

US Consumers Say Delta Schmelta!

- Retail sales unexpectedly increased in August...
- ...with significant breadth
- Drivers included adaptive behaviour, Biden's child benefits...
- ...and revisions, alongside cautions

US retail sales, headline / ex-autos, m/m % change SA, August :

Actual: +0.7 / +1.8

Scotia: -1.2 / -0.4

Consensus: -0.7 / 0.0

Prior: -1.8 / -1.0 (revised from -1.1 / -0.4)

US retail sales significantly beat expectations with some necessary cautions around the data. The dollar strengthened after the release and was already gaining beforehand, while the Treasury curve bear steepened and the S&P500 fell presumably on the good news is bad for Fed expectations logic. Also note that other data was strong including the Philly Fed's jump to 30.7 (19.4 prior) which indicates robust manufacturing activity on the path to the next ISM-manufacturing report. US weekly claims held low at 332k (312k prior) as the claims data approaches the nonfarm reference period.

There was high breadth to the unexpected retail sales gain that may have indicated there were excessive concerns toward the impact of lower auto sales and Delta variant effects. Overall the takeaway is that perhaps we were all just to bearish going into the figures but with the partial justification that some of the available data in advance had leaned in this direction.

Sales were up by 0.7% m/m in headline terms and 1.8% excluding autos. Ex-autos and gasoline sales were up by 2% m/m.

Key is that the retail sales control group—that influences how consumer spending is captured in GDP—was up by 2.5% m/m to lead the way among the categories.

The drop in auto sales was more limited than I had expected. Autos fell 3.9% m/m in value terms despite an 11% m/m decline in new vehicle sales last month. New vehicle dealers are about 80% of sales of autos and parts and so the wedge between value and volume is a bit surprising. So what gives? One possibility is that higher prices played a role but retail auto prices would have had to climb a lot more than the 1.2% m/m jump in new vehicle prices and the -1.5% drop in used vehicle prices within August CPI.

IT COULD HAVE BEEN A LOT WORSE AFTER A BIG Q2

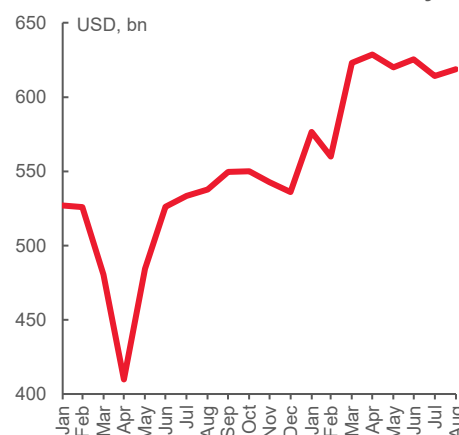
Sales levels are roughly holding firm over recent months but the trend has been flat after big earlier gains (chart 1). US retail sales are tracking a 4.7% annualized drop in Q3 but bear in mind that current numbers show a 28.7% gain in Q2. Some moderation was to be expected after Q2 and that's what we're getting. Nevertheless, sales were better than expected for August and the quarter could be a lot worse after such a massive prior gain.

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Chart 1

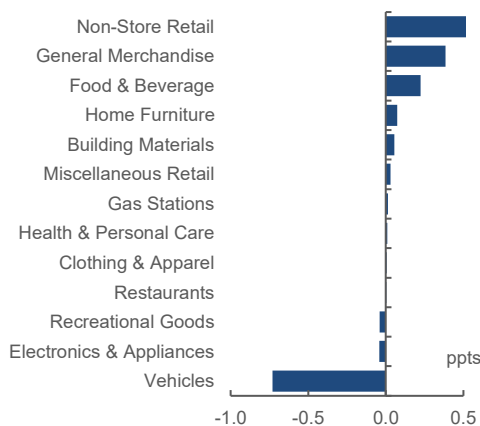
US Nominal Retail Sales Recovery



Sources: Scotiabank Economics, US Census Bureau.

Chart 2

August Retailer Contributions to US Nominal Retail Sales



Sources: Scotiabank Economics, US Census Bureau.

In fact, the control group is tracking a small gain of 1.6% q/q annualized in Q3 after a 16% rise in Q2.

HIGH BREADTH

There was significant breadth to the gain by sector. Chart 2 shows the weighted contributions to the overall gain in total sales by category. Chart 3 shows the changes in the value of sales without weighting.

Nonstore retailers (ie: including e-commerce) saw a sales gain of 5.3% m/m. So one effect of Delta was to send everyone scurrying back to their phones and computers!

Furniture and furnishings were up 3.7% m/m, general merchandise increased by 3.5%, food and beverage sales gained 1.8% and building/garden supplies grew by 0.9% m/m.

Only sporting goods/hobbies (-2.7%) and electronics/appliances (-3.1%) were lower. One probably suspects that the electronics /appliances category fell significantly due to supply issues and take your pick of drivers, like container shortages delaying appliance shipments, or semiconductor and other component shortages, or COVID-19 effects disrupting Asian factories etc etc.

As for where the retail recovery stands to date during the pandemic, see chart 4. Every single category has higher sales than before the start of the pandemic.

DRIVERS MAY INCLUDE BIDEN'S CHEQUES & BEHAVIOUR

So what's driving this? There are at least two possibilities. One is that behaviour is adapting. You or I might be risk averse toward COVID-19 exposure, but turn on the tv and look at the crowds attending the US Open or other sporting events sans masks and it's unlikely they're all vaccinated! A normative filter cannot be overlaid upon behaviour rather than letting data speak and said data says consumers are still getting out there.

Second, negative revisions played a role in driving the better than expected gain in August by creating a lower starting point for tracking percentage gains. Sales ex-autos in July were taken down to -1% m/m from -0.4% but that only explains a third of the beat in August sales compared to consensus expectations.

Secondly, it's possible that the Biden administration's child stimulus cheques were indeed spent pretty quickly. The extra \$250/mth (kids 6+) and \$300/mth (<6) started to arrive on July 15th and arrive each month. That's helping to drive a gain in income growth during Q3 (chart 5) after incomes were previously boosted by stimulus cheques that were not tied to kids. So clearly the moral of the story is that having kids pays. Who knew?!! But if so, then like Canada during 2016-17 when the Trudeau administration boosted child benefit payments, not attaching strings to the proceeds can result in them being spent and quite possibly not on childcare! In turn, that spending can pull forward from future activity. See chart 6.

THE NECESSARY CAUTIONS

The brief cautions include noting that retail sales figures are notorious for revisions (chart 7) and so always treat the first stab at the data as preliminary,

Secondly, the figures are based on dollar values with no volume details and so therefore we cannot immediately assess retail price versus volume effects. That would seem to matter given price pressures in the economy and CPI only loosely translates into retail proxies.

Chart 3

August Changes in US Nominal Retail Sales



Sources: Scotiabank Economics, US Census Bureau.

Chart 4

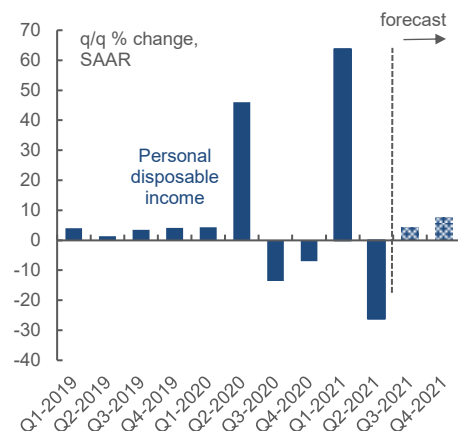
US Retail Sales Recovery to Pre-Pandemic Levels by Sector



Sources: Scotiabank Economics, US Census Bureau.

Chart 5

US Personal Incomes



Sources: Scotiabank Economics, BEA.

Third, as an upside caution, note that retail sales exclude some e-commerce activities like online travel services, financial brokers and dealers, and ticket sales agencies even though most e-commerce sales are captured. Those tickets to the US Open are therefore not in here. That might matter given the reopening activities in travel and events.

Chart 6

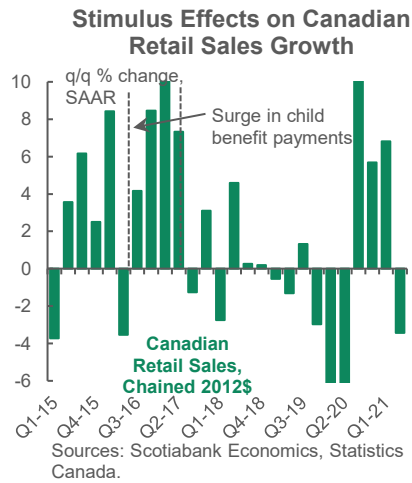
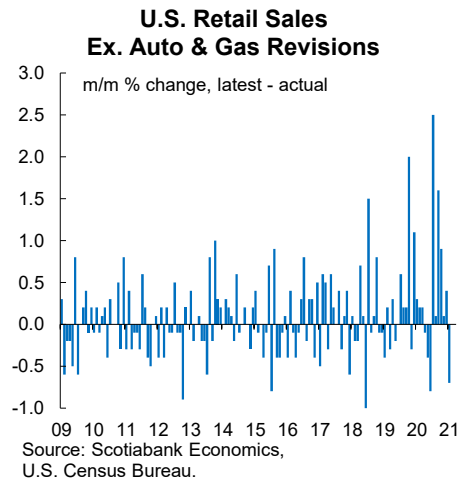


Chart 7



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