ECONOMIC UPDATE
REGIONS
December 14, 2018

November Retail Sales: Soft Headline Number Masks A Strong Report

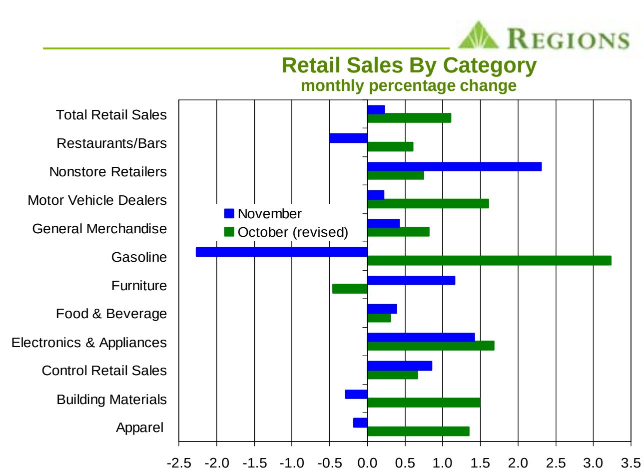
- Retail sales <u>rose</u> by 0.2 percent in November after rising by 1.1 percent in October (initially reported up 0.8 percent)
- Retail sales excluding autos <u>rose</u> by 0.2 percent after rising by 1.0 percent in October (initially reported up 0.7 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) <u>rose</u> by 0.9 percent in November

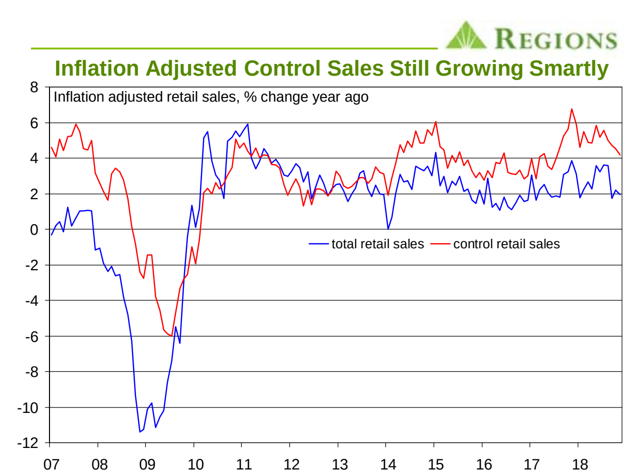
Total retail sales rose by 0.2 percent in November, in between our forecast of a 0.3 percent increase and the consensus forecast of a 0.1 percent increase, while ex-auto retail sales were up by 0.2 percent, shy of the 0.3 percent gain we and the consensus expected. At first glance, it may seem that little was expected of November retail sales and that the data lived down to expectations. The details of the report on November retail sales, however, show quite the contrary. Control retail sales, a direct input into the data on consumer spending in goods in the GDP data, were up 0.9 percent in November, topping our above-consensus forecast of a 0.8 percent increase. Additionally, initial estimates of October retail sales were revised higher which, particularly given the upward revision to control retail sales, is favorable for our tracking estimate of Q4 growth in real consumer spending. Finally, as we noted in our weekly *Economic Preview*, it is very likely that the strong initial estimate of November control sales understates the case, as the initial estimate of sales by nonstore retailers is very unlikely to have fully captured the extent of online shopping over the Thanksgiving weekend.

As we routinely note, the initial estimate of retail sales in any given month is prone to sizeable revision, and while we don't expect the initial estimate of November sales will be any different, we do not think revisions will alter the strong tone of the data. The divergence of total and control retail sales mainly reflects a sizeable decline in gasoline station sales, which itself mainly reflects price effects. On a not seasonally adjusted basis, retail gasoline prices fell by over seven percent in November. This decline simply overwhelmed the seasonal adjustment factors, such that in the seasonally adjusted data gasoline station sales are reported to have fallen by 2.4 percent. Sales at apparel stores are reported to have declined by 0.3 percent, but this more than likely is nothing more than price effects – apparel prices fell by 0.9 percent in November, as measured in the CPI, which would have weighed on sales reported on a nominal basis. At the same time, however, what was initially reported as a 0.5 percent increase in apparel store sales in October is now reported as a 1.3 percent increase. We'll make the same point about the initial estimate of a 0.5 percent decline in restaurant sales in November. It looks weak, particularly given the increase in restaurant prices reported in the November CPI data, and what was initially reported as a 0.2 percent decline in October is now reported as a 0.6 percent increase. We will, however, note that restaurant sales are highly sensitive to weather effects, and just as there were clearly weather effects visible in the November employment report, those same effects may have weighed on restaurant sales.

This of course is the beauty of online sales, which you can pretty much do anytime from anywhere regardless of what is going on in the actual world around you. On second thought, this could be the curse of online sales. Either way, sales by nonstore retailers were up by 2.3 percent in November – online sales account for roughly 87 percent of this broad category, but are reported with a one-month lag. This simply goes to our point that the initial estimate of November sales is highly unlikely to have fully captured the strength of online sales, and we expect an upward revision here. Sales at electronics & appliance stores were up by 1.4 percent, furniture store sales were up by 1.2 percent, and grocery store sales were up by 0.4 percent in November.

As we touched on earlier, retail sales are reported on a nominal basis, i.e., they are not adjusted for price changes. This, along with what can be sharp swings in the headline number based on one or two large components (gasoline or motor vehicles), is why we look to real, or, inflation adjusted, growth in control retail sales as the best gauge of consumer spending. While growth has slowed a bit over recent months, real spending on goods is still growing at a healthy clip, and we expect this to remain the case. Increasingly tight labor market conditions are driving faster growth in labor earnings, and there is a much stronger link between consumer spending and labor earnings in this cycle than was the case in the past cycle, when debt was a much bigger driver. The bottom line is that U.S. consumers remain on firm footing.





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