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January Retail Sales: Pure Noise, No Signal: The Sequel . . .

- › Retail sales rose by 3.8 percent in January after falling 2.5 percent in December (initially reported down 1.9 percent)
- › Retail sales excluding autos rose by 3.3 percent in January after falling 2.8 percent in December (initially reported down 2.3 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 4.8 percent in January

Total retail sales rose by 3.8 percent in January, between the consensus forecast of a 2.0 percent increase and our forecast of a 4.7 percent gain, with ex-auto sales up 3.3 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, up by 4.8 percent. The increases in ex-auto and control retail sales easily topped our forecasts, both of which were far above consensus. At the same time, however, already bleak December data now look even more so thanks to downward revisions; the 1.9 percent decline in total retail sales and the 3.1 percent decline in control sales originally reported are now shown as declines of 2.5 percent and 4.0 percent, respectively. Just at the December data sent analysts rushing to craft tales of downbeat and stressed, financially and otherwise, consumers either unwilling or unable to spend, the January data have sent analysts rushing to craft tales of resilient consumers for whom Omicron and inflation are simply no match. Our take is much simpler, though admittedly sorely lacking in dramatics, which is that the January data tell us exactly as much about the state of U.S. consumers, financial and otherwise, as the December data told us, which is next to nothing. In short, the message from the last two months of retail sales data is this: seasonal adjustment giveth, seasonal adjustment taketh away, though not exactly in that order in this case.

As we discussed in this week's *Economic Preview*, we arrived at our forecast of January retail sales in the same manner as we arrived at our forecasts of sales in November and December, forecasts that were nowhere near the consensus forecasts, but which were much closer to the mark. We accounted for patterns in the not seasonally adjusted data and the seasonal factors used to produce the estimates of seasonally adjusted retail sales. So, after total retail sales rose by 9.1 percent and control retail sales rose by 13.2 percent in December, both far smaller than the typical December increase, it followed that the January declines would be smaller this year than is typical for the month.

This indeed proved to be the case. The not seasonally adjusted data show total retail sales fell by 18.5 percent in January, while control retail sales fell by 24.7 percent. Sure, those are big declines, but the relevant point

here is that they are smaller than is typical for the month of January. Over the 2000-2020 period, the average January decline in total retail sales was 20.7 percent and the average January decline in control retail sales was 28.8 percent. While the seasonal adjustment factors give more weight to more recent years, the bottom line is that those factors were configured for larger declines than occurred this January, hence the large increases in sales on a seasonally adjusted basis.

As we said with the December data, it's hardly worth bothering going through line by line January results given the extent to which the data are clouded by seasonal adjustment noise. To illustrate our point, however, consider sales by nonstore retailers, roughly 90 percent of which consist of online sales. The not seasonally adjusted data show an increase of 8.1 percent in December, which translated into a 11.4 percent decline in the seasonally adjusted data. For January, the not seasonally adjusted data show a decline of 25.4 percent, which in the seasonally adjusted data is reported as an increase of 14.5 percent. As our charts below make clear, this is a pattern across the various categories.

Our point here isn't to make our readers beg for mercy, or to dismiss seasonal adjustment. Instead, it is simply to illustrate how even the most well intentioned seasonal adjustment can go awry when typical economic patterns are disrupted, as they clearly have been since the onset of the pandemic. As such, relying on narratives crafted solely on the basis of the seasonally adjusted data can lead one to faulty conclusions. As we've discussed before, we think that the wild swings in patterns of consumer spending triggered by the pandemic and the policy response to it, i.e., stepped-up spending on consumer goods, mainly consumer durable goods, as spending on services fell sharply – will reverse in 2022. Though limited supplies leave some room for some pent-up demand, we expect spending on goods to settle back toward pre-pandemic norms, as growth in disposable personal income does the same, meaning the retail sales data may be even more volatile than normal in the months ahead. If so, it will be important to put the data in proper context, rather than simply reacting to whatever the headline numbers may say.

