

# US Macroeconomics

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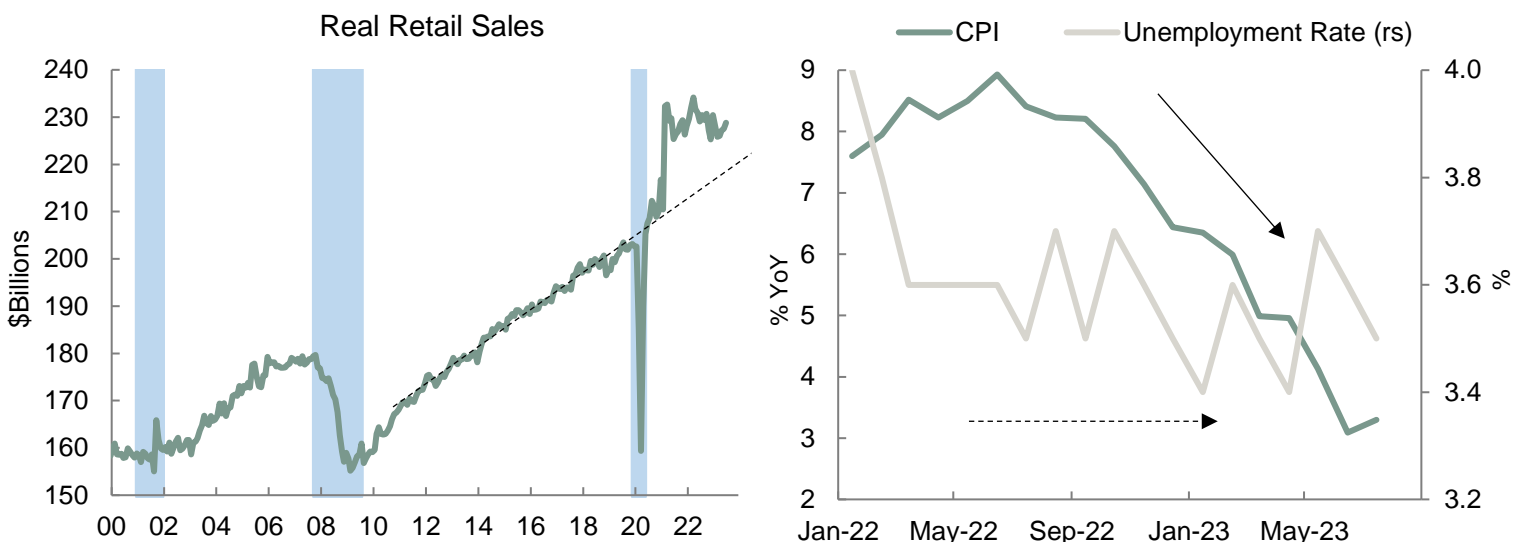
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## Above Trend Consumption

Nominal July retail sales rose 1.0% MoM resoundingly beating consensus expectations of just 0.4%. This was partly due to outperformance from 1) sporting goods, hobby, book and music stores, 2) food services and drinking places, and 3) clothing and accessory stores which jumped 1.5%, 1.4% and 1.1% respectively. **The recent strength in discretionary spending has come alongside broad-based declines in inflation and a resulting rise in consumer sentiment.** Strong nominal consumption combined with slower inflation means that real consumption is *strengthening*. But that is not all. **Early indications suggests that consumption has thus far accelerated in August too, as judged by the BEA's high-frequency card spending data.** After updating our forecasting models, we have Q3 PCE at 4.1% QoQar and 3.1% for GDP. Our view is that the October reinstatement of student loan payments should lead to a Q4 step-down.

Following today's data, inflation-adjusted retail sales now sit 3.4% above their pre-Covid trend (see left chart below). This is likely to remain the case for the next two months for a few reasons. First, **inflation is quickly and broadly slowing while the unemployment rate has remained stable at just 3.5%** (right chart). Second, **this has led to a 42% jump in consumer sentiment.** After printing an historically low reading of 50.0 in June 2022, consumer sentiment has since surged to 71.2 in August 2023. On top of this, card spending data — which is highly correlated with retail sales — shows a material acceleration in August spending, especially for key items such as food services, furniture stores and auto parts.

Although US consumers continue to generate hearty spending figures, the big takeaway is that **this is occurring alongside a precipitous fall in inflation.** The picture becomes murkier in Q4 however as the October reinstatement of student loan payments is likely to catalyze a more powerful force of trend reversion for spending. At this point, we forecast Q4 PCE to downshift to just 1.5% QoQar.



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

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