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## October Retail Sales: Earlier Holiday Shopping, Higher Prices Boost Retail Sales

- › Retail sales rose by 1.7 percent in October after rising 0.8 percent in September (initially reported up 0.7 percent)
- › Retail sales excluding autos rose by 1.7 percent in October after rising 0.7 percent in September (initially reported up 0.8 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 1.6 percent in October

Total retail sales rose by 1.7 percent in October, below the 2.8 percent increase our forecast anticipated, with ex-auto sales up 1.7 percent, between our forecast of a 2.0 percent increase and the consensus forecast of a 1.0 percent increase. Control retail sales, a direct input into the GDP data on consumer spending on goods, rose by 1.6 percent, just below the 1.8 percent increase our forecast anticipated but well ahead of the 0.9 percent increase called for in the consensus forecast. Our miss on top-line sales is mainly a function of a much smaller increase in sales revenue at motor vehicle dealerships than we anticipated, which is curious in that unit sales of new vehicles were up over six percent in October while prices for both new and used vehicles rose sharply. Such is the nature of the retail sales data. More significantly, sales were up broadly across the main categories, and there are some signs that, as we anticipated, at least some holiday season purchases were pulled forward, likely motivated by concerns over the availability of goods during the normal holiday shopping period. It does help to recall that retail sales are reported on a nominal basis, i.e., the data are not adjusted to account for changes in prices. As such, on an inflation-adjusted basis, October's gain in retail sales is less impressive, but nonetheless is consistent with our view that the demand side of the economy remains on firm footing while the supply side continues to struggle to keep pace.

On a not seasonally adjusted basis, total retail sales rose by 4.6 percent in October while control retail sales rose by 5.4 percent, both topping the average October increases of 3.4 percent and 4.7 percent, respectively. As noted above, this could reflect consumers starting holiday season shopping earlier than they otherwise would have due to the by now too familiar supply-side constraints that are limiting availability and pushing prices higher. That some of October's biggest gains came in categories such as electronics/appliance stores and nonstore retailers – the bulk of which consists of online sales – supports our contention. Sales by nonstore retailers rose 4.0 percent and sales at electronics/appliance stores rose by 3.8 percent, while department store sales were up 2.2 percent, a much stronger increase in this category than typically would

be seen in the month of October. Gasoline station sales rose by 3.9 percent, but this largely reflects significantly higher retail gasoline prices. Another instance in which higher prices boosted sales is the 1.1 percent increase in grocery store sales. Recall that the October CPI data show retail gasoline prices rose by 6.1 percent and prices for food consumed at home (which captures grocery stores) were up 1.0 percent.

Then again, the October CPI data show prices for new motor vehicles rose by 1.4 percent and prices for used motor vehicles rose by 2.5 percent, while unit sales of new motor vehicles were up by 6.3 percent. Through the magic of retail sales data math, this combination yielded a 1.7 percent increase in sales revenue at motor vehicle dealers, which captures sales of both new and used vehicles. As we've noted before, this is the category in which the revisions to the initial estimate of sales in any given month tend to be amongst the largest. For instance, the 1.3 percent increase now reported for September is eight-tenths of a point higher than the initial estimate. We won't be surprised to see a similar upgrade to the initial estimate of October sales revenue.

The two categories in which sales fell on a seasonally adjusted basis – apparel stores and restaurants – each show increases in the not seasonally adjusted data. Those increases, however, were smaller than is typical in the month of October, hence the declines in the seasonally adjusted data.

Aside from the curious case of the missing sales revenue at motor vehicle dealerships, the October retail sales report is a strong report, even allowing for the boost in the form of higher goods prices. On an annualized basis, nominal control sales in October are 11.7 percent higher than Q3 sales, which sets the stage for considerably stronger growth in Q4 consumer spending in the GDP data than that seen in Q3. The caveat worth keeping in mind, however, is that to the extent consumers did pull holiday spending forward, sales in November and December will not be as strong as is typically the case in those months, which will be punished harshly in the seasonally adjusted data. As such, the not seasonally adjusted data will be the better guide of holiday season spending.

