

ECONOMIC UPDATE



January 18, 2023

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

December Retail Sales: More To December Sales Than Meets The Eye, But Only If You Look

- Retail sales fell by 1.1 percent in December after falling 1.0 percent in November (initially reported down 0.6 percent)
- Retail sales excluding autos fell by 1.1 percent in December after falling 0.6 percent in November (initially reported down 0.2 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.7 percent in December

Total retail sales fell by 1.1 percent in December, with ex-auto sales down by 1.1 percent and control retail sales down by 0.7 percent. In each case, the decline was smaller than our forecast anticipated but larger than the consensus forecast anticipated. At the same time, however, there were meaningful downward revisions to the initial estimates of November retail sales, so that the level of sales in December is not too different from where our forecast anticipated it would be, it just got there by a different route. Either way, the story beneath the headline numbers is as we laid out in this week's *Economic Preview*, which is that the increase in sales on a not seasonally adjusted basis was decent but nonetheless smaller than the typical December increase, hence the decline in sales on a seasonally adjusted basis. While the decline in sales on a seasonally adjusted basis will get the headlines and will be the focus of most of the reactions to the data, the December retail sales data tell us little, if anything, that we didn't already know about the state of U.S. consumers.

On a not seasonally adjusted basis, total retail sales rose by 7.8 percent in December and control retail sales rose by 12.2 percent which, while decent, are well smaller than the typical December increases of 10.2 percent and 14.9 percent, respectively, over the past five years (the longer-term average increases are even larger). For those with short memories, this is the fourth time in the past five years retail sales are reported to have fallen in December, and in each instance an increase in not seasonally adjusted sales was turned into a decline in the seasonally adjusted data. So, while we don't see the December data as cause for concern, it is fair to ask why the increase in unadjusted sales in December was smaller than normal for the month.

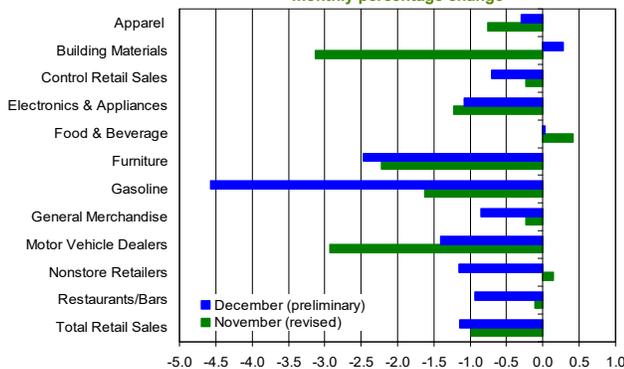
We can point to a number of factors that help account for the shortfall. First on that list is the shift in underlying patterns of consumer spending, away from goods and toward services, that we have been discussing for quite some time now. Second is that many retailers launched "holiday" sales promotions in October, in part to help clear unwanted inventories, and to the extent these promotions were successful, they would have pulled spending earlier in the year than would otherwise have been the

case. Indeed, this is one factor we cited to help explain November's decline in retail sales. Third, prices for core goods (consumer goods excluding food and energy) have fallen in each of the past three months, and the retail sales data are not adjusted for price changes. December's decline in core goods prices would have been larger than the 0.3 decline reported in the CPI data were it not for an odd, and oddly large, increase in appliance prices, so in terms of holiday-related shopping, aggressive discounting likely led to larger price declines than implied by the CPI data, thus weighing on measured retail sales. To that list we can add a sizable decline in unit motor vehicle sales – and lower vehicle prices – and a plunge in gasoline prices as also having held down unadjusted sales.

We won't go through every category, but a couple examples will illustrate our point. On a not seasonally adjusted basis, apparel store sales rose by 41.0 percent in December while general merchandise store sales rose by 16.2 percent, but the seasonally adjusted data show declines of 0.3 percent and 0.8 percent, respectively. To our point on prices, retail gasoline prices were down by over twelve percent on a not seasonally adjusted basis, more than accounting for unadjusted gasoline station sales declining by 7.9 percent. The seasonally adjusted data show declines in ten of the thirteen broad categories for which sales are reported.

What to worry about and how much to worry about it are of course up to each individual to decide on. That said, we don't really get, let alone share, some of the concerns we've heard expressed since the release of the report on December retail sales. We do not think the report shows consumers "on the ropes" due to a period of elevated inflation and rising interest rates. This isn't to say there are no such instances of consumers feeling financial distress, but instead that the degree to which that is the case is less than would be implied by looking at nothing more than the headline number on the December retail sales report. Indeed, a better test will come on January 27 when the BEA releases their December data on total consumer spending, including services which, with the exception of restaurant sales, are not captured in the retail sales data. We expect the BEA's data to tell a slightly different story on the state of U.S. consumers.

REGIONS
Retail Sales By Category
monthly percentage change



REGIONS
Not Exactly A Sign Of Consumers In Retreat . . .

