ECONOMIC UPDATE

REGIONS

January 15, 2021

December Retail Sales: What Exactly Is The Message Here?

- Retail sales fell by 0.7 percent in December after falling 1.4 percent in November (initially reported down 1.1 percent)
- Retail sales excluding autos fell by 1.4 percent in December after falling 1.3 percent in November (initially reported down 0.9 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 1.9 percent in December

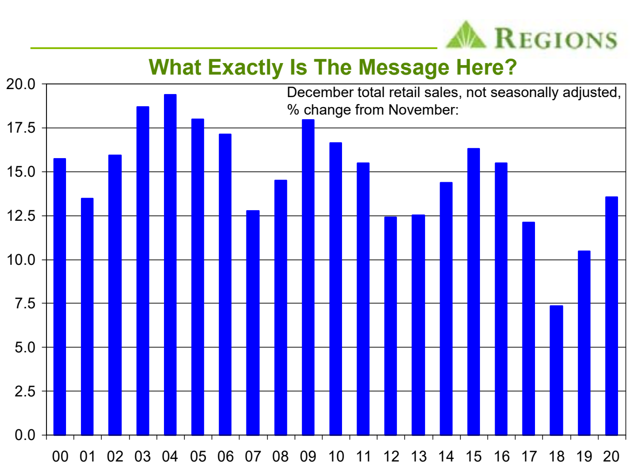
On the surface, the report on December retail sales is nothing short of dismal. Total retail sales fell by 0.7 percent, with ex-auto retail sales falling by 1.4 percent and control retail sales, a direct input into the GDP data on consumer spending, fell by 1.9 percent. And, as if to add insult to injury, what were surprisingly weak November retail sales in the initial estimate were revised significantly lower. Beneath the surface, however, December retail sales were nowhere near as dismal as the seasonally adjusted data suggest. To be sure, while sales this December may have fallen short of what a typical December looks like, there's a long way between that and the picture being painted by this report.

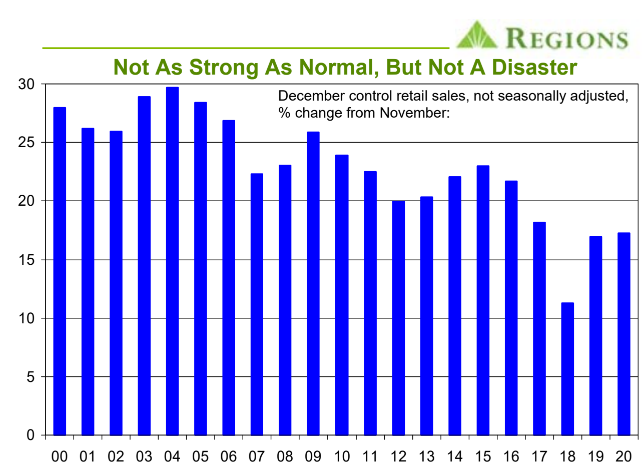
We're always open about our forecasts, both what is behind them and how they fare, and this is no exception. Our forecast of December retail sales called for headline sales to be up by 0.7 percent and for control retail sales to be up by 0.8 percent, so we obviously missed badly. We discussed our reasoning in our weekly *Economic Preview*, and we'll revisit some of those points here. Our intent isn't to try to convince anyone that this report is not as bad as it seems on the surface. Instead, as we routinely note, the real story of any data release is told by the details of the data that lie beneath the headline number. The report on December retail sales is no exception.

While we've always stressed the importance of looking at the not seasonally adjusted data, we've stressed it even more over the past several months, as the pandemic has significantly disrupted the normal rhythm of economic activity. A look at the unadjusted data shows total retail sales rose by 13.5 percent in December, the largest December increase since 2016. Still, this is smaller than a "typical" December increase, meaning that the seasonal adjustment factors overcompensated, yielding the decline reported in the seasonally adjusted data. We can make the same point about control retail sales. On a not seasonally adjusted basis, control retail sales rose by 17.3 percent in December, larger than the prior two years but nonetheless smaller than the "typical" December increase – over the 2000-2019 period, the average December increase in not seasonally adjusted control retail sales was 23.24 percent. So, again, the seasonal adjustment factors overcompensated, thus pushing down control retail sales on a seasonally adjusted basis.

One can go category by category and similar effects. On a not seasonally adjusted basis, sales increased in each of the broad categories, but the seasonally adjusted data show declines in 7 of the 13 categories – sales at motor vehicle dealers and gasoline stations benefitted from seasonal adjustment thanks to having been stronger than normal in December. But, even if you don't have the inclination to dig through the not seasonally adjusted data, look at the seasonally adjusted data on a line by line basis and ask if some of the patterns reported in the data make sense. For instance, is it remotely plausible that grocery store sales fell by 1.7 percent in a month in which restaurant sales fell by 4.5 percent? Is it remotely plausible that, in a month in which we are told in-store traffic dried up, sales by nonstore retailers (roughly 88 percent of which are accounted for by online sales) fell by 5.8 percent? As for in-store traffic, while the December retail sales data suggest no one went anywhere near a physical store, the December employment report showed retail trade payrolls rose by 230,000 jobs on a not seasonally adjusted basis. The only way to reconcile the two is to think that retailers hired people to come into their stores to not work, only so that the stores wouldn't be totally deserted. Maybe not, but we put far more trust in the employment data.

Obviously, there was no shortage of factors that could have held down retail sales in December. The surge in COVID-19 cases, new restrictions on activity, the looming expiration of certain unemployment insurance benefits, and wobbly consumer confidence, to name some. As such, the headline number on the report on December retail sales might seem to make perfect sense. Except that it doesn't, nor do the details of the seasonally adjusted data. The immediate reaction was that this report "proves" that further fiscal support is needed. Anyone with the inclination to look at the underlying details, however, could easily come to a different conclusion. We'll let our readers decide for themselves.





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