched by a fall in gasoline prices that limited receipts at the pump. Although vehicle replacement from hurricanes Florence and Michael could bolster auto sales in the coming months, purchase

intentions have exhibited signs of softness as expected along with higher interest rates which should limit their the contribution to retail sales in 2019.

- The core group's (ex. autos, gasoline, building materials and restaurants) advance of 0.5% surpassed expectations by a tick. Apparel purchases rebounded partly following a record drop in prices in the prior month. But it was purchases of furniture, electronics and sporting goods that drove the positive surprise. Some of that strength appears to be a reversal from weakness in the prior month with furniture sales in particular over-exposed to a slowdown in housing market activity in the quarters ahead.
- While most core categories saw sales advance on the month, restaurant purchases fell 1.8%, the largest drop since the end of 2016. That likely owes in part to hurricane Florence and sales in this category could be further hindered by hurricane Michael that made landfall in October.
- Online sales gained momentum (1.1%), adding to recent outperformance, something that should continue due to the secular shift in shopping preferences that is underway. Today's figures leave the three-month average annualized pace of core retail sales, which feeds more directly into GDP, at 4.8%, a slight deceleration from the prior quarter but a respectable pace that indicates household spending was still solid in Q3.

Implications & Actions

Re: Economic Forecast — Today's figures suggest that household spending will be another key driver of 3.2% growth in Q3. Indeed, when accounting for the contraction in core goods prices over the past two months, sales figures could be boosted in volume terms. Still, consumption is poised to continue to slow in the quarters ahead as the lagged impact of higher interest rates materializes more meaningfully, inducing the Fed to slow their pace of rate hikes come 2019.

Re: Market — The disappointing headline sent the USD lower, but movement in yields was relatively contained given the positive details of the report.