ECONOMIC UPDATE
REGIONS
December 15, 2021



## November Retail Sales: "Soft" Sales Need To Be Put In Proper Context

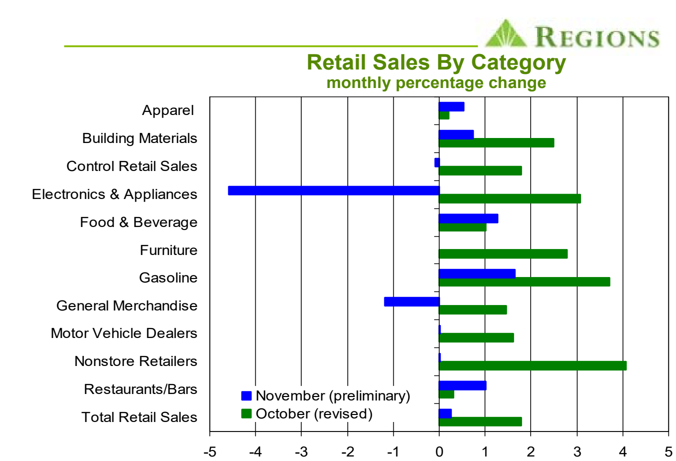
- Retail sales rose by 0.3 percent in November after rising 1.8 percent in October (initially reported up 1.7 percent)
- Retail sales excluding autos rose by 0.3 percent in November after rising 1.8 percent in October (initially reported up 1.7 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.1 percent in November

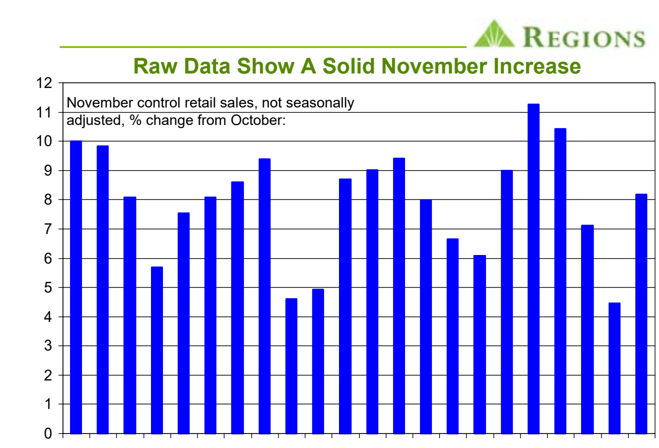
Total retail sales rose by 0.3 percent in November, matching our forecast but short of the 0.8 percent increase the consensus expected, with ex-auto sales also up 0.3 percent, a touch below our forecast of a 0.4 percent increase and further below the consensus forecast of a 0.9 percent increase. Control retail sales, a direct input into the GDP data on consumer spending on goods, fell by 0.1 percent, matching our forecast but well below the consensus forecast of a 0.7 percent increase. In our weekly *Economic Preview* we laid out our case for our well below-consensus forecast of November retail sales, which boiled down to supply constraints and consumers having started holiday season shopping earlier this year holding down the increase in not seasonally adjusted sales combined with tough November seasonal adjustment factors, while we also expected spending on services to account for a higher share of consumer spending in November than was the case in October. We constantly stress the importance of understanding the patterns in the not seasonally adjusted data and how deviations from those patterns will be reflected in the seasonally adjusted data. Based on the immediate reactions to the report on November retail sales, however, that distinction seems to be lost on those pointing to the below-consensus headline numbers as a sign of suddenly struggling consumers, which we do not think to be the case.

On a not seasonally adjusted basis, control retail sales rose by 8.2 percent in November, larger than the past two Novembers but still a bit below the typical November increase, as shown in our second chart. To our earlier point, the seasonal adjustment factors in many categories were trained on larger November increases than occurred, which yielded seasonally adjusted estimates that came in below expectations. At the same time, what was a larger than normal October increase in the initial estimate was revised higher – unadjusted control retail sales are now reported to have risen by 5.5 in October, compared to the initial estimate of a 4.7 percent increase. As such, through November annualized growth in nominal Q4 control retail sales is running at 11.5 percent which, even accounting for faster inflation, leaves a hefty increase in real control sales. With the data on control retail sales feeding directly into the GDP data on consumer spending, this sets the stage for solid Q4 growth in real spending on goods after the annualized 8.4 percent contraction in Q2.

For a few examples of how tough the November seasonal adjustment factors were this year, the not seasonally adjusted data show sales at clothing stores rose by 15.4 percent, sales at electronics/appliance stores rose by 21.6 percent, and sales by nonstore retailers rose by 19.9 percent. The seasonally adjusted data show, in that same order, an increase of 0.5 percent, a decline of 4.6 percent, and no change. The not seasonally adjusted data don't exactly tell a tale of cash-strapped consumers struggling to stay afloat, which is the spin some are putting on the seasonally adjusted data. Clearly, higher prices for food, energy, and shelter are making it tougher for some households, particularly lower-income households, to engage in discretionary spending, and we're in no way dismissing that. But, for many households still sitting on financial buffers built up in part on the basis of generous financial transfers since the onset of the pandemic, higher prices are less of a hurdle than would otherwise be the case. As these financial buffers fade, consumers will be more price-sensitive, but we do not think they're quite there yet.

We also think it worth reiterating how strong retail sales were in October. This in part reflects concerns over limited supplies of consumer goods during the holiday shopping season inducing consumers to get an earlier start on holiday shopping this year. In other words, some spending that would have normally taken place in either November or December was pulled forward into October, which was clear in the not seasonally adjusted data. Sure, we get that it can be confusing at times switching between the unadjusted data and the seasonally adjusted data, but our view has always been that the patterns in the unadjusted data are what matter, and the retail sales data are no exception. And, we'll caution that the seasonal adjustment distortions evident in the November retail sales data will likely be much more pronounced in the December data – recall that last year the seasonally adjusted data showed retail sales falling in both November and December.

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