ECONOMIC UPDATE

REGIONS

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November Retail Sales: Bad, Just Not This Bad . . .

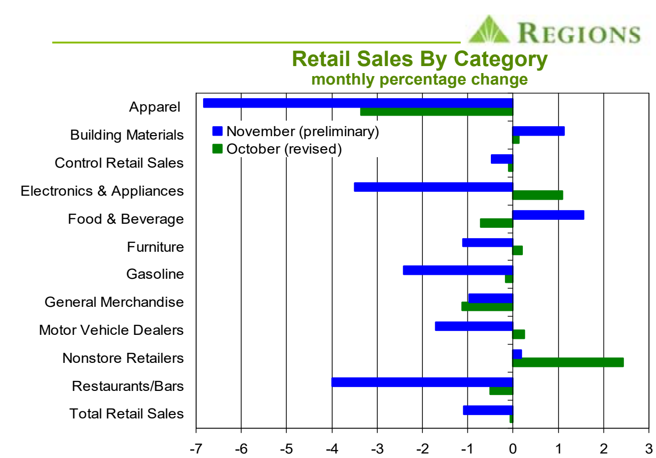
- Retail sales fell by 0.5 percent in November after falling 0.1 percent in October (initially reported up 0.3 percent)
- Retail sales excluding autos fell by 0.9 percent in November after falling 0.1 percent in October (initially reported up 0.2 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.5 percent in November

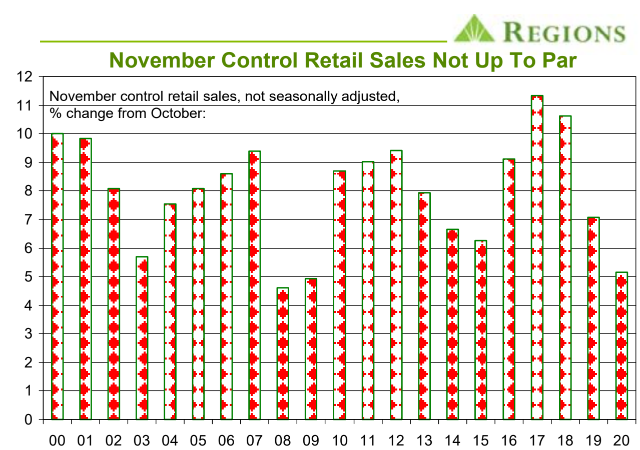
Total retail sales fell by 1.1 percent in November, even worse than our below-consensus forecast of a 0.4 percent decline, while ex-auto retail sales fell by 0.9 percent and control retail sales, a direct input into the GDP data on consumer spending, fell by 0.5 percent. And as if the surprisingly bad November numbers aren't bad enough, October retail sales now look markedly weaker than was originally reported; rather than having increased by 0.3 percent, October retail sales are now reported to have declined by 0.1 percent. Aside from the inherent unreliability of the initial estimate of retail sales in any given month, which we've noted on more occasions than we could possibly keep track of, the November retail sales data also suffer from unfavorable seasonal comparisons. So, while November retail sales may not have been good, it is very likely the case that November retail sales were not as bad as the initial estimate implies.

As we noted in this week's *Economic Preview*, we expected the not seasonally adjusted data to show smaller increases in sales than is typical for the month of November, which would make the seasonally adjusted data look worse than would actually be the case. Our premise was that some holiday sales had been pulled forward into October, while the ongoing surge in COVID-19 cases would have held down sales over the Black Friday weekend. In addition, we expected restaurant sales would have taken a hit from the upturn in cases and new restrictions on activity. While the downward revision to the initial estimate of October retail sales calls into question the first part of our premise, the raw data do indeed show a smaller than normal increase in November sales. For instance, on a not seasonally adjusted basis, control retail sales rose by 5.2 percent in November but, as the chart below illustrates, this is much weaker than the typical November increase. Over the 1992-2019 period, the average November increase in unadjusted control sales was 8.0 percent, and the average over the most recent five-year period is even bigger. As such, the seasonal adjustment factors were geared up for a much larger increase that didn't materialize, hence the decline in the seasonally adjusted data.

The retail sales data are littered with examples of how smaller than normal November increases in sales on a not seasonally adjusted basis turn into declines in the seasonally adjusted data. For instance, the unadjusted data show sales at electronics and appliance stores rose by 23.2 percent, which is actually smaller than the typical November increase, and this yielded a 3.5 percent decline in the seasonally adjusted data. Sales at general merchandise stores rose by 6.8 percent on a not seasonally adjusted basis, but, again, as this is smaller than the typical November increase, the seasonally adjusted data show a decline of 1.0 percent. This goes to a point we've made often over the past few months, which is that in a year in which nothing has been normal, typical seasonal patterns in economic behavior have been disrupted, thus leading to distortions in the seasonally adjusted data.

The obvious question is why unadjusted sales this November were so much weaker than is typical for the month. Clearly, the surge in COVID-19 cases and corresponding restrictions on activity took a toll. Nowhere is this more obvious than restaurant sales, which fell by 11.4 percent on a not seasonally adjusted basis, much worse than is typical for the month (the seasonally adjusted data show a 4.0 percent decline). Still, it is more than reasonable to assume that less foot traffic over the Black Friday weekend was offset by increased online sales, particularly on Cyber Monday. This is where the calendar comes into play, as Cyber Monday fell on the 30th of the month, thus making it highly unlikely that the initial estimate of November retail sales would adequately capture what by all accounts was a record day for online sales. That online sales are reported with a one-month lag in the retail sales data doesn't help in trying to interpret the November data, but we do know that sales by nonstore retailers are reported to have risen by just 0.2 percent in November, with a smaller than normal increase in the not seasonally adjusted data. But, knowing that online sales account for roughly 88 percent of sales in the broad nonstore retailers category, does the reported 0.2 percent increase sound reasonable – we think not. While there is growing financial stress tied to the ongoing surge in COVID-19 cases and pending cut-offs in emergency unemployment insurance benefits, there are other factors behind the surprisingly bad November retail sales numbers. Time, and revisions, will ultimately sort out the real message in the retail sales data.





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