

US Retail Sales Tee Up A Q4 Slowdown

- September sales disappointed significantly due to upward revisions...
- ...But the control group came in genuinely flat
- Retailers probably face a slower Q4 after two strong quarters

US, Retail Sales, Headline / Ex-Autos / Ex-Auto-Gas, m/m %, September:

Actual: -0.3 / -0.1 / 0.0

Scotia: 0.2 / 0.2 / na

Consensus: 0.3 / 0.2 / 0.3

Prior: 0.6 / 0.2 / 0.4 (revised from 0.4 / 0.0 / 0.1)

Measures of US retail sales mostly disappointed in September due to upward revisions to August. The key, however, is that the retail sales control group disappointed and not because of revisions. **Retailers enjoyed almost as strong a quarter as they did in the second quarter but a baked-in slowdown is in place for Q4.**

The retail sales control group advanced by 6.8% q/q at a seasonally adjusted and annualized rate in Q3 versus 7.9% in Q2. The control group excludes food, autos, building materials and gas stations and is how retail informs the consumption component of GDP.

For the last month of the quarter, however, the retail control group disappointed with no growth. Unlike the other categories for headline sales, sales ex-autos and sales ex-autos and gas, the disappointment in the control group was not primarily due to upward revisions to the prior month.

What this means is that tracking for the holiday season is behind the eight ball before we get any monthly Q4 data. The way Q3 ended with no growth in the control group bakes in $\frac{1}{2}\%$ q/q growth in this measure in Q4 at a seasonally adjusted and annualized rate. Monthly gains of 0.3% m/m would be required to get Q4 up to about 3% growth in the control group, while $\frac{1}{2}\%$ m/m gains each month on average would still bake in slower Q4 growth of around $4\frac{1}{2}\%$.

Using total retail sales instead of using the control group bakes in 0.1% q/q annualized growth in total retail sales in Q4, so nothing. It would take monthly half-point gains throughout Q4 on average to get quarterly annualized retail sales growth up over 4%. Again, a slowdown is likely.

The volume of retail sales (ie: excluding price effects) has registered two relatively out-sized quarters of growth after being so weak over the prior quarters (see chart).

The volume of sales is poised to slip by -0.1% q/q at a seasonally adjusted and annualized rate in Q4. Here too, it would take strong monthly gains average 0.5% to get quarterly growth up to 4% again.

For the month of September, the components that dragged headline sales lower including autos and parts (-0.9% m/m), building materials (-1%), department stores (-1.4%), gas stations (-0.7%), sporting goods (-0.1%), food/beverages (-0.1%) and non-store retailers (-0.3%). Electronics sales were flat. Notable upsides included clothing (+1.3%), furniture (+0.6%) and health/personal care (+0.6%).

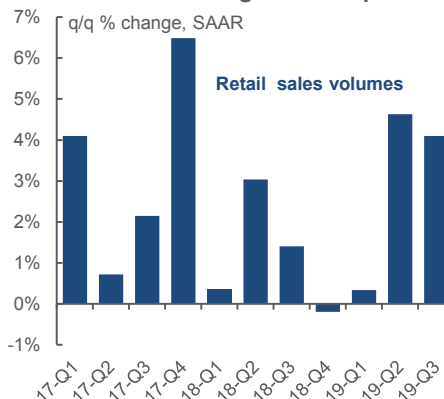
CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707

Scotiabank Economics

derek.holt@scotiabank.com

Retailers Have Faced Mixed Fortunes During the Trump Era



Sources: Scotiabank Economics, St. Louis
Federal Reserve Bank.

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