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November Retail Sales: A Rather Normal November After All

- › Retail sales rose by 0.3 percent in November after falling 0.2 percent in October (originally reported down 0.1 percent)
- › Retail sales excluding autos rose by 0.2 percent in November after being unchanged in October (originally reported up 0.1 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.4 percent in November

November retail sales surprised to the upside, with total retail sales rising by 0.3 percent, ex-auto retail sales rising by 0.2 percent, and control retail sales, a direct input into the GDP data on consumer spending on goods, rising by 0.4 percent. All were above consensus forecasts, and even further above our below-consensus calls. There were downward revisions to the initial estimates of October sales across the board – total, ex-auto, and control sales. November’s increase in retail sales is more noteworthy given that sharply lower retail gasoline prices and a steep decline in prices for core consumer goods, at least as reported in the November Consumer Price Index (CPI), raised the bar, as the retail sales data are not adjusted for price changes. Moreover, the November seasonal factors also posed high hurdles for seasonally adjusted sales. Going through the individual categories and matching up the price changes reported in the CPI data and the November seasonal factors does raise some questions about these initial estimates of November sales, so we’ll see how the revised data look a month from now. As the data now stand, however, better than expected November sales plus downward revisions to October sales leave Q4 growth in consumer spending lagging well behind the pace of growth seen in Q3, as expected, which will weigh on Q4 real GDP growth.

As we discussed in this week’s *Economic Preview*, our below-consensus forecast was predicated on a smaller than typical November increase in sales on a not seasonally adjusted basis. Our forecast anticipated unadjusted control retail sales would be up 6.8 percent from October, but unadjusted control sales rose by 8.1 percent, matching the typical November increase. Our forecast reflected a number of factors, such as lower goods prices, seemingly downbeat consumers, and still-healthy services spending. Clearly, those stars didn’t align as we had expected. It is, however, worth noting that one category in which the November seasonal factor was a tailwind, rather than a headwind, is restaurant sales, which in the seasonally adjusted data rose by 1.6 percent. If that seems oddly strong, it kind of is, given that unadjusted restaurant sales fell by 4.3 percent. At the same time, however, the not seasonally adjusted data show sales by nonstore retailers rising by 16.3 percent in November on the heels of a sizable October increase. That unadjusted sales rose so

strongly more than overcame a very punitive November seasonal factor to yield a 1.0 percent increase in seasonally adjusted sales by nonstore retailers. The sizable increase in unadjusted sales is in keeping with reports of notably strong Cyber Monday sales; that this year saw an early Thanksgiving could mean the Census data better captured Cyber Monday sales than would otherwise have been the case. Furniture store sales were up 0.9 percent in November, ending a run of four straight monthly declines but which seems at odds with a further pullback in home sales and another month of falling prices in this category. The unadjusted data show sales at electronics and appliance stores rose by 26.2 percent in November, which is in line with typical November increases in this category, to the point that this increase turned into a 1.1 percent decline in the seasonally adjusted data. What does seem a bit odd, though, is that prices in this category fell sharply in November.

In addition to restaurants, the other category in which the November seasonal factor was a tailwind was motor vehicle sales. As such, despite a modestly lower unit sales and the unadjusted data showing a 4.4 percent decline, the seasonally adjusted data show a 0.5 percent increase in revenue at motor vehicle dealers. Sharply lower prices contributed to a 2.9 percent decline in gasoline station sales. Sales at building materials stores and at general merchandise stores also fell in November.

As we discussed in our annual holiday sales forecast, we thought this year’s holiday sales season would come down to a battle of wallets versus will. In other words, while household financial conditions, in the aggregate, remain quite healthy, sentiment surveys had shown consumers to be feeling somewhat less than festive heading into the holiday sales season, largely reflecting lingering concerns over inflation. We had noted that, contrary to historical patterns, not even falling gasoline prices were lifting consumer moods, with consumers apparently more focused on the cumulative price increases seen over the past three years. The November data suggest spending outperformed sentiment, and with sentiment having taken a turn to the positive in early December, that could set the stage for another solid increase in retail sales.

