ECONOMIC UPDATE

October Retail Sales: Weak October Print, But August Looks Much Better? Sure, Whatever.

› Retail sales <u>rose</u> by 0.3 percent in October after <u>rising</u> 1.6 percent in September (initially reported up 1.9 percent)
› Retail sales excluding autos <u>rose</u> by 0.2 percent in October after <u>rising</u> 1.2 percent in September (initially reported up 1.5 percent)
› Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) <u>rose</u> by 0.1 percent in October

Total retail sales rose by 0.3 percent in October, below what we (0.7 percent) and the consensus (0.5 percent) expected, with ex-auto sales up 0.2 percent and control retail sales up by 0.1 percent. Before declaring the report on October retail sales a disappointment, however, we'd suggest waiting a month. Or two. As we routinely note, the initial estimate of retail sales in any given month is somewhat less than reliable and prone to sizable revision. For instance, control retail sales are now reported to have risen by 0.9 percent in September rather than the 1.4 percent increase initially reported, but at the same time control retail sales for August are now reported to have risen by 1.0 percent, as opposed to having declined by 0.1 percent (first estimate) or by 0.3 percent (second estimate). With the revisions, Q3 growth in control retail sales is stronger than had been reported, which suggests an upward revision to Q3 growth in consumer spending as reported in the GDP data. While Census states the report on October retail sales meets standards for reliability, it is possible, if not likely, that the sampling issues that have been common across most of the economic data over the past several months are still with us. Additionally, as is evident in much of the economic data, what in the past have been typical seasonal patterns have this year been disrupted by the pandemic, and that is true of the retail sales data. As such, we'd suggest not getting too attached to any conclusions you might reach on the basis of the initial estimate of October retail sales.

The not seasonally adjusted data speak to our point about typical seasonal patterns having been disrupted this year. Typical seasonal patterns would see not seasonally adjusted total and control retail sales decline in the month of September and rebound strongly in October, and the seasonal factors are geared toward these patterns. This year, however, delayed back to school shopping contributed to retail sales having been stronger this September than has typically been the case for the month, which accounts for the sizable increases reported in the seasonally adjusted data. Our forecast anticipated a larger than normal October increase in not seasonally adjusted total and control retail sales, mainly due to Amazon Prime Day(s), which were pushed to October this year, having been so

strong, not only for Amazon but also for other online sellers and those traditional retailers with solid online platforms. Indeed, sales by nonstore retailers are reported to have risen by 3.1 percent in October, topping our forecast. And, we were correct in assuming larger than normal October increases in unadjusted total and control retail sales, but more aggressive seasonal factors wiped out virtually all of these gains, hence the only modest increases reported in the seasonally adjusted data.

Sales fell in 8 of the 13 broad categories for which data are reported. The 4.2 percent decline in apparel store sales and the 1.1 percent decline in general merchandise stores are payback for what this year was a stronger than normal September – to our earlier point, these are categories in which there is typically a back to school bump, and that came in September this year. Note that in the not seasonally adjusted data, sales rose in both categories in October. We had questioned how restaurant sales would hold up in October, as a turn in the weather that made outdoor dining less appealing figured to curb sales. Still, our forecast anticipated a modest gain, but instead restaurant sales fell by 0.1 percent in October, though this is hard to square with the reported 0.4 percent decline in grocery store sales. Sales at electronics stores – a category boosted by online promotions – were up 1.2 percent in October.

We had thought the October retail sales data would provide an early clue as to whether, or to what extent, holiday shopping patterns were altered by the later than normal Amazon Prime Day(s) and earlier than normal "holiday" sales promotions. One question is whether Amazon and other online vendors pulled sales forward this year (Amazon's holiday landing spot turned on in mid-October) or will add to spending in November and December. It is still too soon to answer that question, but we will again stress the importance of examining the not seasonally adjusted data for the October-December period given that seasonal adjustment noise will persist through year-end. About the only firm takeaway from the report on October retail sales is that Q3 real GDP growth should be revised higher based on the revised August and September retail sales data.

▲ REGIONS
Retail Sales By Category
monthly percentage change

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No Reward For Stronger Than Normal October