ECONOMIC UPDATE

REGIONS

October 15, 2021

September Retail Sales: Higher Sales Partly Truth, Partly Fiction

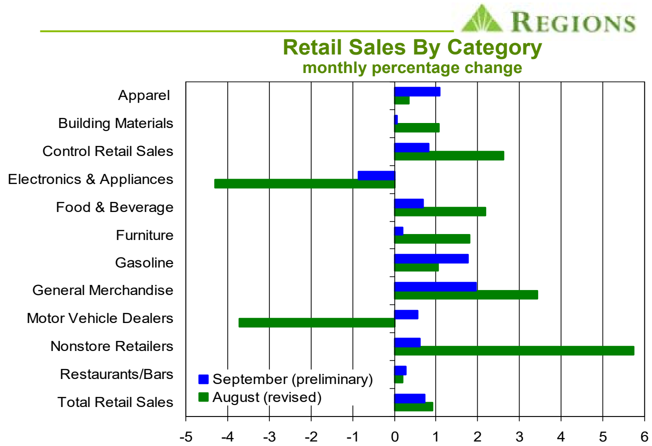
- Retail sales rose by 0.7 percent in September after rising 0.9 percent in August (initially reported up 0.7 percent)
- Retail sales excluding autos rose by 0.8 percent in September after rising 2.0 percent in August (initially reported up 1.8 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.8 percent in September

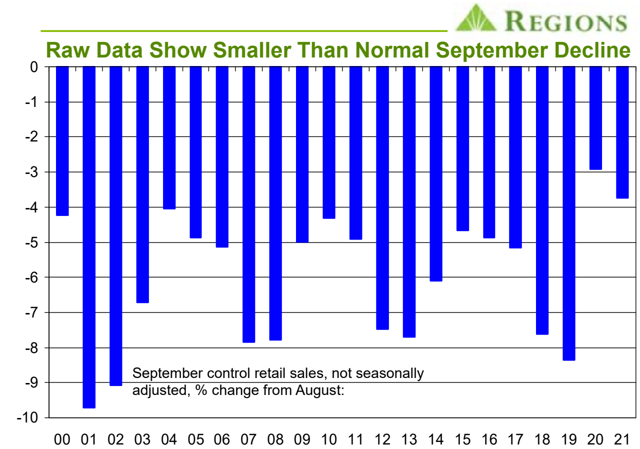
Total retail sales rose by 0.7 percent in September, topping our forecast of a 0.3 percent increase and even further ahead of the consensus forecast of a 0.2 percent decline. Ex-auto retail sales were up by 0.8 percent, falling a bit shy of our forecast of a 1.0 percent increase, with control retail sales, a direct input into the GDP data on consumer spending, up by 0.8 percent, matching our above-consensus forecast. In addition to the September data topping expectations, there were upward revisions to the initial estimate of August retail sales, with total sales now reported to have risen by 0.9 percent and control sales now reported to have risen by 2.6 percent, compared to the initial estimates of 0.7 percent and 2.5 percent increases, respectively. Of course, this being the retail sales report, there are elements of the September data that seem questionable. For instance, the differential between total and ex-auto retail sales is curiously small given the decline in unit sales of new motor vehicles, even allowing for higher prices helping boost total sales revenue. In any event, with the spike in COVID cases that carried into September, consumers pulled back on services spending, which likely led to more spending on goods than would otherwise have been the case. Still, it does help to recall that the retail sales data are reported on a nominal basis, i.e., they are not adjusted for price changes, so higher prices have added to growth in retail sales over recent months. On an inflation adjusted basis, however, control retail sales actually contracted in Q3, which will act as a heavy weight on growth in real consumer spending in the GDP data.

As we noted in our weekly *Economic Preview*, September is typically a weak month for retail sales, as September can be thought of as the lull between back-to-school spending and the holiday season. Indeed, in the life of the current series on retail sales, on a not seasonally adjusted basis neither total nor control retail sales have ever risen in the month of September, and this September was no exception. The declines, however, were smaller this year than is typically the case for the month of September which, to some extent, could reflect our earlier point about forgone services spending being diverted to spending on goods. In any event, that the decline in unadjusted sales was smaller than is typical for the month of September makes the seasonally adjusted data look better than was actually the case.

Of the thirteen broad categories for which data are reported, eleven posted higher sales in September. Again, though, the reported 0.6 percent increase in sales revenue at motor vehicle dealers seems far-fetched given that unit sales of motor vehicles fell by 6.4 percent in September. To be sure, higher prices for new vehicles and sales of used vehicles also factor into the revenue measure reported in the retail sales data, but even allowing for support from these sources, we're not buying this initial estimate. As this is the category in which we typically see the largest revisions to the initial estimate of sales in a given month, we'll be watching next month's release for revisions to the September print. To our earlier point about price changes, grocery store sales rose by 0.7 percent, but the CPI data show prices for food consumed at home rose by 1.2 percent in September, which clearly bolstered measured retail sales. We can make the same point about the 1.8 percent increase in gasoline sales in September. Restaurant sales rose by 0.3 percent in September, after a 0.2 percent increase in August, significantly smaller than the gains seen over the prior several months, which goes to the point that the spike in COVID cases impacted consumer behavior. Sales at electronics and appliance stores fell by 0.9 percent in September, a third straight monthly decline. Though prices for electronics and appliances have risen sharply, the dollar volume of sales has nonetheless fallen, which is likely a reflection of inventory constraints limiting quantities purchased. This is a key reason our forecast anticipates a severe contraction in inflation adjusted spending on consumer durable goods in the Q3 GDP data.

The retail sales data will be tricky over the next few months. Receding COVID case counts will likely divert some spending away from goods and back to services, while distorted holiday sales patterns will wreak havoc on the seasonally adjusted data. Underneath it all, however, we have few concerns over the ability or willingness of consumers to spend, but the unadjusted data will be the more reliable guide.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com