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TD Economics

Commentary

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U.S.: RETAIL SALES FELL MORE THAN EXPECTED IN SEPTEMBER

- U.S. retail sales declined by 1.2% M/M in September.
- Excluding autos, sales were also down, falling by 0.6% M/M.
- The tone of the report was downright dismal, and suggests that U.S. consumer spending is beginning to buckle.

U.S. retail sales declined for the third straight month in September, falling by 1.2% M/M, following the 0.4% M/M drop in August (previously reported as -0.3% M/M). The decline was much worse than the market consensus for a more moderate 0.7% M/M fall. On a year ago basis, sales are down 1.0% Y/Y, which is the first time since October 2002 that we have had a negative print on this indicator. Excluding autos, sales were down 0.6% M/M, which is slightly better than the 0.9% M/M print in July, while sales ex-auto, ex-gas are down 0.7% M/M.

The details of the report were simply disturbing. There were declines in the sales of most retail categories, with

the exception of health and personal care products (up 0.4% M/M) and gasoline (up 0.1% M/M), which posted some modest gains. On the other hand, there were big drops in the sales of motor vehicles (down 3.8% M/M), furniture (down 2.3% M/M), electronics (down 1.5% M/M) and building materials (down 0.6% M/M). Sales of general merchandise were also down, falling by 0.4% M/M on account of the rather big 1.5% M/M drop in department stores sales.

On the whole, the strains on U.S. consumers are beginning to show, and this report is yet another indication that consumers are beginning to retrench their spending as they navigate against the headwinds coming from a weak domestic economy, tight credit conditions (despite the dramatic easing in monetary policy) and a deteriorating job market. Moreover, with these forces appearing to have intensified recently, we are likely to see further moderation in consumer spending in the coming months. This should act as a drag on GDP.

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