ECONOMIC UPDATE

REGIONS

October 17, 2023

September Retail Sales: A Little Perspective Can Go A Long Way, For Those Into That

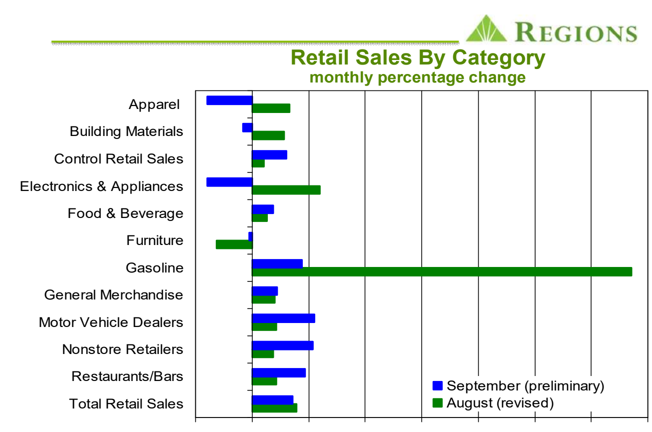
- Retail sales rose by 0.7 percent in September after rising 0.8 percent in August (originally reported up 0.6 percent)
- Retail sales excluding autos rose by 0.6 percent in September after rising 0.9 percent in August (originally reported up 0.6 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.6 percent in September

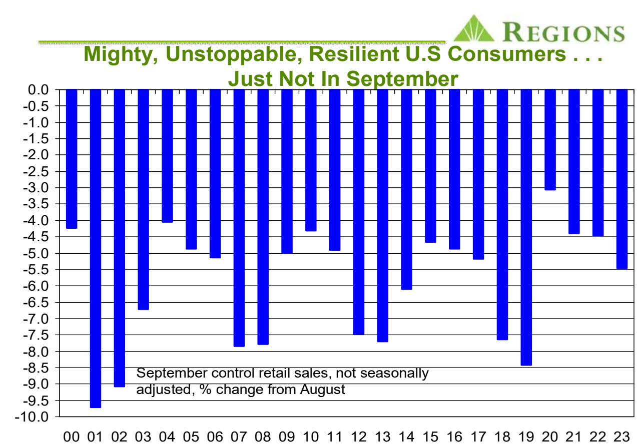
Total retail sales rose by 0.7 percent in September, with ex-auto sales up 0.6 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, rose by 0.6 percent, in each case topping our well above consensus forecasts. At the same time, prior estimates of retail sales in July and August were revised higher. While many are taking the retail sales report as a testament to the resiliency and unstoppable resolve to spend inherent in the U.S. consumer, we're taking it as little more than the largesse of the seasonal adjustment factors used to adjust the September data, something many analysts seem to have underestimated when making their forecasts of September sales. Indeed, as we noted in this week's *Economic Preview*, sometimes the reports on U.S. sales actually tell us something about the state of U.S. consumers, but just as often tell us about price changes or seasonal adjustment, if not both, and we went on to note that the September retail sales report was likely to tell us more about seasonal adjustment than anything else. Having seen the data, we stand by that assessment. To be sure, consumers are hanging in there, reflecting the many supports at their backs amid a prolonged period of rapid inflation and rising interest rates. That said, there is nothing in the retail sales data to change our take on consumers, our expectations for the path of the U.S. economy, or the path of monetary policy – some are actually pointing to today's report as upping the odds of further Fed funds rate hikes. All we can say there is, wow.

As we also noted in this week's *Economic Preview*, in the life of the current series on retail sales, which goes back to 1992, there has never been a year in which either unadjusted retail sales, total or control, rose in September. That streak remains intact; on a not seasonally adjusted basis, total retail sales fell by 5.4 percent in September while control retail sales fell by 5.5 percent, each well smaller than the typical September decline in the pre-pandemic years. That the declines have been smaller in the years since the pandemic is the obvious result of pandemic-related financial support and rapidly rising prices (the retail sales data are not adjusted for price changes). It isn't hard to understand why retail sales are inherently soft in September, as it falls after the back-to-school shopping season and before the holiday sales season – even the mighty U.S. consumer needs a break now and again. To compensate, the seasonal adjustment factors used to adjust the raw data for September are more than a little on the generous side, being the most supportive of any month save for January and February. As such, a smaller decline in unadjusted sales in September will be made to look like a larger gain in the seasonally adjusted data, which is mostly what we see in today's report.

This can perhaps best be seen by the data on sales by nonstore retailers, the bulk of which consists of online sales. On a not seasonally adjusted basis, sales by nonstore retailers fell by 6.8 percent in September, but the seasonal factor used to adjust the raw data in this category is amongst the most supportive of any category of the retail sales data, which largely accounts for the reported 1.1 percent increase in the seasonally adjusted data. So, while others see the September report as evidence of U.S. consumers "living large" (seriously?), we see it for what it actually is, not good, not bad, just a fairly typical September report. It is also worth noting that the upward revisions to the data for the prior two months are in each month more than accounted for by upward revisions to gasoline station sales, which were powered higher by sharply rising prices, with only very modest revisions to control retail sales in each month.

For those keeping score based on the seasonally adjusted data, sales rose in eight of the thirteen broad categories for which data are reported, led by the aforementioned 1.1 percent increases in sales by nonstore retailers, a 1.1 percent gain in sales revenue at motor vehicle dealers, and a 0.9 percent increase in restaurant sales (down 2.8 percent in the unadjusted data). One reason to mind the seasonally adjusted data on control retail sales is that this, not the unadjusted data, is what flows into the BEA's account of the GDP data, and on a nominal basis control retail sales rose at an annual rate of 6.4 percent in Q3. This sets the stage for a much larger increase in real consumer spending for Q3 than was seen in Q2, which in turn will provide a powerful boost to Q3 GDP (due out next week). That said, there are already signs, both from spending trackers and from retailers themselves, of a meaningful slowdown in spending. The Q4 data will show consumers in a much different light than today's report does.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com