

GLOBAL ECONOMY AND FINANCIAL MARKETS SHORT COMMENTARY

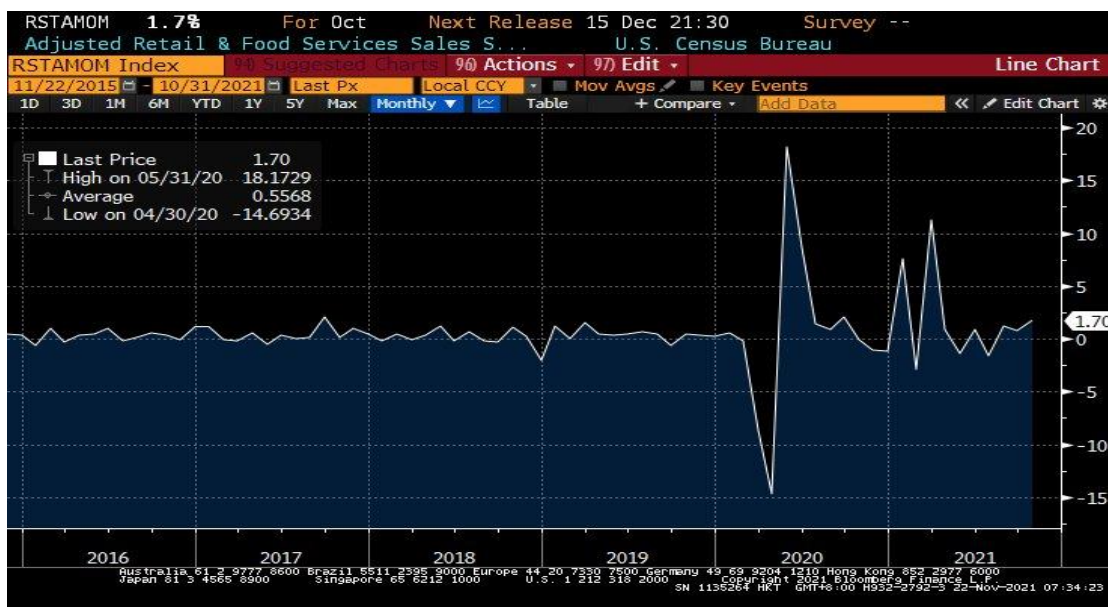


29 November, 2021

U.S. retail sales surge as holiday shopping starts, brightening economic outlook

According to the Commerce Department, retail sales jumped 1.7% in October, the largest gain since March, after rising 0.7% in September. It was the third straight monthly advance and topped forecasts for a 1.4% gain amid rising consumer pessimism over surging inflation and continued shortages of goods, and suggests a good holiday season may be coming for retailers. Retail sales are a key component of the nation's gross domestic product, where consumer spending accounts for more than two-thirds in U.S. economic activity.

A significant acceleration in retail sales of 1.7% in October, much higher than the pre-pandemic level at around 0-1%.



Source: Bloomberg

What is the rationale behind the high growth?

Holiday ahead

Americans spent \$638.2 billion in October, 16% increase from last year. Sales surged 16.3% year-on-year in October and are 21.4% above their pre-pandemic level. Americans eagerly started their holiday shopping early to avoid empty shelves amid shortages of some goods because of the ongoing pandemic.

Some of the biggest sales areas increased last month were recorded traditionally driven by holiday gift buying. Sales at electronics and appliance stores rose 3.8% from September, while sporting goods, musical instrument and book stores notched a 1.5% gain. Spending at food related, meanwhile, remained flat.

Motor vehicles, parts	1.8%
Furniture	0.4%
Electronics	3.8%
Building materials	2.8%
Food, beverages	0.9%
Health, personal care	-0.6%
Gasoline stations	3.9%
Clothing	-0.7%
Sporting goods	1.5%
General merchandise	0.8%
Department stores	2.2%
Miscellaneous	2.8%
Non-store retailers	4.0%
Eating, drinking	0.0%

Source: Bloomberg

Despite the country is still in the grip of a pandemic, the coronavirus and fears surrounding it have receded enough for economic activity to maintain a tepid pace. Goldman Sachs analysts recently updated its forecast, saying growth over the next few quarters would average a 4% annual rate as the service sector continues to reopen, consumers quench their pent-up demand and businesses continue to restock inventories.

High inflation

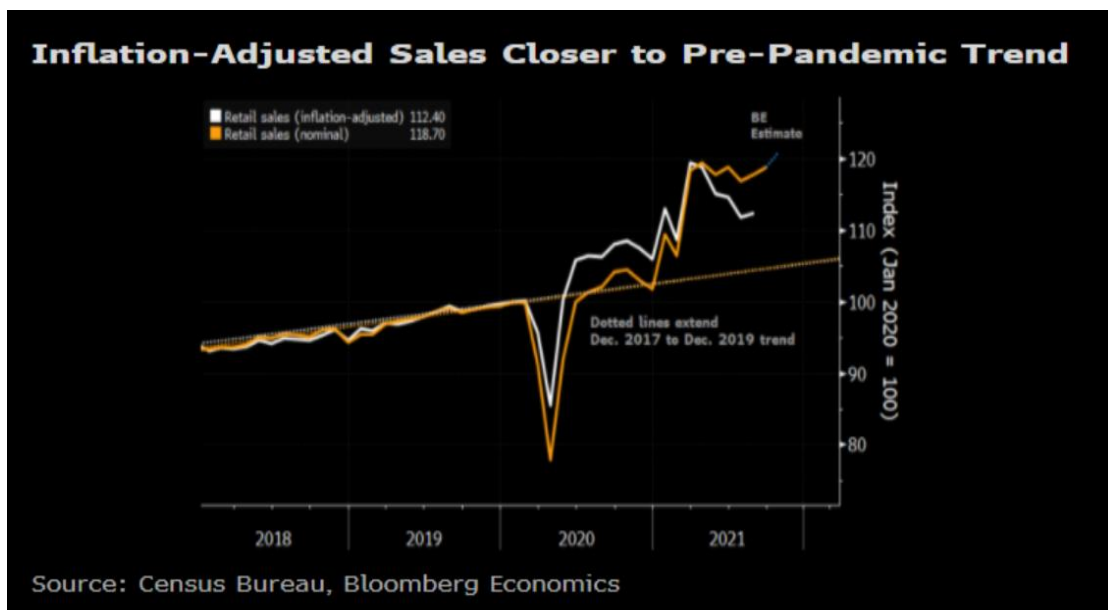
Inflation has become the prerequisite issue for the U.S., according to polling, surpassing Covid-19. The most recent data on consumer inflation, released on 10 November, showed prices are rising at an annual rate of 6.2%, a 30-year high. The PCE Core Price Index, which is usually referred by the U.S. Fed, is rising at an annual rate of 4.1% in October, well above Fed's target of 2%. Inflation has spread from a handful of goods to many common items, such as food, apparel, etc.

The report from the Commerce Department on 16 November suggested high inflation was not yet dampening spending, even as worries about the rising cost of living sent consumer sentiment tumbling to a 10-year low in early November. Rising household wealth, thanks to a strong stock market and house

prices, as well as massive savings and wage gains appear to be cushioning consumers against the highest annual inflation in three decades which pushed sales in the run-up to holidays. Although consumers are concerned about higher inflation, they are still in good shape and continue to spend.

Last but not least, even though the sales report reflected that US households are willing and able to spend, the significant increase in retail sales in October may still partially be due to the push-up effect from high inflation. It is because if we take out the inflation effect, the growth rate for the inflation-adjusted sales is much smaller. Besides, high inflation may also let many U.S. households to shop in advance, because the later they shop, the more expensive the price. Thus, in certain extend, this may not be a really significant increase in sales, but an illusion caused by the early realization of consumption by some U.S. households.

Retail sales after deducting inflation factors (white): The increase has been significantly reduced.



Source: Bloomberg

Source: USNews, Bloomberg, Reuters, WSJ, FT

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