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Americans pulled back on spending in September. If reduced consumption were to persist, coupled with a weaker labor market, the Federal Reserve would likely lower the policy rate in December despite inflation concerns

In September, seasonally adjusted nominal U.S. retail sales increased 0.16% on a monthly basis (m/m) reaching US\$733 billion (bn), which is below the forecasted increase of 0.4% m/m, suggesting a potential cooldown in consumer spending amid rising prices. On an annualized basis this comes to a 3.2% rate barely above current inflation levels. This print came after increases of 0.7% in July and 0.6% in August, marking the smallest monthly gain in the last four months. The 43-day government shutdown in the United States caused the delay in the report's intended mid-October deadline. September's data is released ahead of this weekend's start of the important winter holiday season. Compared to last year's Thanksgiving, the National Retail Federation and other forecasters anticipate a more moderate increase in sales this year.

The retail sales numbers, which are not adjusted for inflation, indicate that Americans reduced their spending in September as many households battled with the high cost of rent, groceries and tariffed imports goods. In fact, the question of "affordability" has emerged as a major political issue which will probably impact the Fed's thinkings. The idea of the dual mandate assumes that there is an inverse relationship between the strength of the labor market and inflation. This is based on the assumption that the strength of the labor market is positively related to consumer spending which is related to inflation. However, consumer spending may be bifurcated affected by those enjoying equity market gains and those whose spending is based on employment and wage gains. If the former outweighs the latter, as may currently be the case, we can have strong consumer spending and unacceptably high inflation along with a weak labor market. This creates complications for both politics and economic policy. The situation is further complicated as strong investment spending bolsters economic growth, and possibly inflation, but not necessarily employment. This may especially be the case as investment spending and stock market gains appear to be AI driven which itself has highly uncertain implications for job creation.

The sales figures are distorted in that September was a bad month, yet the quarter was robust, as illustrated in the last column of Figure 1 below. We believe that September is not merely an anomaly or a typical retracement from the two particularly solid preceding months, but rather an indicator of future expectations. We anticipate a deceleration in consumer expenditure during the final quarter of the year, as an increasing number of households will reduce spending due to the government shutdown, ongoing high inflation, a fragile labor market, and a rising unemployment rate, which reached 4.4% in September, the highest level in nearly four years.



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Figure 1. U.S. retail sales in billion USD

Sales Category	Billions of USD		Monthly change		3Q25 vs. 3Q24	3Q25 vs. 2Q25 (annualized)
	Aug-25	Sep-25	Aug-25	Sep-25		
Food and beverages	85	86	0.65%	0.21%	2.8%	4.7%
Food Services	100	101	1.01%	0.74%	6.7%	6.2%
Gasoline Stations	52	53	0.42%	2.01%	0.1%	10.3%
Motor Vehicles and Parts Dealers	140	139	0.57%	-0.30%	5.2%	5.6%
Other Sales	355	355	0.50%	-0.09%	4.7%	5.9%
Total Retail and Food Services	732	733	0.60%	0.16%	4.5%	6.1%

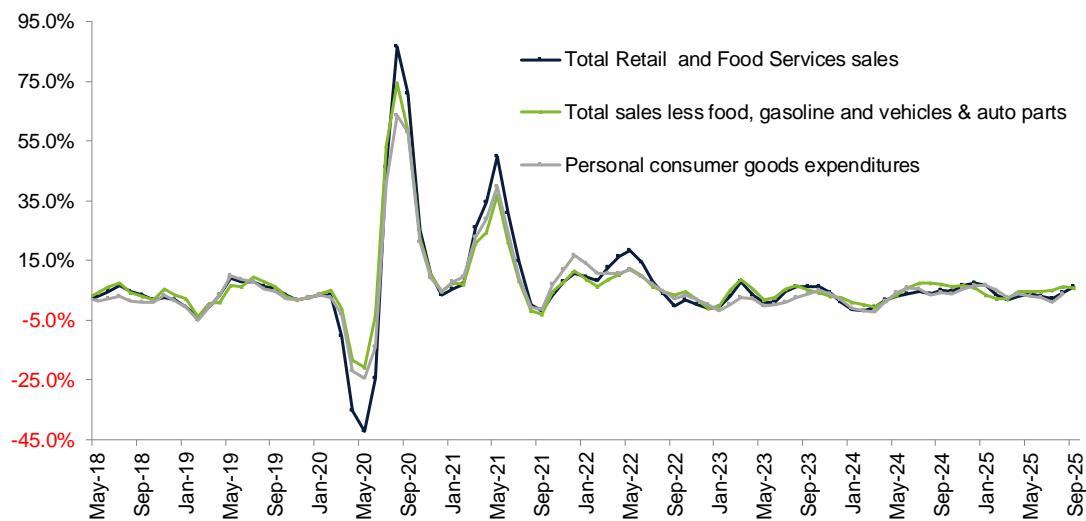
Source: HR Ratings with data from the U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis.

A significant increase in gasoline prices of 4.1% m/m in September drove up the monthly gain in gasoline stations (2.0% m/m), from previous 0.42%. Retail trade sales (excluding food services) grew by 0.1% in September, down from August 0.5% increase. Car dealership sales increased 0.6% m/m in August before declining by 0.3% in September. Health and personal care stores saw a 1.1% m/m increase in sales, while furniture retailers saw a 0.6% m/m gain.

On the other hand, sales of appliances and gadgets dropped 0.5% m/m, while sales at clothes stores fell 0.7% m/m. Retail sales online were down 0.7% m/m. Sales decreased 0.1% m/m when food, gasoline, and automobiles and motor components were excluded. The majority of the gains are being driven by Americans with higher incomes, according to statistics from dealers like Walmart and data from Bank of America.

The Atlanta Federal Reserve's GDPNow model estimated that Gross Domestic Product (GDP) increased at an annualized rate of 4.2% in the third quarter of 2025, prior to the release of retail sales data. Reduced consumer expenditure suggests restrained demand, which may ultimately lead to a decline in consumer inflation. If reduced consumption were to persist, coupled with a weaker labor market, the Federal Reserve, under increasing political pressure, would likely lower the policy rate to stimulate demand and encourage economic growth. Although some Federal Reserve officials continue to express concerns regarding inflation, the likelihood of the U.S. central bank lowering interest rates again in December has increased.

Figure 2. Retail sales and consumer goods spending annualized change (3MMA)



Source: HR Ratings with data from the U.S. Census Bureau, BEA and FRED, Federal Reserve Bank of St. Louis.



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