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The US Consumer Is Alive And Kicking

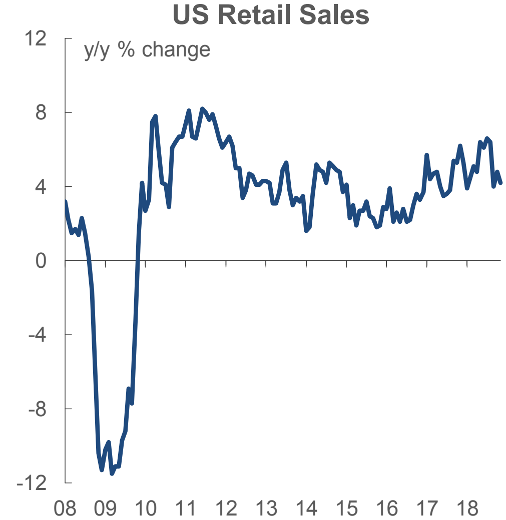
CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

United States, Retail Sales, % Change headline/ex-autos/ex-auto-gas, m/m, November:

Actual: 0.2 / 0.2 / 0.5
Scotia: -0.1 / 0.0 / na
Consensus: 0.1 / 0.2 / 0.4
Prior: 1.1 / 1.0 / 0.7 (revised from 0.8 / 0.7 / 0.3)

- Does one report wipe out the world's challenges in a single fell swoop this morning? Of course not. But evidence of a very strong US consumer sure doesn't hurt. The US economy remains resilient in the face of global growth headwinds. While I had hoped to see evidence of a soft landing following the effects of growth stimulus, perhaps the bar was set too low and Q4 growth could surprise higher. As for the Fed, this kind of strength in the domestic economy should keep it on track to hike next Wednesday and guide that further gradual hikes are to come in 2019. The USD strengthened further and short-term Treasury yields edged higher.
- The key is core sales excluding food and energy. Sales ex food and energy were up 0.5% and revised higher by four tenths to a 0.7% gain the prior month. That confirms a very solid start to the holiday shopping season. The headline softness was always going to be looked through because it was expected to be primarily driven by lower gasoline prices.
- Key for GDP purposes, however, is the retail sales control group as that is the measure that drives how this report contributes to total consumption growth. The RSCG was up 0.9% m/m and revised higher to 0.7% the prior month from 0.3%. Ba-zoom, ba-zing. The US consumer is in a festive mood.
- Sales are tracking a 4.4% q/q SAAR increase in Q4 in value terms which is identical to Q3. The peak was in Q2 at 7.3%.
- In real terms, headline sales were flat in November but again the key is the RSCG that in real terms was up by over ¾% m/m. Recall that headline CPI was flat and core CPI was up only two-tenths so there isn't much of a deflator effect on the retail sales figures which means much of the rise came through higher volumes.
- For purposes of Q4 consumption tracking, there is a 2.6% q/q SAAR gain in real terms for headline retail sales underway. In real terms, the RSCG is tracking up 3.4% q/q SAAR which is an acceleration from the 2.0% growth in Q4.
- GDP growth was tracking 2.4% q/q SAAR according to the Atlanta Fed's 'nowcast' before the figures and hence already withstanding the stimulus retreat from the US$300 billion spending bill—half on defense—and the TCJA's effects on disposable income in Q1 that then got spent over Q2/Q3. We can't rule out the possibility of another 3% quarter.
- My longer run view remains unchanged: I don't subscribe to the simplistic notion that the US economy must go into recession simply because the expansion will be of record duration in about six months. Economists cannot precisely date business cycles. The consumer is key to the economy. A high saving rate, record low debt payments as a share of incomes, and



Sources: Scotiabank Economics, US Census Bureau.

accelerating wage gains at a 9+ year high don't normally result in recessions!! There is plenty left in the tank for the US consumer imo. As for corporate credit concerns, it's a cyclical repricing and weeding out of the froth in the tails imo, back toward something more cyclically normal from the tights on spreads we were previously getting. Obviously concerns toward the global economy rest upon cooler heads prevailing, but I still prefer walking on that side of the street; the pattern to date has repeatedly involved pulling back from the rhetorical brink in trade negotiations (NAFTA, KORUS etc) and I think both the US and China will face incentives to reach a compromise along the path toward what will nevertheless be years of tensions that will stay with us—or at least until the next US election.