

Retail sales October 2024

November 15, 2024

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Resilient but prudent retail spending

- Retail sales maintained solid momentum in October and rose 0.4% as consumers ramped up their purchases of autos and electronics and opted to dine out more. Excluding autos, retail sales climbed a more modest 0.1%, reflecting mixed performances across sales categories. Yet, significant upward revisions to the September sales data (now showing a robust 0.8% increase) indicate that consumer spending was on even stronger footing heading into the fourth quarter.
- Beneath the headline print, core retail sales were softer than expected and pointed to some consumer caution heading into the holiday season. Control retail sales – a key gauge of consumer spending trends that strips out volatile retail segments – posted a 0.1% decline following an upwardly revised 1.2% gain in September. But factoring in the revisions to the September data, overall consumer spending remains on track for solid growth of around 2.5% annualized in Q4.
- Looking ahead, we anticipate more prudent spending amid elevated prices, higher interest rates and a cooling job market. While a retrenchment in consumer spending isn't expected thanks to relatively healthy household finances, the combination of slower real disposable income growth and cost fatigue will likely result in softer household spending growth in 2025.
- Importantly, the consumer outlook remains bifurcated. Lower-income and younger families are gradually more constrained by elevated debt-financing costs and rising delinquencies while older generations and higher-income households have more fixed-rate debt and therefore are less burdened by elevated debt-servicing costs.
- We anticipate gradually cooling consumer spending growth from 2.6% in 2024 to 2.2% in 2025 as slower employment gains weigh on income trends and prices and rates remain generally elevated. We foresee real GDP growth averaging 2.7% in 2024 and easing to 2.0% in 2025.
- Given gently decelerating economic activity, strong productivity growth and softening inflation, we continue to expect a 25 basis points (bps) Fed rate cut in December. Thereafter, we believe the Fed is likely to slow the recalibration process as policymakers more carefully feel their way to a neutral policy stance. We now assume a rate cut at every other meeting in 2025, for a total of 100bps of easing.



The October advance in retail sales was driven by a jump in motor vehicle and parts dealer sales (+1.6%), which posted their strongest advance since July. Sales of electronics and appliances (+2.3%) were also robust and experienced a significant rebound after two consecutive monthly declines. A solid gain in food services sales (+0.7%) points to robust services spending in October – the data will be released as part of the personal income and outlays report later this month. In contrast, sales of furniture (-1.3%), recreational and sporting goods (-1.1%), and health and personal care (-1.1%) items fell markedly in October. Online sales (+0.3%) also saw a modest gain following a strong performance in September.

Looking at the broader trend, the momentum in retail spending has moderated over the past year. Growth in retail sales has slowed from 5.5% year over year (y/y) in December 2023 to 2.8% y/y in October. And in inflation-adjusted terms, retail sales were up 0.3% y/y while control sales were up 1.1% y/y.

With the holiday season approaching, consumers continue to display willingness to spend, albeit with increased caution as they continue to grapple with elevated prices and higher borrowing costs. We forecast a modest 3% rise in retail sales for the November and December 2024 holiday season. Holiday sales are expected to surpass \$1 trillion, setting a record high, but the 3% growth will lag the 4% gain in 2023 and 5.2% in 2022. Moreover, most of this year's increase will be price-driven. With inflation for holiday sales likely hovering around 2.5% by year-end, real volume sales are only expected to rise 0.5% y/y.

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2408-36946-CS

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