US retail sales - a tale of two numbers

US September retail sales were soft, which may be a reflection of hurricane effects. However, a solid “core” figure still bodes well for very strong GDP growth

Source: iStockphoto

US retail sales were much softer than hoped at the headline level, rising just 0.1% month on month versus the 0.6% consensus figure reported by Bloomberg.

At first glance, it appears that Hurricane Florence has distorted the numbers to some extent with sales at restaurants and bars dropping 1.8%MoM – the biggest fall for two years. Gasoline stations sales and building materials were down too, but most other components posted decent gains with auto sales up 0.8%, furniture up 1.1%, clothing up 0.5%, electronics up 0.9% and sporting goods up 0.7%.

More significantly though, the “core” retail control group, which excludes volatile components such as food services, auto dealers, building materials and gasoline, rose a very healthy 0.5%MoM, which was actually above expectations. This series is better aligned to the consumer spending numbers calculated as part of the GDP report and supports our view that the US economy likely expanded close to 4% annualised in 3Q18 after growing at an annualised 4.2% rate in 2Q18. This will be more than enough to keep the Federal Reserve in interest rate hike mode.

Further distortions are possible in the next release due to Hurricane Michael, but in general, the rebuild/clean-up operation tends to lead to a bounce in retail sales over subsequent months. In any case, the outlook for retail sales remains encouraging with the strong jobs market and this year's tax cuts giving households plenty of cash to spend. With businesses struggling to recruit workers we look for wage growth to strengthen too, which should provide an additional tailwind over coming quarters.

That's not to say all retailers will benefit from the news of Sear's bankruptcy again highlighting the problems faced by companies that failed to adjust rapidly enough to the dramatic shift to online retailing.

This situation will not reverse and raises additional questions about what is going to happen to the vacant properties left behind.

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