



Retail sales: August 2024

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August retail sales signal consumer prudence

- ▶ Retail sales beat expectations but only rose a shy 0.1% in August. Given muted expectations, this is a decent reading that once again confirms consumers are spending more prudently but not retrenching amid elevated prices and rates and reduced labor market momentum.
- ▶ Solid online sales and back-to-school purchases offset weakness in autos, groceries, clothing, furniture, electronics and gas station sales. Spending at restaurants and bars was flat. Adjusted for inflation, total retail sales fell 0.1%.
- ▶ Control retail sales – a key gauge of consumer spending trends that strips out volatile retail segments – posted a modest 0.3% increase following an upwardly revised 0.4% gain in July. Adjusted for inflation, core retail sales only advanced 0.2% on the month.
- ▶ Consumers are spending with increased prudence amid slower income trends. Momentum in retail sales has slowed from 5.5% year over year (y/y) in December 2023 to 2.1% y/y in August 2024, but in inflation-adjusted terms, retail sales were down 0.5% 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.
- ▶ How does this report influence Fed policymakers on the first day of the Federal Open Market Committee meeting? Not much. We remain of the view that the Fed will opt for a 25 basis points (bps) rate cut to start its easing cycle. While a couple of news articles published during the Fed's communication blackout period fueled speculation that the Fed would lean in favor of a 50bps cut, we believe gradualism will prevail instead of the optimal front-loading of rate cuts.

The August picture reflected a mix of solid seasonal purchases and softness across most other categories. The miscellaneous category drove the gains, rising 1.7%, followed closely by online purchases, up 1.4%. Miscellaneous store sales include sales at office supply, stationery and gift stores and indicate a strong tailwind from back-to-school purchases. Solid online sales and a healthy gain at sporting goods, hobby and bookstores confirms the seasonal push.



Meanwhile spending at gas stations fell back 1.2% driven by a mix of lower prices at the pump and reduced car outings. Spending at electronics stores (-1.1%) and furniture and furnishing stores (-0.7%) also indicated consumer prudence amid elevated prices and rates. Sales at grocery stores (-0.7%) and clothing stores (-0.7%) were disappointing given the usual seasonal lift. Finally, auto sales outperformed expectations for a large decline but still pulled back 0.1%.

Control retail sales – a key gauge of broader consumer spending trends that strips out the volatile components – rose 0.3%, above consensus expectations. The gain followed a solid 0.4% advance in July. The volume of core retail sales rose 0.2%. Taken together, the latest data point to a solid 3.0% advance in real consumer spending in Q3.

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