ECONOMIC UPDATE
REGIONS
October 17, 2024

September Retail Sales: Annual September Swoon Becomes A September Surge

- Retail sales rose by 0.4 percent in September after rising 0.1 percent in August (as originally reported)
- Retail sales excluding autos rose by 0.5 percent in September after rising 0.2 percent in August (originally reported up 0.1 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.7 percent in September

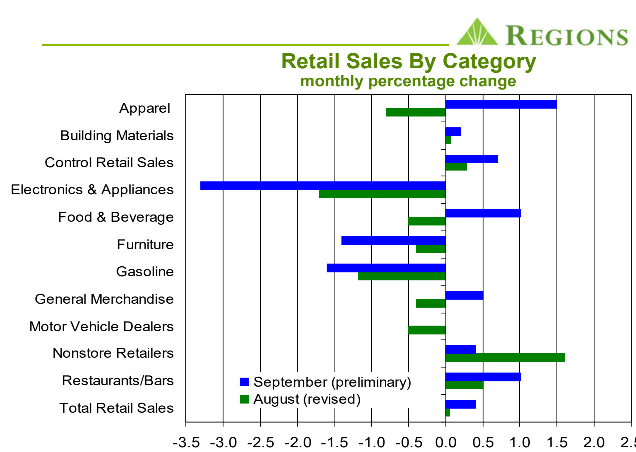
Total retail sales rose by 0.4 percent in September, ahead of the 0.3 percent increase anticipated by the consensus forecast but lagging our forecast of a 0.7 percent increase. Ex-auto retail sales rose by 0.5 percent, matching our forecast and handily beating the 0.1 percent increase the consensus forecast anticipated, while control retail sales, a direct input into the GDP data on consumer spending on goods rose by 0.7 percent, a touch above our forecast of a 0.6 percent increase but also handily beating the consensus forecast of a 0.3 percent increase. Our miss on growth in top-line retail sales mostly reflects a smaller contribution from motor vehicle dealer revenue than our forecast anticipated; despite years of trying, we have yet to unravel the retail sales data treatment of motor vehicle sales and have, however grudgingly, come to terms with the reality that we probably never will. More importantly, though, September retail sales were greatly pumped up by favorable seasonal adjustment, and while we discussed why we expected this to be the case in our preview of the retail sales report, this is a point seemingly lost on many others. One reason this matters is that many are taking the reported gain in retail sales, particularly control retail sales, as a sign of strength in consumer spending and even using the data to argue that the FOMC made a mistake by cutting the Fed funds rate by fifty basis points at their September meeting. If you recall, this is the exact argument many were making after the September employment report which, as we've discussed in detail, was also flattered by favorable seasonal adjustment. We'd argue that anyone aware of the strong seasonal patterns in the September data would not be using the seasonally adjusted data from any series as grounds to argue the FOMC made a mistake at their September meeting or that they should hold pat at their November meeting.

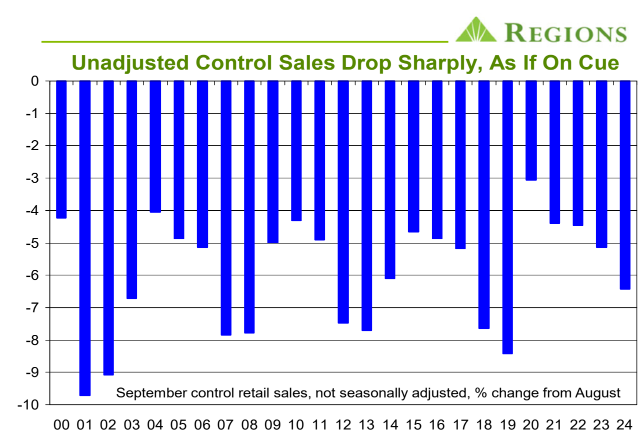
As we noted in this week's *Economic Preview*, in the history of the current series which dates back to 1992, the not seasonally adjusted data show neither total nor control retail sales have ever increased in the month of September, not even in 2020, when nothing was normal. For the most part, September has typically been a lull between the back-to-school shopping and the holiday shopping seasons. Our forecast had unadjusted total retail sales declining by 7.2 percent and unadjusted control sales declining by 7.0 percent in September; the actual declines were 7.5 percent and 6.4 percent, respectively, which are larger than the declines over the past few years but right in line with what prior to the pandemic would have been typical September declines.

As for the seasonally adjusted data, they show sales advanced in ten of the thirteen broad categories for which data are reported. Sales at apparel stores rose by 1.5 percent, restaurant sales rose by 1.0 percent, and sales at grocery stores rose by 1.0 percent. In each case, however, these gains on a seasonally adjusted basis mask meaningful, but not unusual, declines in unadjusted dales. As we anticipated, gasoline station sales declined by 1.6 percent, owing largely to lower retail gas prices. Not even favorable seasonal adjustment, however, could rescue sales at electronics/appliance stores (down 3.3 percent) or furniture store sales (down 1.4 percent).

To be clear, we are not pointing to the unadjusted data as a sign of underlying weakness in consumer spending. Instead, we are simply, and yet again, trying to make the point that unless one is aware of and accounts for the clear seasonal patterns in most economic data series, their interpretation of the headline, i.e., seasonally adjusted, numbers can easily veer off course. To that point, had last September's seasonal factor been applied to this September's unadjusted data, control retail sales would have fallen by 0.4 percent, which no doubt would have had the "emergency Fed funds rate cuts" chorus storming the airwaves to scold the FOMC for being so badly behind the curve.

As with much of the economic data for the month of September, the retail sales data look stronger than is actually the case. And, as we've noted in regard to the labor market data, seasonal adjustment for October will be quite harsh, making things look weaker than will actually be the case. This goes straight to our point about being aware of seasonal patterns in the data and understanding, to the extent possible, the causes of any deviations from these patterns. We have been more constructive on the state of U.S. consumers than many others have been, and continue to argue that growth in consumer spending is falling back into line with pre-pandemic trends. Nothing we've seen in the data thus far, including the September retail sales data, has led us to think differently.





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