

## Morning Market Tidbits

## Retail's shrinking wallet share

## In focus

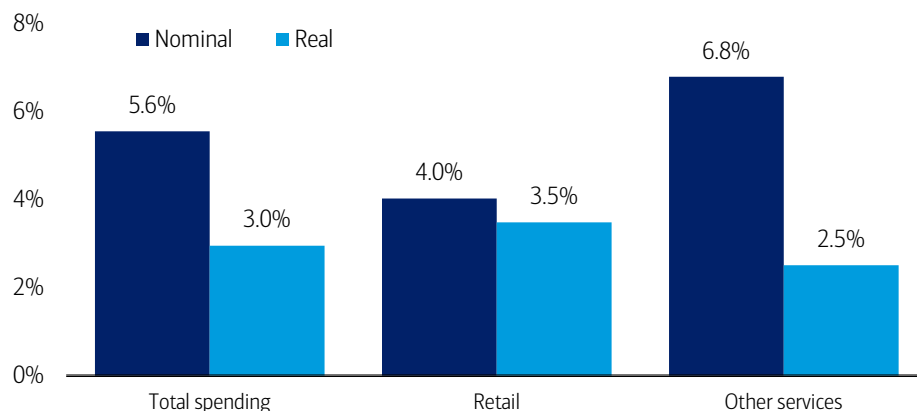
In tomorrow's retail sales report for February, we forecast a 0.1% drop in the ex-autos component and a sharper 0.3% decline in the core control group, which feeds into GDP (see the report [BofA on USA: Services inflation takes a toll on retail spending 12 March 2024](#) for methodology, limitations, and disclaimers related to BAC card data). Both figures are well below consensus. Retail sales were also weak in January (albeit largely due to seasonal adjustment issues and weather disruptions) and were revised down for November and December.

The ongoing weakness in nominal retail spending is partly for "good reasons", namely, broad-based deflation in goods categories that we have been seeing since 2023. However, another reason seems to be that strong services inflation is weighing on retail's wallet share.

In yesterday's CPI (Consumer Price Index) report, core services inflation came in at 5.2% y/y, while core goods printed -0.3% y/y. Nominal services spending has significantly outpaced nominal retail spending over the last few quarters, even though retail spending has grown faster in real terms (Exhibit 1). The risk is that, despite the good news on services inflation in yesterday's print, if services inflation remains elevated, real retail spending will also start to slow.

#### Exhibit 1: Nominal and real spending growth by category (avg. of Nov 2023-Jan 2024 vs. avg of Nov 2022-Jan 2023)

Services inflation has eaten into the wallet share of retail



**Source:** BofA Global Research, Bureau of Economic Analysis, Haver Analytics. For this analysis we only look at "market-based" personal consumption expenditures. We define "retail" as goods and food services. "Other services" are total services ex food services. See the report [BofA on USA: Services inflation takes a toll on retail spending 12 March 2024](#) for methodology, limitations, and disclaimers related to BAC card data

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ECB: European Central Bank

## Market Action

The Asian equity markets that we cover closed mostly negative overnight. Looking at individual markets, the Indian Sensex, the Shanghai Composite, the Nikkei and the Hang Seng fell 1.2%, 0.4%, 0.3% and 0.1% respectively while the Korean Kospi added 0.4%.

As of 7:00 am ET, aggregate European stocks are up 0.2% and S&P500 futures are up 0.1%. In the bond markets, US Bond are up 1bp to 4.16%, and German Bund yields are down 2bp to 2.31%. The dollar index is down \$0.01 to \$102.95. WTI crude oil prices are \$1.12 higher at \$78.68/bbl, and gold prices are at \$2163.44/oz.

## Data review

### CPI

The February Consumer Price Index (CPI) topped expectations, rising by 0.4% m/m (0.442% unrounded) at the headline and 0.4% (0.358% unrounded) at the core. As a result, headline inflation ticked higher by one-tenth to 3.2% y/y while core dropped to 3.8% from 3.9% previously.

On net, we view the underlying details as largely favorable for our outlook for further disinflation as the miss relative to our expectations came from surprise increases in core goods prices, while services inflation decelerated.

In terms of implications for the Fed, on net, we think this CPI is a favorable report with respect to our outlook for monetary policy. We find good news in the deceleration in services inflation and the February data suggest the OER-rent deviation from January is a one-off event. The deceleration in services inflation - against the backdrop of resilient growth and solid employment gains - should give the Fed some additional confidence that the economy is not overheating.

We temper this good news with the uncertainty raised by the surprise increase in core goods prices. This could leave some on the FOMC wondering whether goods deflation has run its course. If so, then there is a risk that the median FOMC member only forecasts two rate cuts this year in the forthcoming March Summary of Economic Projections, as opposed to three currently.

That said, the Fed has said they need services inflation to moderate further in case goods deflation has ended. The February CPI report has this flavor. Hence, while it would have been an unambiguously favorable report had goods prices met our expectation for a decline, we read developments on February inflation as continuing to support our outlook for a rate cut cycle that starts in June (see [US Watch: February CPI Inflation: Services inflation softens, but goods surprise to the upside](#)).

## Data preview

### March 13<sup>th</sup>

MBA Mortgage Applications

Date	Time	Indicator	Period	BofA		
				Estimate	Consensus	Previous
3/13/24	7:00	MBA Mortgage Applications	Mar 8	—	—	9.7%

Source: BofA Global Research, Bloomberg

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## US GDP Tracking

### Exhibit 2: BofA US GDP tracking estimate (% q/q saar)

1Q GDP tracking is down two-tenths to 2.3% q/q saar from our official forecast change to 2.5% q/q saar largely due to a wider than expected trade deficit in January along with downward revisions to January wholesale inventories

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
2/29/24	Alignment to official forecast change	<b>2.5</b>	<b>2.5</b>	1.5	<b>2.5</b>	<b>5.0</b>	3.0	<b>3.0</b>	<b>3.5</b>	<b>3.0</b>	<b>1.5</b>	<b>-911.0</b>	<b>71.5</b>
3/1/24	Construction Spending	<b>2.4</b>	<b>2.2</b>	1.5	<b>2.3</b>	<b>4.7</b>	3.0	3.0	<b>3.6</b>	3.0	1.5	-909.0	71.5
3/5/24	Factory Orders, Vehicle Sales	<b>2.5</b>	<b>2.3</b>	<b>1.7</b>	2.3	4.7	<b>3.3</b>	3.0	3.6	3.0	1.5	-909.0	<b>70.2</b>
3/6/24	Wholesale Inventories	<b>2.4</b>	2.3	1.7	2.3	4.7	3.3	3.0	3.6	3.0	1.5	-909.0	<b>65.1</b>
3/7/24	Trade Balance	<b>2.3</b>	2.3	1.7	2.3	4.7	3.3	3.0	3.6	<b>2.8</b>	<b>2.7</b>	<b>-923.3</b>	65.1
	GDP tracking	2.3	2.3	1.7	2.3	4.7	3.3	3.0	3.6	2.8	2.7	-923.3	65.1
	Contribution to GDP growth (pp)			1.1	0.1	0.1	0.2	0.2	0.6			-0.1	0.0
	BofA official GDP forecast	2.5	2.5	1.5	2.5	5.0	3.0	3.0	3.5	3.0	1.5	-911.0	71.5

**Source:** BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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## Overseas data

### Euro Area

Industrial production came in at -3.2% mom in January, worse than consensus expectations of a 1.8% decrease. Our Europe economists note that the decline was mainly driven by a 29% mom drop in Ireland's noisy data - the signal from this negative surprise should be discounted.

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