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TD Economics

Data Release: Back to school spending fails to spur retail spending in August

- Retail sales fell by 0.3% in August according to the advance Census Bureau report – a far worse performance than the 0.1% dip that was expected. The previous month's tally was revised up to 0.1% (previously reported as -0.1%), but offers little consolation given the magnitude and underlying details.

- Sales at gasoline stations fell (-0.8% m/m) weighing mildly on the headline, but after rounding, ex-gas sales were still down 0.3%. Auto dealers also saw lower sales in dollar terms, a fact already telegraphed by the 5% decline in the unit sales report two weeks ago, with nominal sales down 0.9%. Excluding both autos and gasoline, core retail sales were down 0.1% on the month.

- Excluding gas, autos, building materials (-1.4%) and food services (+0.9%), the so called 'control group' used in calculating GDP was down 0.1% on the month. Core sales declines were broad based by miscellaneous (-2.4%), sporting goods (-1.4%) and furniture (-0.7%). Most other categories exhibited smaller declines, with clothing (+0.7%), food/beverage (+0.3%), and electronics (+0.1%) the only categories exhibiting increases.

Key Implications

- It would appear that Americans have taken an extended summer holiday as far as shopping centers are concerned, with the August retail sales report highly disappointing both in terms of headline as well as the underlying details. While lower gas and auto purchases were expected to weigh on the headline, the broad weakness in the report offers a sobering perspective of the underlying economic momentum with consumer spending now expected to grow by 3.1% - down 0.2 percentage points from our expectations prior to the report.

- While we don't want to sound like a broken record, we haven't given up on the consumer just yet and expect the coming months to show more robust figures. The job market continues to make headway, with this morning's initial claims data indicative of very healthy progress. The tightening conditions are manifesting in wage gains which should further spur income gains amongst households, building on the record gain of 5.2% in real median income last year – according to this week's Census Bureau's report.

- This report will do nothing to spur the Fed into action next week and is likely to embolden the dovish members on the Committee to dig their heels all the more as far as patience – all the more given the significant global risks. Still, we expect the economic data flow to turn up in the coming months and believe that this will likely provide enough justification for the FOMC to take rates up by a notch by year end.

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