ECONOMIC UPDATE

REGIONS

November 15, 2023

October Retail Sales: Settling Into A Softer Trend

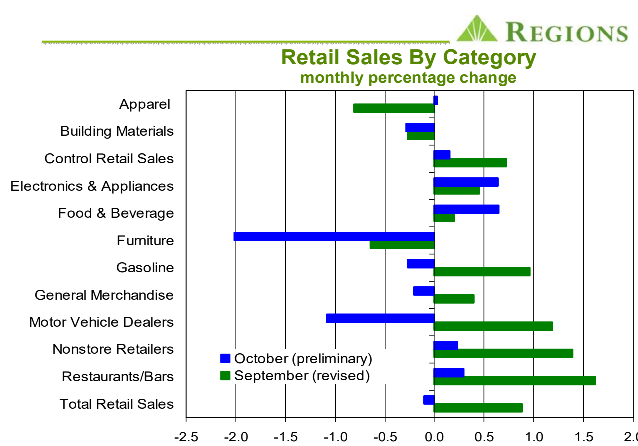
- Retail sales fell by 0.1 percent in October after rising 0.9 percent in September (originally reported up 0.7 percent)
- Retail sales excluding autos rose by 0.1 percent in October after rising 0.8 percent in September (originally reported up 0.6 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.2 percent in October

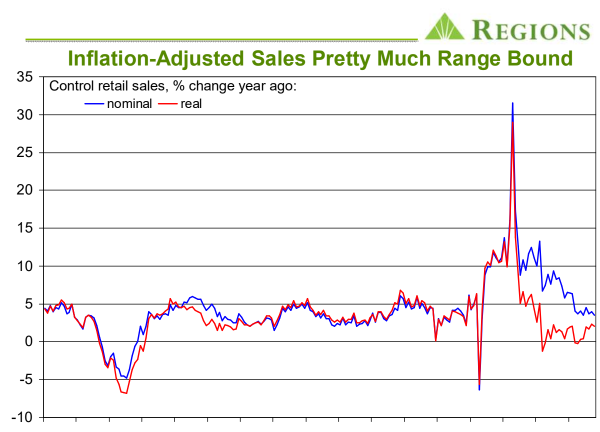
Total retail sales fell by 0.1 percent in October, matching our forecast and smaller than the 0.3 percent decline the consensus forecast anticipated. Ex-auto sales rose by 0.1 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, rose by 0.2 percent, matching our forecast. At the same time, the initial estimate of September retail sales was revised up, with total, ex-auto, and control sales all increasing by more than had first been reported. Just as we were not as impressed by the report on September retail sales as many others seemed to be, we're not as concerned about the report on October retail sales. We consistently point to two factors that need to be accounted for before anyone can say anything meaningful about the retail sales data in any given month – seasonal adjustment, and price changes. Each of the past two months have seen smaller changes in not seasonally adjusted sales, the decline in September, the increase in October, than is typical for these months, which has played into the headline, i.e., seasonally adjusted, sales number in each month. At the same time, consumer goods prices have been basically stagnant for the past eight months, which has weighed on retail sales reported in nominal terms. As we process the data, there is nothing about either of the past two months that is out of line with how we've expected consumer spending to play out.

Sales fell in seven of the thirteen broad categories for which sales are reported. While sharply lower prices were expected to pull down gasoline sales, the 0.2 percent decline was smaller than we had anticipated. At the same time, furniture store sales were down by 2.0 percent in October, a larger decline than we had anticipated. What is even more telling is that the not seasonally adjusted data show furniture store sales falling by 4.9 percent, another in a string of sizable declines in unadjusted sales in this category. In part, this can be tied to less demand thanks to fewer home sales, and diminished demand is a factor in what has been notably weak pricing amongst sellers of furniture, electronics, and appliances. Note that the unadjusted data show sales at electronics and appliance stores following the same patterns as seen in furniture store sales, but seasonal adjustment has been much more favorable to them than to furniture store sales, thus skewing perceptions based solely on the seasonally adjusted data. Sales revenue at motor vehicle dealers fell by 1.1 percent thanks to lower unit sales and lower prices for both new and used vehicles. On the upside, grocery store sales rose by 0.7 percent, in part reflecting a larger increase in grocery store prices than seen over the prior few months.

To our earlier point, note that in our second chart below, the gap between the over-the-year changes in nominal and real control sales has narrowed considerably, which is simply a reflection of our point about core goods prices having been stagnant (as a side note, we use the BLS's measure of core consumer goods excluding used motor vehicles to calculate real control retail sales). The other notable element of this chart is that growth in real control sales has settled into a narrow range, gravitating around two percent over the past few quarters. This is a considerably slower pace than that seen prior to the pandemic. It is true that over the past several months consumer spending patterns have favored discretionary services spending at the expense of goods spending. So, should we be correct in expecting discretionary services spending to slow, that may lead to a modest pick-up in growth of control sales, but we're not so sure.

One thing that has struck us in the latest batch of retailer earnings reports is the number of retailers who have beat on the bottom line, i.e., profits, but who have missed on the top line, i.e., sales. While investors are obviously cheered by the bottom-line beats, those mainly reflect cost controls such as better inventory management or more careful management of total labor input. Our interest, however, is on the sales side, and repeated instances of top-line misses are saying something about U.S. consumers. Discretionary spending is easing, in part because the cumulative effects of elevated inflation are exacting a greater toll, particularly on lower-income households, and in part because there is simply less pent-up demand. We continue to note that while, on the whole, the financial metrics for the household sector remain favorable, surveys of consumers reveal them to be feeling quite uneasy and expressing concern over labor market conditions. Where this leaves us is expecting a much slower pace of growth in real consumer spending than seen in Q3, and nothing in the data has led us to change our view.





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