ECONOMIC UPDATE

REGIONS

December 13, 2019

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November Retail Sales: More About The Calendar Than The Consumer

- Retail sales <u>rose</u> by 0.2 percent in November after <u>rising</u> by 0.4 percent in October (initially reported up 0.3 percent)
- Retail sales excluding autos <u>rose</u> by 0.1 percent in November after <u>rising</u> by 0.3 percent in October (matching the initial estimate)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.1 percent in November

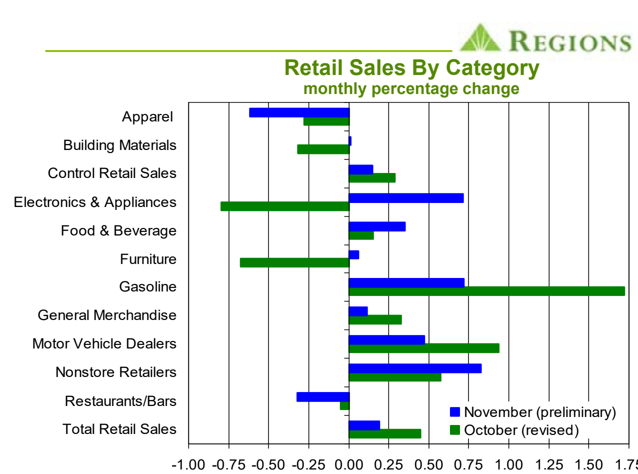
Total retail sales rose by 0.2 percent in November, short of the 0.4 percent increase the consensus expected and the 0.5 percent increase our forecast anticipated. Ex-auto sales were up 0.1 percent in November while control retail sales rose by 0.1 percent, both lighter than expected. Aside from what in any given month is a low degree of reliability in the initial estimate of retail sales, there are signs that calendar effects are at play in the initial estimate of November retail sales, largely stemming from how late in the month Thanksgiving fell this year and Cyber Monday falling into December. If we're correct on this point, then any seepage from November sales will turn up in the December data, meaning the average of the two months will tell us more than the data for either of the individual months. That, at least to us, is the way to interpret the retail sales data, though there will be some who will point to the November retail sales data as a sign of a flagging U.S. consumer. The totality of the data on job growth, labor earnings, consumer confidence, and household debt service burdens don't exactly support that contention but, as always, one is free to draw their own conclusion.

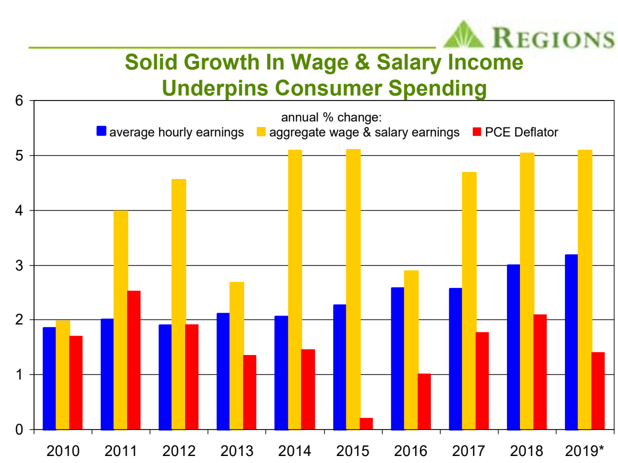
On a not seasonally adjusted basis, total retail sales rose by 2.3 percent in November, while control retail sales rose by 8.6 percent. These are the smallest November increases since 2015, and that they are below the longer-term average increases for the month of November raises the odds that the seasonally adjusted data look weaker than is actually the case. That Thanksgiving fell so late in the month also makes it highly unlikely that what by all accounts were stellar Black Friday sales were fully captured in the November retail sales data. As a reference point, the last time Thanksgiving fell as late as it did this year was 2013, and in that year atypically small November increases in total and control retail sales were followed by strong December increases, which is what we expect to see this year.

November sales rose in eight of the 13 broad categories for which data are reported. Sales by nonstore retailers were up by 0.8 percent, smaller than the 1.0 percent increase our forecast anticipated but we did, as we noted in our *Economic Preview*, see downside risk to our call due to the calendar effects discussed above. Online sales, which account for roughly 88 percent of sales in the broad nonstore retailers category, are reported with a one month lag, but doing the math suggests the initial estimate for November fell far short of fully capturing online sales. Price effects helped push gasoline station sales up by 0.7 percent in November, following a 1.7 percent increase in October (which was first reported as a 1.1 percent increase). Sales revenue at motor vehicle dealers rose by 0.5 percent in November, which seems smaller than would be implied by the jump in unit motor vehicle sales. As we've noted, however, the link between unit motor vehicle sales and the retail sales data is much weaker than used to be the case given changes in how the domestic producers have changed reporting practices.

To the down side, apparel store sales are reported to have fallen by 0.6 percent in November, though what was first reported to be a 1.0 percent decline in October is now reported to be a 0.3 percent decline. Sales at department stores were down 0.6 percent in November, but the reality is that not even the holiday shopping season can stand in the way of what has been a long-running decline in department store sales. Restaurant sales are reported to have fallen by 0.3 percent in November, but we look for this to be revised higher in the months to come in keeping with the pattern seen in this category.

The second chart below goes to our earlier point about the backdrop for consumer spending. Aggregate wage and salary earnings, the primary support for growth in personal income and, in turn, consumer spending, continue to grow at a 5.0 percent pace, easily outdistancing inflation. Though off cycle highs, consumer confidence remains elevated and, of even more significance in our view, consumers' assessments of labor market conditions remain more favorable than at any time since the year 2000. Unless and until this changes, we will have few concerns about the state of U.S. consumers, even when the retail sales data, particularly the initial estimate for any given month, don't seem to agree.





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