Economic Update

November 15, 2023

Retail Sales Slipped in October, After Strong Gains in Prior Two Months

- **Retail sales fell 0.1% in October, with core retail sales up 0.1%. This followed big gains in August and September.**
- **Interest-rate sensitive industries were particularly weak in October.**
- **The strong job market is the biggest support for consumers.**
- **PNC expects retail sales to fall next year with a recession.**

Retail sales fell 0.1% in October from September. However, this followed large gains in September (up 0.9%, revised up from 0.7%) and August (up 0.7%, revised lower from 0.8%). Sales excluding autos and parts were up 0.1%; sales excluding gasoline were down 0.1%; and core retail sales, excluding autos, parts, and gasoline, were up 0.1%.

Control retail sales—sales excluding food service, autos, gasoline, and building materials, and which go into nominal consumer spending in GDP—were down less than 0.1% in September. This followed increases of 0.1% in August and 0.7% in September.

Results were mixed across segments. Sales of motor vehicles and parts fell by 1.0% as higher interest rates were a drag, and sales at gasoline stations fell 0.3% with lower gas prices. Sales of furniture and home furnishings were down 2.0%, with sales of building materials down 0.3%; higher mortgage rates are weighing on housing-related spending. But sales of electronics and appliances rose 0.6%. Sales at general merchandise stores were down 0.2%. Nonstore sales, primarily online, rose a modest 0.2% in October, but that followed an enormous 1.4% increase in September. Sales at restaurants rose 0.3%, after a 1.6% increase in September; consumers often cut back on restaurant purchases when they are feeling financial pressures.

Retail sales growth stalled in October following big gains in August and September. The biggest support for household spending remains the strong labor market, with continued solid job growth and strong wage gains. Slowing inflation, including a drop in gasoline prices in October, is another positive. But higher interest rates are a drag, particularly for autos and housing-related segments.

Consumer spending growth will slow further into 2024 as high interest rates and slower job growth further weigh on households. The need to increase savings will also be a drag. PNC expects consumer spending to decline later in 2024 as the U.S. economy falls into recession and job losses lead households to pull back. But there is still a 40% probability that the economy avoids a downturn next year, albeit with weaker growth.

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