

US Macroeconomics

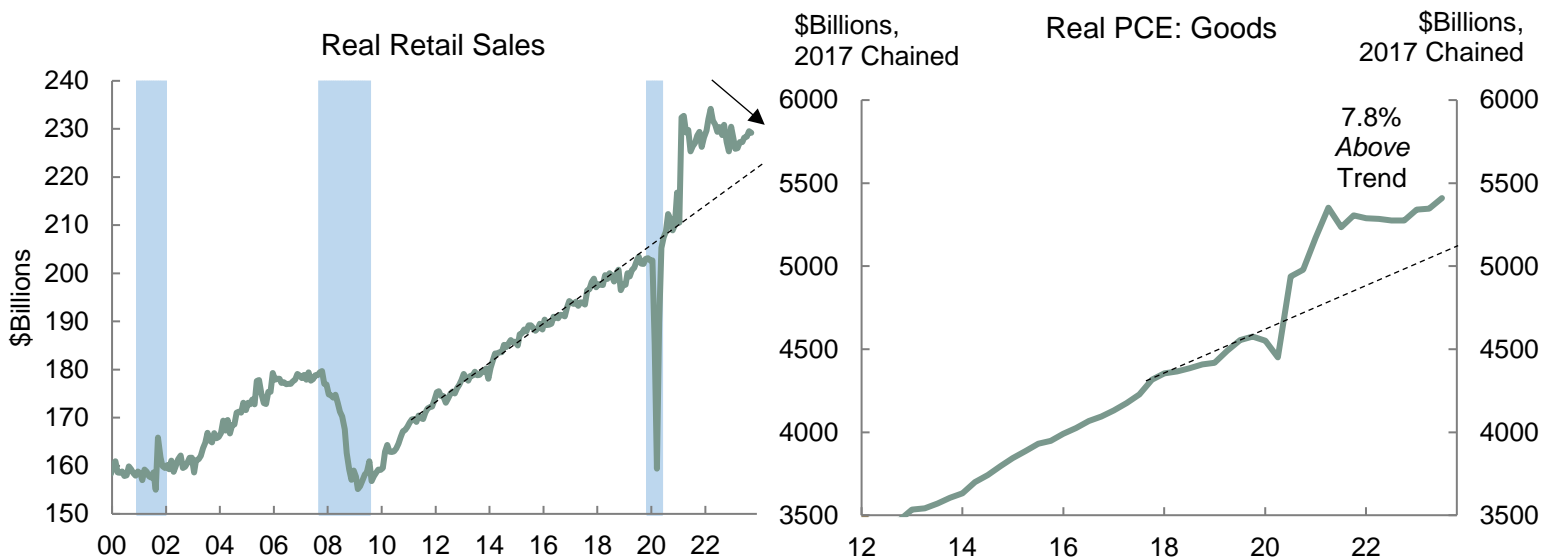
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Consumption Due for Trend Reversion

Retail sales fell -0.1% MoM, beating the consensus expectation of -0.3%. We highlight that discretionary purchases were a source of weakness with auto sales, furniture, and sporting goods printing -1.1%, -0.9% and -0.9% declines in October. Meanwhile, headline real retail sales (inflation-adjusted) dropped -0.2% — the first decline since March. Keep in mind that this report was the first since the October reinstatement of student loan payments, which we see weighing on spending going forward, particularly for discretionary items. As of today, real retail sales and real goods spending are 2.9% (see left chart) and 7.8% (see right chart) above their respective trends. Here we discuss why we are skeptical of the sustainability of above-trend retail sales and goods spending (specifically for durables).

Overly accommodative pandemic monetary policy moved interest rate sensitive demand — which should have been taking place in the quarters and years ahead — forward. Meaning that the demand for autos and homes that should have been coming up in the future has already occurred. But this is not all, because **interest rates are also now in restrictive territory.** This is one reason we see durables spending not only returning to trend but possibly falling *below* trend for a time. Second, the October reinstatement of **student loan payments, which we estimate will amount to a roughly \$140B per year tax hike,** should lead to a Q4 (and beyond) spending step-down. **More recently however we find ourselves questioning consumers financial health.** Consumer sentiment is firmly in recessionary territory. Also, at 3.4% personal savings rates are at Global Financial Crisis levels (and near historic lows) while consumer debt delinquencies and the unemployment rate are rising. Such a cocktail, in our view, is an early indication of a spending slowdown.



Sources: Census, BEA, NBER, Haver, SMBC Nikko

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