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Lost Swagger: Broad-Based Retail Weakness Despite Scant Gain

Economist(s)

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Summary

The August retail sales report is the latest example of a choosy consumer continuing to spend even if the pace of growth is slowing sharply. Despite a big gain for ecommerce, broad-based declines across store types offer further confirmation of lost swagger in consumer spending.

U.S. Retail Sales: August 2024

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24
Retail Sales (MoM)	0.8	-0.2	0.1	0.4	-1.1	0.7	0.5	-0.2	0.2	-0.3	1.1	**0.1**
Retail Sales, Ex. Autos (MoM)	0.7	0.0	0.0	0.3	-0.8	0.3	0.6	0.1	0.0	0.5	0.4	**0.1**
Control Group Sales (MoM)	0.7	0.2	0.2	0.6	-0.4	0.0	0.8	-0.3	0.4	0.9	0.4	**0.3**
Real Retail Sales (MoM)	0.6	0.2	0.5	0.4	-0.8	0.3	0.3	-0.4	0.6	0.1	1.2	**0.2**
Retail Sales (YoY)	4.2	2.7	4.0	5.5	0.3	2.1	3.6	2.8	2.6	2.0	2.9	**2.1**
Retail Sales, Ex. Autos (YoY)	3.7	2.6	3.6	4.6	0.9	2.0	3.7	3.2	2.9	3.3	3.1	**2.3**
Control Group Sales (YoY)	4.2	4.0	4.9	5.6	2.5	2.6	4.6	3.4	3.4	4.0	3.6	**3.9**
Real Retail Sales (YoY)	2.7	2.2	4.1	4.7	0.2	1.8	3.0	2.4	2.5	2.3	3.2	**3.3**

Notes: MoM = Month-over-Month Percent Change
YoY = Year-over-Year Percent Change

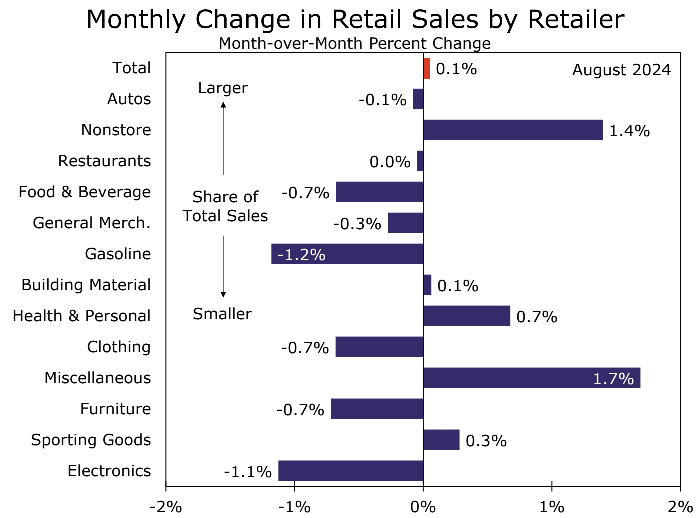
Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Economics

Ecommerce to Other Retailers: I Drink Your Milkshake

Some reports tell you everything in the headline, today's retail sales report for August is not one of them. Yes the headline increase of 0.1% was better than the modest drop that had been expected. You can thank a smaller-than-expected drop in motor vehicle sales for that. The ex-autos line tells us more about the present state of the consumer after setting aside that big-ticket category, and here we find that sales inched only incrementally (+0.1%) higher in August.

There is fodder for multiple narratives in today's retail sales report. Think consumers are finally tapped out? There is no shortage of categories in decline in August (chart). General merchandise stores were down 0.3%, led lower by a 1.1% drop in sales at department stores. That is not what these retailers were hoping for in a key back-to-school month. Speaking of which, clothing stores were also down 0.7%. Furniture stores gave back most of the pick-up seen in July, and electronics and appliance stores saw sales fall 1.1% in August. Even food & beverage stores posted decline in August.

With that kind of broad-based weakness, the case for the unstoppable consumer is surely weakened, so how do you get a headline gain? One word answer: Ecommerce. The non-store retailer category that includes online spending is second only to autos in terms of dollars spent, and it rose a stout 1.4% in August. With some help from increased spending at drugstores and other smaller categories that explains the scant headline gain.

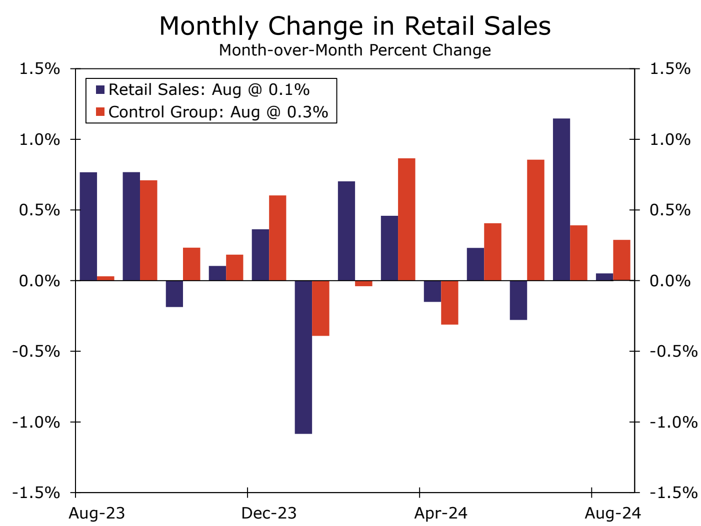


Source: U.S. Department of Commerce and Wells Fargo Economics

One Way or Another

There are competing narratives about the state of the consumer at this stage of the cycle in which the Fed is poised to finally deliver on long-expected rate cuts. The question isn't *will* the Fed cut rates at the conclusion of tomorrow's monetary policy meeting, but by how much. Market participants have been parsing through each data release in recent weeks seeking the one that settles the debate. Retail sales did little to crystalize the degree of easing.

The deterioration in the labor market argues for Fed easing, yet many measures of growth demonstrate the economy is continuing to expand, including retail. But that divergence perfectly describes why this easing cycle is different and so hard to predict. Historically when the Fed starts to cut rates the economy is already in serious trouble. There are only few historic-references in which a Fed achieves the type of "soft landing" many anticipate today. The consumer may technically be unstoppable, but in recent months spending has undeniably slowed sharply. For policymakers already aware of the need to make the policy environment less restrictive, this weakening may encourage the Fed to deliver a larger cut to initiate its easing cycle.



Source: U.S. Department of Commerce and Wells Fargo Economics

Seven categories of retailers reported declines in sales last month and a pullback in some discretionary-like categories demonstrates choosier consumer behavior. Nothing in this report says everything is fine, spending has slowed. But at the same time the data don't scream dramatic pullback in spending consistent with recession.

The retail sales data position for some upside risk to Q3 consumer spending. Control group sales, which exclude autos, gasoline, building materials and restaurants rose 0.3% in August amid upward revisions to prior months (chart). These data feed directly into real personal consumption expenditures in GDP and position for slightly stronger goods spending that we had anticipated previously.

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