ECONOMIC UPDATE

REGIONS

January 16, 2025

December Retail Sales: Softish Headline, Solid Core Which Could Have Been More . . .

- Retail sales rose by 0.4 percent in December after rising 0.8 percent in November (originally reported up 0.7 percent)
- Retail sales excluding autos rose by 0.4 percent in December after rising 0.2 percent in November (as originally reported)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.7 percent in December

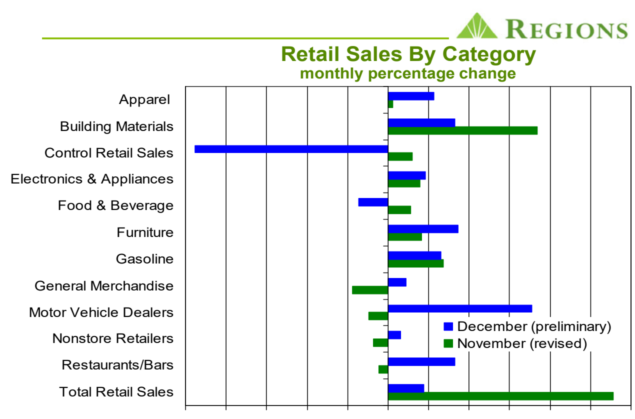
Total retail sales rose by 0.4 percent in December, matching the gain in ex-auto sales, which in each case is below what we and the consensus forecast expected. Control retail sales, a direct input into the GDP data on consumer spending on goods, rose by 0.7 percent, a touch lighter than the 0.8 percent increase our forecast anticipated but easily ahead of the consensus forecast of a 0.4 percent increase. The initial estimate of retail sales in November was revised slightly higher, with sales now reported to have risen by 0.8 percent rather than the 0.7 percent increase first reported. Though the headline print came in a bit softer than we expected, thanks in part to a sizable decline in sales at building materials stores, the December retail sales report is on the whole a solid report.

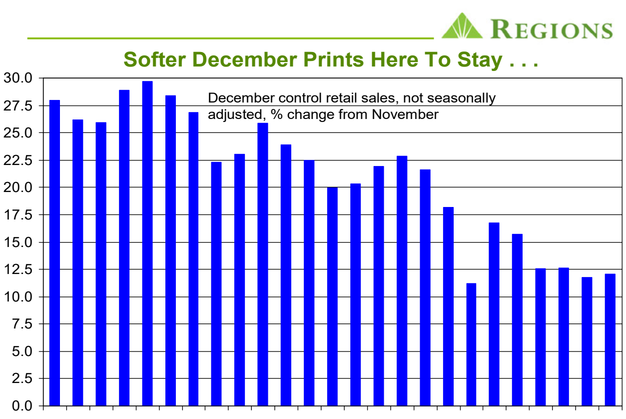
On a not seasonally adjusted basis, control retail sales were up by 12.1 percent in December, matching our forecast. Still, there is more to the seasonally adjusted print on control retail sales than meets the eye. As we discussed in this week's *Economic Preview*, we saw punitive seasonal adjustment as posting a downside risk to our forecast of sales by nonstore retailers, which proved to be the case. With "Cyber Monday" falling in December this year due to how late in November Thanksgiving fell, what figured to be a sizable increase in sales in this category, the bulk of which consists of online sales, had to contend with a much harsher seasonal factor than was applied to this category last year. While we shaded our forecast of sales by nonstore retailers down to account for this shift, our forecast still proved too high. While the 10.2 percent in not seasonally adjusted sales by nonstore retailers was the largest December increase since 2020, the harsher seasonal factor yielded just a 0.2 percent increase on a seasonally adjusted basis, well short of the 0.8 percent increase we anticipated. With nonstore retailers accounting for roughly thirty percent of control retail sales, that our forecast of seasonally adjusted control sales still ended up so close to the mark reflects spending at furniture stores and electronics/appliance stores surprising us to the upside. What makes this especially interesting is that the December CPI data show sharp declines in prices for furniture, electronics, and appliances.

December saw sales rise in ten of the thirteen broad categories for which data are reported, with the 2.3 percent increase in sales at furniture stores the largest of any category, followed by 1.5 percent increases in gasoline station sales and apparel store sales. Revenue at motor vehicle dealers rose by 0.6 percent, but this comes off a meaningful upward revision to the initial estimate of November sales. To the downside, sales at building materials stores fell by 2.0 percent after a 0.8 percent decline in November that had originally been reported as a 0.4 percent increase. Restaurant sales were down by 0.3 percent, with the 2.2 percent increase in not seasonally adjusted sales being the smallest December increase since 2020. To our earlier point about pricing, real control sales were up by 0.7 percent, suggesting pricing was more or less neutral in December which is a bit surprising given the number of reports we'd seen about holiday season discounting. Either way, real control sales were up 4.3 percent on a year-on-year basis in December and logged a 4.2 percent gain for 2024 as a whole, with these increases easily above the trend rate of growth in price-adjusted control sales prior to the pandemic.

As noted earlier, control retail sales were up by 12.1 percent on a not seasonally adjusted basis which, as shown in our second chart below, is right in line with the increases seen over the prior few years. What is more striking in this chart is how the December increases in unadjusted control sales have gotten significantly smaller over time, a trend in place prior to the onset of the pandemic. This is a point we addressed in the November edition of our *Monthly Economic Outlook* (our holiday sales forecast). What have become more aggressive online promotions in the month of October have been a factor in the acceleration in the downward trend of December gains in control sales, with October accounting for a higher share of total Q4 spending over recent years than had historically been the case. It is this shift in spending patterns, as opposed to some statement on the shape of U.S. consumers, which is being captured in the chart.

Though not dismissing the financial stress being felt by many lower-income households stemming from cumulative price increases over the past few years, U.S. consumers on the whole remain on firm footing. The December retail sales data pose some upside risk to our forecast for Q4 real GDP growth, particularly in conjunction with reports of strong spending on discretionary services.





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