October Retail Sales: Discounting Helped Drive Sales, But At What Price To Retailers?

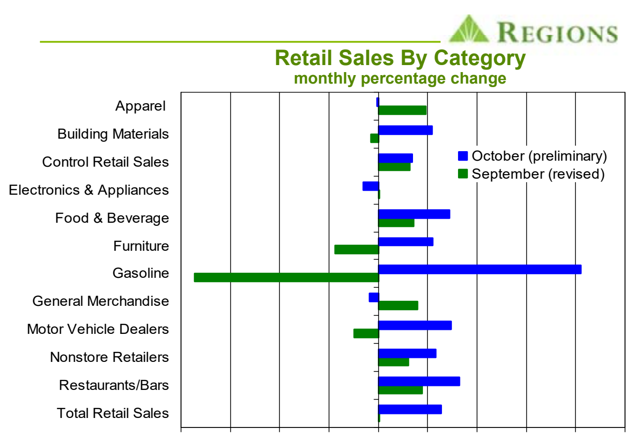
- Retail sales rose by 1.3 percent in October after being unchanged in September (as initially reported)
- Retail sales excluding autos rose by 1.3 percent in October after rising 0.1 percent in September (as initially reported)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.7 percent in October

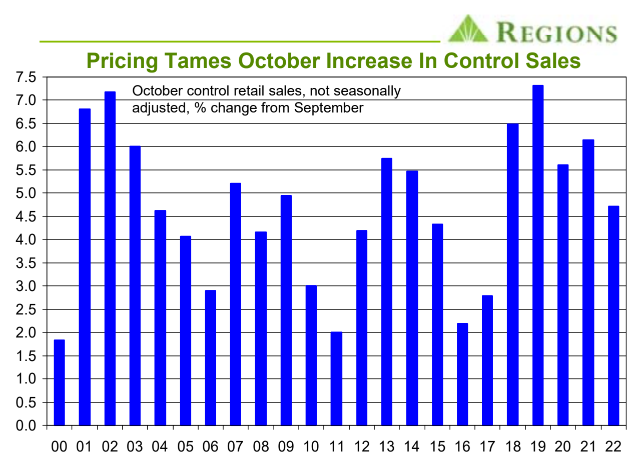
Total retail sales rose by 1.3 percent in October, a touch higher than our above-consensus forecast of a 1.2 percent gain, with ex-auto sales also up 1.3 percent, ahead of the 0.8 percent increase we anticipated. Control retail sales, a direct input into consumer spending on goods as measured in the GDP data, were up by 0.7 percent, matching our above-consensus forecast. Higher unit sales of new motor vehicle sales and higher gasoline prices were supports for top-line sales, but even excluding these heavy hitters sales were up 0.9 percent with broadly based increases across the main categories. October saw many large retailers engage in aggressive discounting in order to clear unwanted inventories, and while this was to some extent successful, lower prices weighed on total sales revenue (the retail sales data are not adjusted for price changes). Despite their best efforts, however, many retailers continue to carry higher than desired levels of inventory with the traditional start to the holiday shopping season approaching. Well, kind of, given that some started pushing "Black Friday" sales last month. In any event, it could be that aggressive promotions pulled some spending that would otherwise have taken place in November/December into October, which could set up a disappointing holiday sales season. Indeed, this was the case last year, and we think this year will see a repeat of those patterns, which is one factor in our not so cheery 2022 holiday sales forecast, as we discussed in the November edition of our *Monthly Economic Outlook*.

Much, much too much in our view, was made about seemingly listless retail sales in September, with many turning total retail sales being flat into a narrative about U.S. consumers. A narrative which, by the way, seems to have changed pretty dramatically in October. What went largely overlooked, however, is that September is historically a weak month for retail sales, thus setting the stage for a bounce back in October. The best way to see these patterns is in the not seasonally adjusted data, and at first glance the unadjusted data suggest this year's October bounce was much less lively than has been the case in recent years, as our second chart below illustrates. This is, however, where the aggressive discounting that took place in October comes into play, as lower pricing will have held down the increase in sales reported on a nominal basis. One example is the general merchandise stores category. On a not seasonally adjusted basis, general merchandise store sales rose by 6.6 percent in October, but this is a much smaller increase than is typical for the month of October in this category, hence the 0.2 percent decline reported in the seasonally adjusted data. Our point being that with firmer pricing, the increase in unadjusted sales would have been larger and the seasonally adjusted data would have shown an increase in sales at general merchandise stores.

Two categories in which firmer pricing was the order of the day, or in this case the order of the month, were gasoline stations and restaurants. Gasoline station sales rose by 4.1 percent in October, thanks in large measure to gas prices being up 4.0 percent. Along those same lines, restaurant sales were up by 1.6 percent, in part reflecting a third straight 0.9 percent monthly increase in prices for food consumed away from home – the not seasonally adjusted data show a much larger increase in restaurant sales than is typical for the month. Second rounds of online promotions such as *Amazon Prime Day(s)* and *Way Day* contributed to a 1.2 percent increase in sales by nonstore retailers in October. The not seasonally adjusted data show a 7.4 percent increase in this category which, again, comes despite heavy discounting. That the unadjusted increase was still this large goes to our point that these promotions may have pulled some spending forward at the expense of the holiday shopping season. One curiosity in the October data (and, really, what would a retail sales report be without at least one of these) is the 1.1 percent increase in sales at furniture stores. Curious in that the not seasonally adjusted data show a modest decline in this category, while furniture prices fell in October, making the reported increase in the retail sales data seem little more than seasonal adjustment noise.

We've already seen some suggesting that "resilient" consumers are "a problem" for the FOMC, but we have a hard time buying this. Consumers do still have a liquidity buffer, but that is getting thinner and thinner at a time when credit card debt is rising rapidly. If we are correct in having low expectations for the holiday shopping season, we doubt many will consider the U.S. consumer to be "a problem" for the FOMC.





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