# WHAT DOES MAY'S RETAIL SALES REVEAL ABOUT THE STATE OF THE US ECONOMY?

*Both consumer inflation and retails sales for May were released this week. This provides the first official insight into the state of the US economy during May. Inflation was lower than expected but retail sales were higher.*

Consumer prices rose by 0.1% month on month and by 4% year on year. Owner occupier rents increased by 0.5% month on month and by 8% year on year. Subtracting these rents would have resulted in no rise in consumer prices and a reduction to 3% for the year-on-year rise. Goods CPI really the RPI came in at 0.6% for the year, meaning inflation is centred on so called services.

These figures are not far off the mandate of the FED to force inflation into a 2% range. It may be the reason Chair Powell and his FED crew decided to leave interest rates unchanged at the FMOC meeting this week. It really is amusing to hear Powell banging on about 2% inflation. He really should listen more to weather forecasters than economic forecasters. One wonders if he is aware that interest rates don't make the rain fall nor bring cooling winds. And for this reason the FED is powerless when faced with weather induced inflation which is on the horizon.

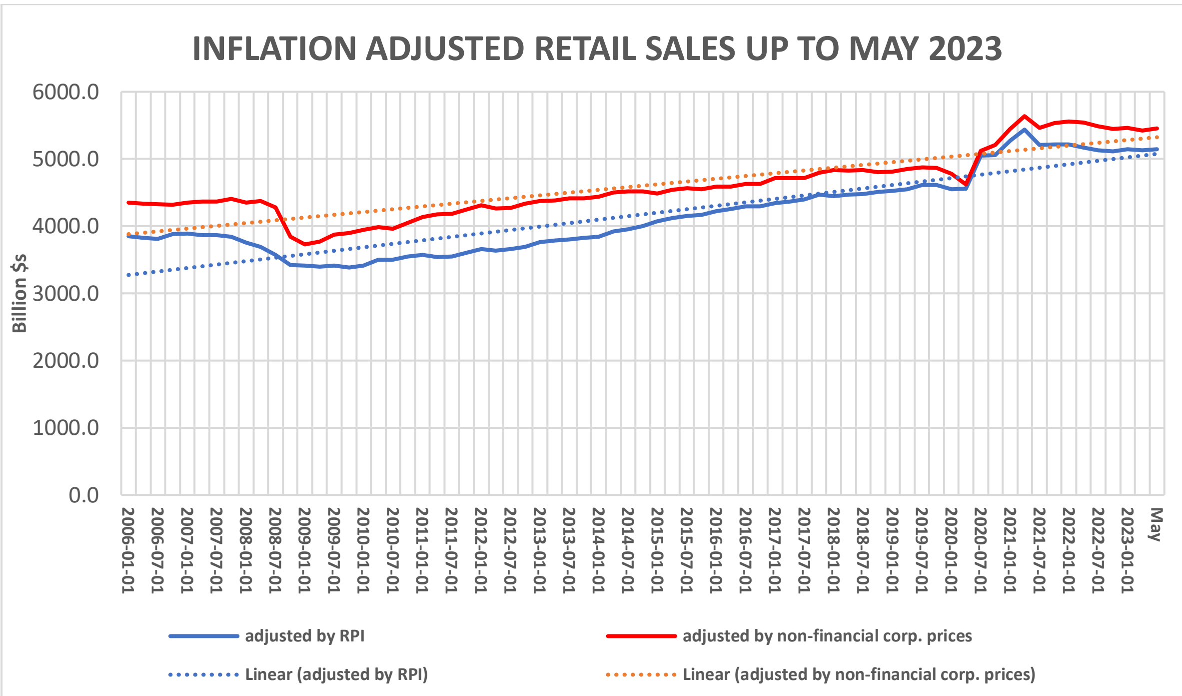
*"Last year, Kansas produced 244 million bushels of hard red winter wheat." "This year, they're projecting the yield to be 30 bushels an acre on average," said Hayden Guetterman, a farmer. "That kind of estimates out to 178 million bushels a week. That's down substantially from what we normally produce. It will have an affect."* This is the smallest crop for 60 years. The same applies to corn. Corn Prices Set to Soar After Midwest Hit by Worst Drought in 30 Years and if this drought persists for a few more weeks then the US Department of Agriculture's rosy outlook for corn is doomed. And this is what the Copernicus Institute which is the EU's weather experts had to say. *After the official declaration of the emerging El Niño and last month's record sea-surface temperatures, the first eleven days of this month registered the highest temperatures on record for this time of the year. Moreover, this has been the first time that global surface air temperatures have exceeded the pre-industrial level by more than 1.5ºC during the month of June.* Alongside the official declaration of an El Nino have come the estimates of losses for the global economy the heat will inflict. *"A recent study by researchers at Dartmouth College, Hanover, New Hampshire, estimates that an El Niño starting in 2023 could cost the global economy as much as $3.4tn (£2.7tn) over the following five years."* This is likely to be the lowest estimate not the highest as base line global temperatures were higher than at the onset of previous El Nino events. In fact no one can tell what is going to happen as we are entering uncharted waters, really a maelstrom, whipped up by already high temperatures, El Nino, a raging Solar 25 and buffers unable to absorb temperature rises because they have been depleted and exhausted..

Of course, weather related losses of close to $1 trillion in the US alone is inflationary at the very least. It is for these reasons I will not make any economic predictions about the future except to say this, by sticking to an inflation rate of 2% and tying interest rates to achieving this goal, the FED is being very stupid. They will end up making a bad situation worse, because untangling supply chains and precarious weather makes that target impossible.

**Retail Sales.**

Retail sales which were predicted to fall by 0.2% instead rose by 0.3% a rather large miss of 0.5%. *Advance estimates of U.S. retail and food services sales for May 2023, adjusted for seasonal variation and holiday* *and trading-day differences, but not for price changes, were $686.6 billion, up 0.3 percent (±0.5 percent)* from the previous month, and up 1.6 percent (±0.7 percent) above May 2022. Total sales for the March 2023 through May 2023 period were up 1.7 percent (±0.4 percent) from the same period a year ago. The March 2023 to April 2023 percent change was unrevised at 0.4 percent (±0.2 percent).* Thus in volume terms retail sales were more or less unchanged for the year as the graph below shows adjusted by the CPI for goods only, yielding a RPI as retailers sell mainly goods.

**Graph 1.**

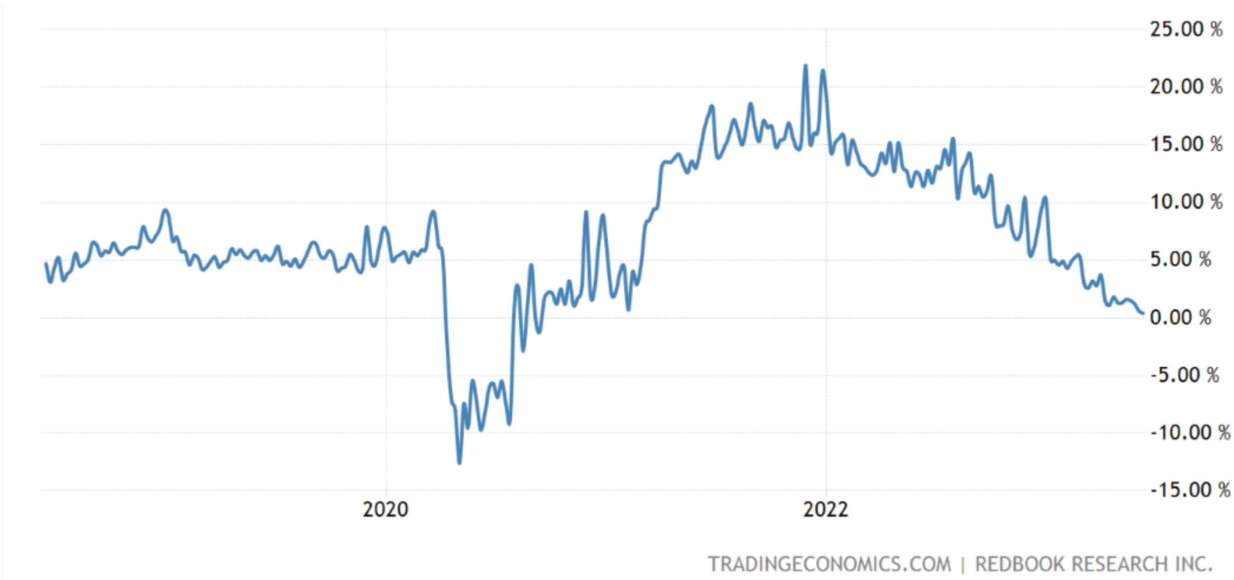



For the first time I have used the Deflator found in NIPA Table 1.14 to adjust for price movements in retail as this deflator is based on price rises provided by the corporations themselves and while they do not all relate to consumer prices, at least they are not affected by seasonal adjustments and weightings which are suspect. If these prices (the red graph) are more realistic it shows that the volume of retail sales barely advanced from the period prior to the financial crisis up to 2019. And since April 2021 they have been subsiding.

The rise in retail sales is both surprising and it is not. It is surprising because motor car sales seemed to have increased even when multiple reports of softer new and used car prices as well as lower sales were being reported, merchandise sales as well, as we shall see below where growth of 3.9% deviates from that found in the Red Book graph below, and finally the truth sayer, the sale of cardboard boxes shows that online sale growth cannot be correct unless inflation there is in double figures which would make a mockery of inflation figures. Finally, my Costco index is negative. I place a great deal of store on that index as Costco also acts as a wholesaler serving smaller retailers as well as all those 'booming' *food services & drinking places* where sales rose by 12.9% year on year.

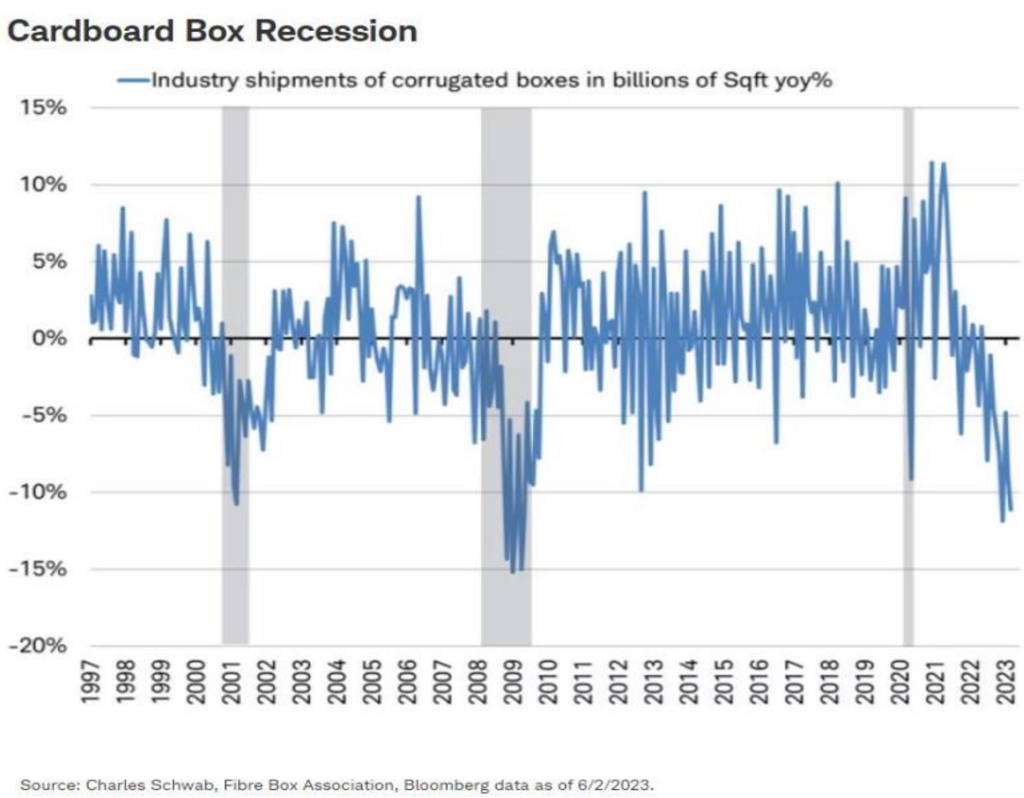
As we see in the Red Book graph below which covers up to 80% of the revenue found in the official retail sales figures, nominal sales have fallen to around 0.5% versus the 2.2% found in the official figures. A lot of extra cars would need to be sold to make up that difference.

**Graph 2. [(US Red Book Data)]**



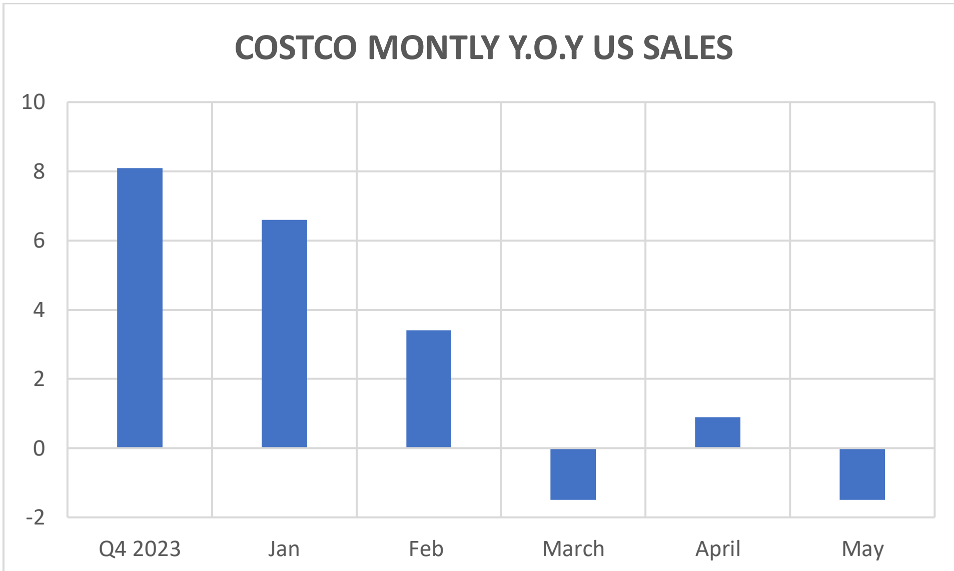

If cardboard boxes are anything to go by then the US economy is already in recession.

**Graph 3.**



And there is Costco where sales have fallen into contraction once again in May. This fall of 1.5% contrasts to the official rise for retail of 0.7%. Once again that is a lot of cars. And if Costco is doing badly then betcha, the rest of retail is doing even worse.

**Graph 4.**




Another way to measure retail sales is by the movement in trucking-freight. This *FreightWaves* logistic index is reaching the lows last seen when the pandemic broke out.

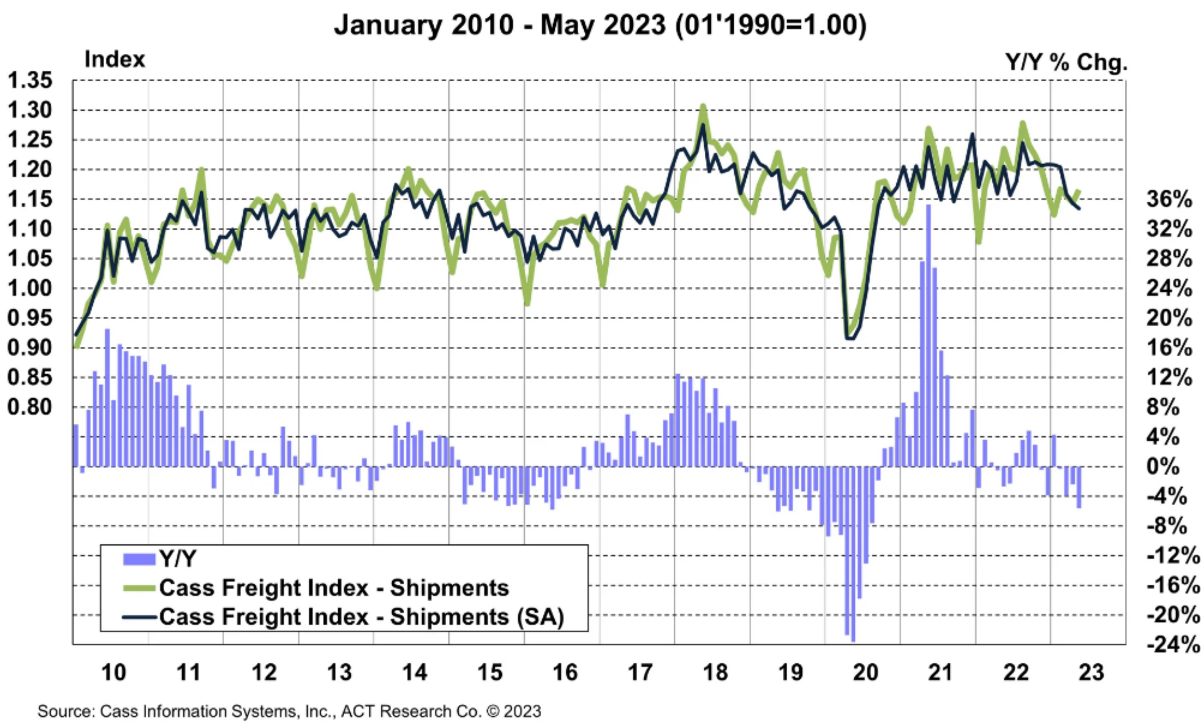
**Graph 5.**


Logistics Manager Index – LMI composite measure vs. LMI inventory levels in white and green, respectively. To learn more about FreightWaves SONAR, click here.

Source: FreightWaves

The longer duration CASS index below shows the internal movements of freight at around 1.15 which are below 2019 levels of around 1.20. This corroborates the graph above. The cardboard and freight indexes suggest that as far as the production and sale of goods goes, the economy is in recession and below 2019.

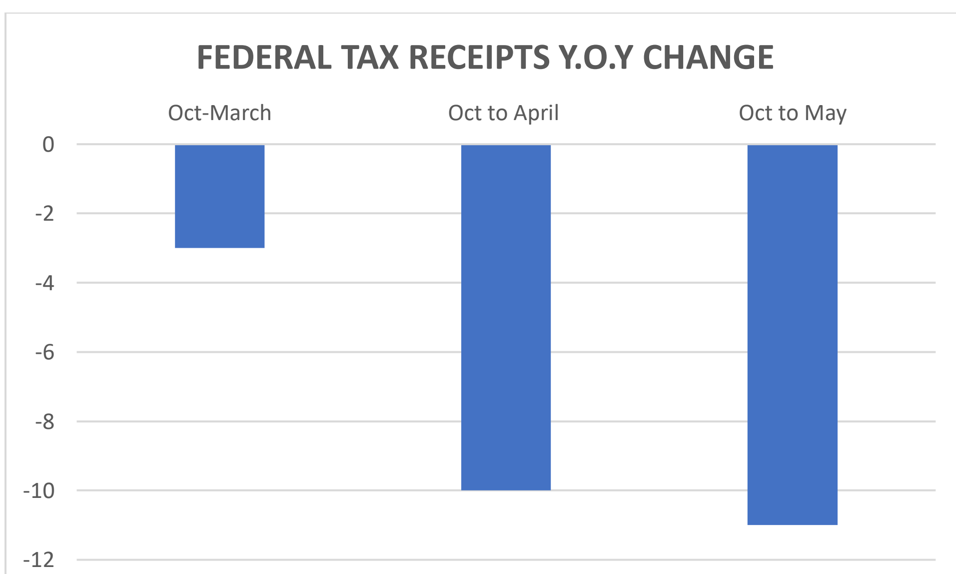
**Graph 6.**




Source: Cass Freight Index

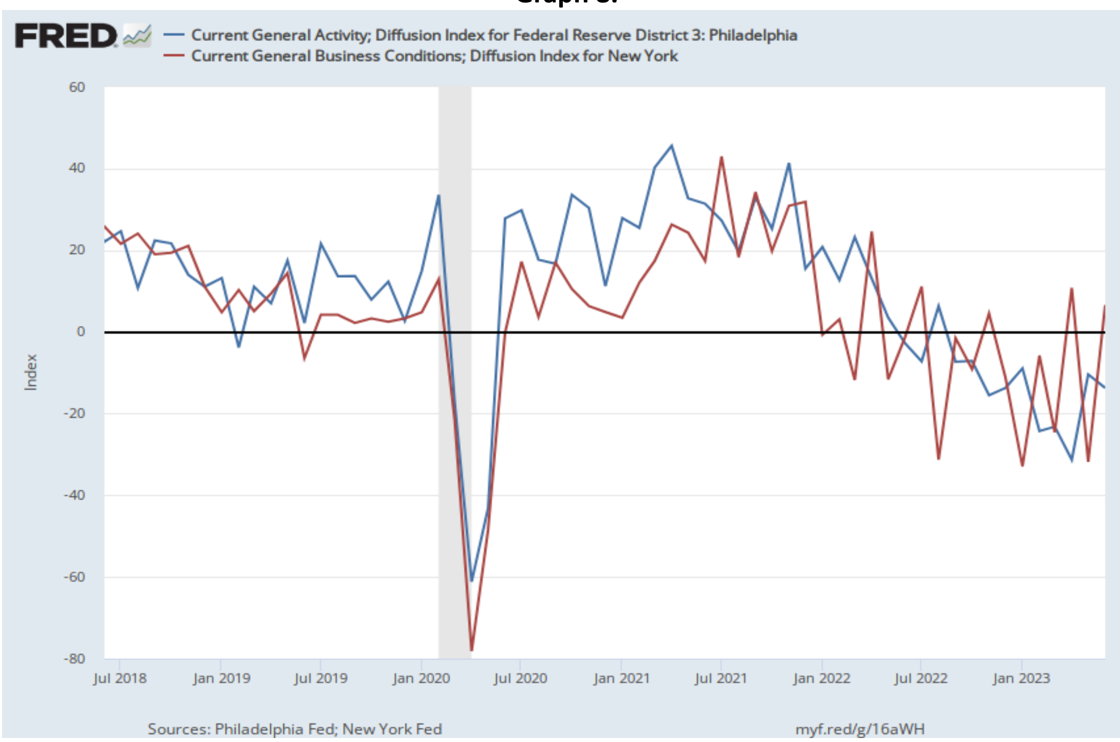
And of course this is all confirmed by the collapse in Federal Tax receipts despite inflationary conditions. The fall in receipts is not indicative of a growing economy despite the caveats, but of a contracting economy. As we see the fall in tax receipts is accelerating.

**Graph 7.**



However I was not surprised by the rise in retail sales. As I have pointed out on numerous occasions, the top 10% of income earners in the USA spend as much as the bottom 80% on retail products. And it is this 10% whose spending habits are most influenced by capital gains because they own almost all outstanding shares. Currently the E.I.s are doing very well out of the A.I. craze on Wall Street (E.I. standing for exuberant individuals). And when they do well they spend more on themselves as the reward you know for doing well. Thus even if retail is overstated which it is, due to this overstatement being consistent, any spending impulse will nonetheless show itself as an increase in sales. In the graph below I have plotted the difference between the manufacturing index for New York home to Wall Street and that of Philadelphia associated with the tech industry. While Philadelphia has been in negative territory since August last year, New York has popped into expansion territory in two of the last three months. A different profile.

**Graph 8.**




Without understanding the exuberance on Wall Street the messaging this week from the FED remains obscure. The FED paused but also balanced this with a hawkish outlook. That hawkish outlook was directed towards the stock markets, a warning shot across the bows, because with a budget deficit of 7% and with speculators cashing in some of their gains in the shops and boutiques, it will be difficult for the FED to reign in demand, its stated aim.

**Conclusion.**

The official data continues to paint a picture of an economy that is stronger than it really is. Underlying data refutes the view that the economy is growing *modestly.* However, at this point in time it appears that the US has currently got the upper hand compared China which is mired in cumulative embargoes and the loss of international investment, something which I will look at in greater detail shortly.

Brian Green 15th June 2023.