Solid Gain in Retail Sales in September, Although Much of It Was Due to Higher Gas Prices

Headlines

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- **Retail sales rose 0.8% in September, well above the consensus expectation.**
- **Gasoline sales rose 6.4% over the month. Retail sales excluding autos and gas were up 0.2%.**
- **Retail sales were up a strong 6.3% in September from a year earlier. Some of that is due to higher gas prices, but sales excluding autos and gasoline were up a solid 5.0%.**
- **Drivers for consumer spending growth are mixed. The labor market is solid and the stock market is elevated, but high inflation and rising interest rates are drags.**
- **PNC expects steady growth in consumer spending going forward.**

Details

Retail sales increased 0.8% from August to September, according to the advance estimate from the Census Bureau. This was well above the consensus expectation of a 0.3% increase. **However, much of the growth was due to a 6.4% increase in gasoline sales over the month as gas prices jumped.** Sales excluding autos rose 0.9%, but sales excluding autos and gasoline increased just 0.2%. Retail sales growth in August was revised up to a 1.3% increase, from the initially reported 1.1% gain. These numbers are not adjusted for inflation.

Control sales—retail sales excluding autos, gasoline, food service, and building materials, which go into nominal consumer spending in GDP—rose just 0.1% over the month. But that followed a big 1.1% increase in August.

On a year-ago basis, overall retail sales were up 6.3% from a year earlier. Sales excluding autos were up 7.2%, while sales excluding autos and gasoline were up 5.0%. Higher gas prices have been a driver of retail sales growth since the U.S. conflict with Iran started; gasoline spending was up 28% in August from a year earlier. But sales growth has been solid outside of gasoline. Some of the increase has come from higher prices, but inflation-adjusted consumer spending is also rising. Control retail sales were up 4.6% year-over-year in September, close to the 4.5% pace in August.

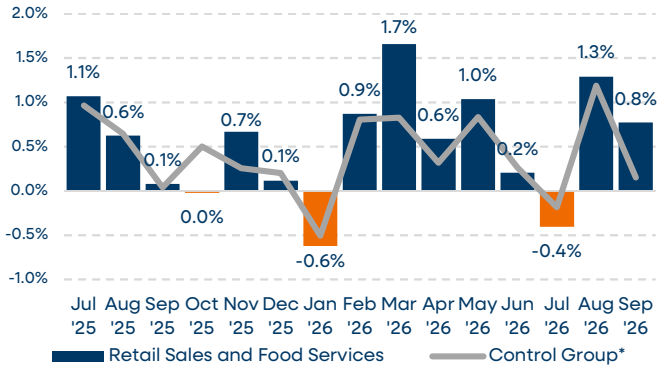
There was a large 1.1% increase in sales of food services and drinking places (restaurants and bars) in September, following a 1.4% increase in August. On a year-ago basis restaurant and bar sales were up 7.0% in September. Since restaurant sales are largely discretionary, strong growth in this segment is further evidence that consumers are in decent shape. Surveys of consumers clearly indicate that they are unhappy. The University of Michigan consumer sentiment index was at its second-lowest level ever in October, with the data series going back to the 1950s. Consumer confidence from the Conference Board has held up better but dropped sharply in September to its lowest level since 2014. But even though consumer survey measures are historically soft, households continue to boost their spending.

The drivers for consumer spending going forward are mixed. The labor market is solid. Job growth has slowed from 2023 but is up from last year, and the unemployment rate is up from a few years ago but remains historically low. Wage growth is slowing. Inflation remains high, and higher gasoline prices since the spring are a particular drag. Higher interest rates are weighing on purchases of big-ticket items. But household wealth continues to rise thanks to the very strong stock market of the past year and, to a lesser extent, house price gains. This rising wealth is particularly important for spending by high-income households. Another positive for consumer spending is the recent upward revision to household income growth over the past few years from the Bureau of Economic Analysis; this shows households in significantly better financial shape than previously thought. PNC data also shows continued growth in household spending.

Household spending should continue to increase in the near term at a steady pace as the labor market remains solid. Risks are to the downside, however. Higher interest rates could become more of a drag. There is also the potential for a stock market correction, tied to tech stocks, that would weigh on purchases by higher-income households.

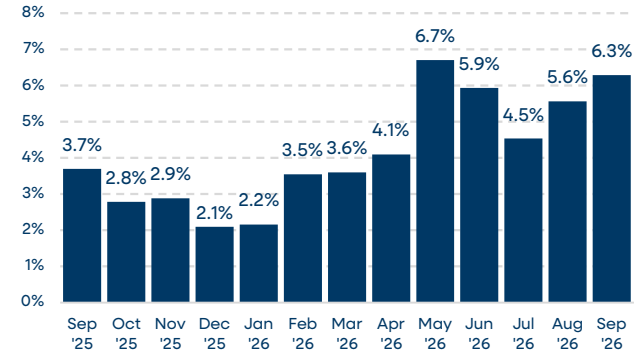
Sales growth was mixed across segments in September. Building materials sales fell 0.6% because of the soft housing market, although sales of furniture and home furnishings were up 1.3%, and sales of electronics and appliances rose 0.6%. Clothing sales were flat over the month, while sales at general merchandise stores fell 0.1%. Sales at nonstore retailers, primarily online, rose 0.3% in September. Sales of motor vehicles and parts rose 0.2% in September.

Figure 1: Retail sales growth (% chg., m/m)



Sources: Census, PNC
*Control group refers to the measure of retail sales excluding auto dealers, gasoline stations, home improvement stores, and food services.

Figure 2: Retail sales growth (% chg., y/y)



Sources: Census, PNC

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