



Retail sales September 2024

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Solid retail sales point to robust spending growth

- Retail sales beat expectations in September and posted a 0.4% monthly increase, capping a quarter of solid growth for consumer spending, which likely grew above 3% annualized in Q3 on a real basis. Excluding autos and gasoline stations, retail sales climbed 0.7% with broad-based gains across categories. This is another encouraging report that confirms consumers overall are spending prudently but not retrenching thanks to resilient income momentum.
- Control retail sales – a key gauge of consumer spending trends that strips out volatile retail segments – posted a strong 0.7% increase following a 0.3% gain in August. The latest data indicates that control sales grew at a much faster annualized pace in Q3 than in Q2. On a nominal basis, control retail sales rose at an annual rate of 6.2% in Q3, compared to 3.1% in Q2. This lends upside risks to our forecast for real consumer spending to grow around 3% annualized in the third quarter.
- Looking at the broader trend, the moderation in goods demand is still visible. Momentum in retail sales has slowed from 5.5% year over year (y/y) in December 2023 to 1.7% y/y in September. And in inflation-adjusted terms, retail sales were down 0.7% y/y while control sales were up only 0.7% y/y. While we don't anticipate a retrenchment in consumer spending, given still relatively healthy household finances, we're bound to see slower household outlays in the final quarter of the year and into 2025.
- Importantly, we continue to expect a bifurcated consumer spending outlook, with lower-income households exercising more spending restraint amid persistently elevated prices and more expensive credit and families at the higher end of the income spectrum still spending, albeit with more discretion.
- Given relatively healthy household finances and smart prudence displayed by consumers, we foresee gradually cooling consumer spending growth into 2025 as slower employment growth weighs on income trends and prices and rates remain generally elevated. We project consumer spending growth will slow below trend heading into 2025, averaging 2.5% in 2024 and 2.0% in 2025.
- With Fed officials leaning toward easing policy in a more measured way following the 50 basis points (bps) rate cut in September, we remain of the view that the Fed will cut interest rates by 25bps at every meeting through June of next year. This would translate into 50bps of rate cuts by year-end and another 100bps in H1 2025, putting the federal funds rate at 3.4% in June 2025.



The September details showed sales were positive across most categories. The miscellaneous category drove the gains, rising 4% (miscellaneous store sales include sales at office supplies, stationery and gift stores). Solid sales at restaurants and bars, up 1.0%, point to positive momentum in services spending at the end of Q3, while healthy gains at grocery, clothing, and health and personal care stores also boosted overall sales.

Meanwhile, spending at gas stations fell 1.6% amid lower prices at the pump. Auto sales were flat on the month despite expectations for an increase. And spending at electronics stores (-3.3%) and furniture and furnishing stores (-1.4%) also indicated consumer prudence amid elevated prices and rates.

Control retail sales – a key gauge of broader consumer spending trends that strips out the volatile components – rose 0.7%, above consensus expectations. The gain followed solid advances of 0.4% and 0.3% in July and August, respectively. Taken together, the latest data points to a solid advance in real consumer spending of 3.0% to 3.5% annualized in Q3.

The better-than-expected retail sales report echoes the positive tone from recent annual revisions to consumer spending and income data, which pointed to a more sustainable pace of consumer spending supported by robust income momentum. Yet it is important to note that with labor market trends softening, such robust momentum is likely to ease in coming months.

Overall, we anticipate consumer spending will advance 2.0% in 2025 after an expected 2.5% increase in 2024. Heading into 2025, we should see slower momentum, with annualized growth below 2.0% as moderating labor income growth amid softer labor market trends provides less support to consumer outlays.

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