

## US Retailers Get a Jump Start to a Strong Holiday Season

- The US holiday shopping season got off to a strong start...
- ...as October sales posted a rapid gain...
- ...with high breadth...
- ...that bakes in strong Q4 growth
- Caveats include price effects and rotation from high contact spending
- US industrial output also beat expectations

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

Actual: 1.7 / 1.7

Scotia: 1.7 / 0.9

Consensus: 1.4 / 1.0

Prior: 0.8 / 0.7 (revised from 0.7 / 0.8)

The US holiday shopping season got off to a roaring start. Strong growth in retail sales is baked into the fourth quarter ahead of the start of the holiday shopping season including next week's US Thanksgiving followed by Black Friday and Cyber Monday sales. There are nevertheless two important caveats.

Sales were up 1.7% m/m last month, matching Scotia's estimate. Sales ex-autos were up by an identical 1.7% m/m despite the fact that a 1.8% m/m rise in autos and parts should have led to a stronger headline gain than in ex-autos. The reason that didn't happen was probably because the prior month's minor revisions added a tick to headline sales but subtracted a tick from sales ex-autos.

The retail sales control group is how this report gets factored into broader consumption within GDP accounts and it was also strong at +1.6% m/m.

Q4 sales are tracking a gain of 11% q/q in seasonally adjusted terms at an annualized rate for Q4 over Q3 (chart 1). That's a very strong start to the holiday shopping season based on the Q3 average and October's results while assuming flat readings for November and December only in order to focus upon the effects of what we know so far without adding arbitrary forecast bias.

There was high breadth to the gain. Chart 2 shows the changes in the value of sales by category and chart 3 does the same thing in terms of weighted contributions to the overall change in sales by category. The only soft areas were clothing (-0.7% after strong prior) and health/personal care products that were down for a second month.

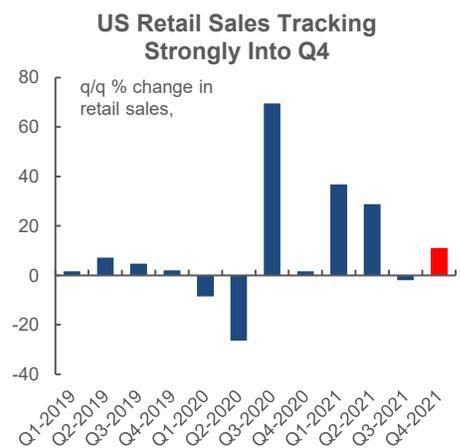
US retail sales are now 21% higher than just before the pandemic. Ditto for sales ex-autos and ex-gas. The retail control group is 23% higher. Chart 4 shows the change in sales by category relative to just before the pandemic.

Now for two caveats. The smaller of the caveats is that this report measures the change in the value of sales, not volumes unlike the convention in other markets

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Chart 1



Sources: Scotiabank Economics, Census Bureau

Chart 2



Sources: Scotiabank Economics, US Census Bureau.

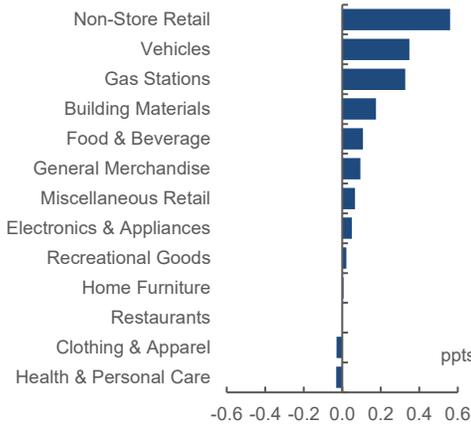
like the UK and Germany, or Canada where both nominal and real figures are provided in the same report. Based upon last week's CPI figures, the retail sales volume gain was likely under 1% m/m which was still solid.

The bigger caution is that we can't tell to what extent spending at retailers rotated away from higher contact services back toward retail. We can see restaurant sales were flat last month (eating/drinking 0% m/m), but most other services are not captured in this report.

US industrial output also beat expectations with a gain of 1.6% m/m (consensus 0.9%). There was a big jump in capacity use at 76.4% (75.2% prior) which puts capacity utilization back above pre-pandemic levels and at the highest since December 2019 but still below earlier peaks (chart 5). Details were ok, but not as good as the headline. Mining output was up 4.1% m/m which was likely significantly due to prices. Utilities were up 1.2%. Manufacturing was up 1.2% m/m and there were solid gains in consumer goods, while business equipment was little changed.

Chart 3

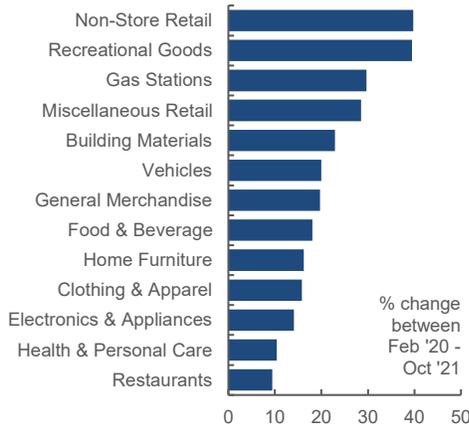
**October Weighted Contributions to US Nominal Retail Sales**



Sources: Scotiabank Economics, US Census Bureau.

Chart 4

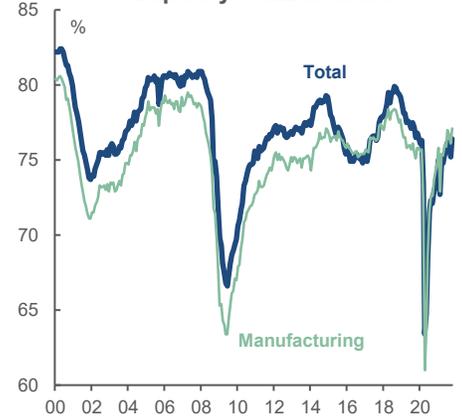
**US Retail Sales Recovery to Pre-Pandemic Levels by Sector**



Sources: Scotiabank Economics, US Census Bureau.

Chart 5

**US Capacity Utilization Rate**



Sources: Scotiabank Economics, BEA.

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