US Consumers Roar Back To Life

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, March:

Actual: 1.6 / 1.2 / 0.9

Scotia: 1.2 / 1.0 / na

Consensus: 1.0 / 0.7 / 0.4

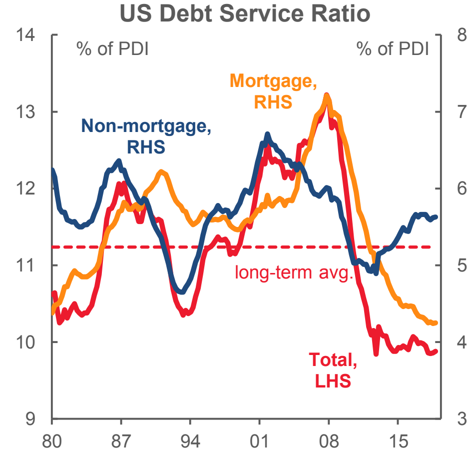
Prior: -0.2 / -0.2 / -0.7 (revised from -0.2 / -0.4 / -0.6)

- **US consumers roared back to life in March by registering the strongest monthly gain since September 2017 and the fourth strongest monthly gain over the 2010–2019 post-GFC period. By ending the quarter on a solid note, consumers also teed up momentum into Q2** with the hand-off math favourably contributing to expectations for a rebound from a softer patch. The market reactions across equities, Treasuries and the USD on a DXY basis were rather muted perhaps because a solid report was priced in advance with position guarding into the long weekend and the Mueller report ahead.
- **Key is that the retail sales control group (RSCG, excludes autos, building materials, gas) was up 1% m/m.** This is important because it's how the report serves as input into estimating total consumption within GDP.
- In terms of quarterly tracking, the **US retail sales control group was up 2.6% q/q SAAR in Q1.** Even before we get ANY q2 data, **the RSCG is up 2.3% in Q2 by virtue of the strong exit from Q1 and what that means to the hand-off math into Q2.**
- The RSCG is the way to look at the consumption implications to GDP, but if we were to do this with headline retail sales, then Q1 was flat at 0.2% q/q SAAR and yet the hand-off to Q2 already bakes in 3.9% q/q SAAR.
- **The breadth of the sales gain was robust**. Autos and parts sales were up 3.1% m/m in line with higher auto sales. Gas station sales were up 3.5% in keeping with higher prices. Clothing sales were up 2%. Furniture sales jumped by 1.7%. Food and beverage sales were up 1%. Electronics sales were up 0.5%. Building materials were up 0.3%. Health and personal care sales advanced by 0.2%. General merchandise was up 0.7%, restaurant spending was up 0.8% and miscellaneous sales were up 1.8%. The only weak spot was in sporting goods (-0.3%).
- **Why this is happening is no secret, or at least it shouldn't be. Underlying US consumption drivers are favourable** with a high saving rate that is more than five full percentage points above where it bottomed at the strained peak of the cycle heading into the GFC, a still record low debt payments-to-income ratio and rising wage growth that is at a cycle high alongside housing affordability that is past its best point but still favourable.

US Personal Saving Rate

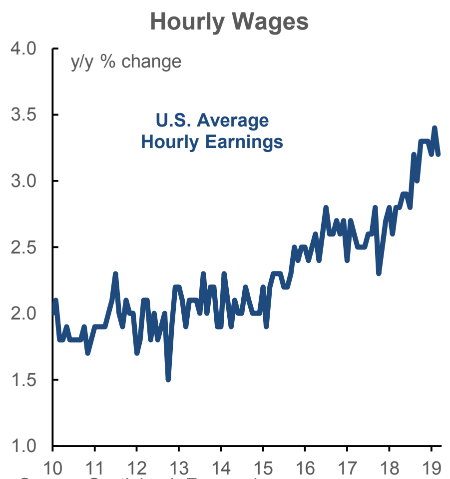
Sources: Scotiabank Economics, Bureau of Economic Analysis.

US Debt Service Ratio

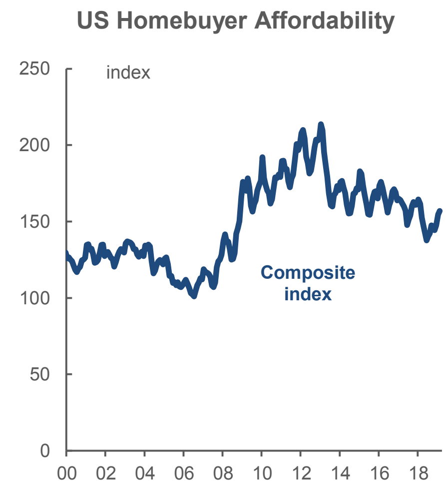


Sources: Scotiabank Economics, US Federal Reserve.

See the four charts. **This is a mid-cycle expansion for the almost 70% of the US economy that is driven by consumption which makes recession talk and rate cut bets misplaced partly because US consumers have plenty left in the tank to propel the US economy forward.**



Source: Scotiabank Economics, Bureau of Labor Statistics.



Sources: Scotiabank Economics, NAR.