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### September Retail Sales: Solid Growth In Control Sales The Main Story Here

- > Retail sales rose by 0.1 percent in September after rising by 0.1 percent in August (initially reported up 0.1 percent)
- > Retail sales excluding autos fell by 0.1 percent after rising by 0.2 percent in August (initially reported up 0.3 percent)
- > Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.5 percent in September

Total retail sales rose by 0.1 percent in September, well below our above-consensus forecast of a 0.8 percent increase, while ex-auto sales fell by 0.1 percent. Control retail sales, a direct input into the GDP data on consumer spending, rose by 0.5 percent, matching our above-consensus forecast. That we missed badly on our forecast of top-line retail sales but were correct in our forecast of control retail sales can be accounted for by sizeable declines in gasoline sales and restaurant sales; both categories significantly underperformed our expectations, but neither category is included in the retail control group. September retail sales were almost surely impacted by Hurricane Florence, but there is no way to quantify any such effects, though Census does state that some categories were adversely impacted while other categories were favorably impacted. So there's that. Either way, we've long been on record with our view that the initial estimate of retail sales in any given month is virtually useless as an indicator of anything meaningful, particularly the state of the U.S. consumer. We put much more stock in trend growth in inflation adjusted control retail sales; that trend shows that Q3 was another quarter of solid growth in consumer spending, the soft headline print on the September retail sales report notwithstanding.

One main issue have with the retail sales data is that the initial estimate of sales in any given month is prone to sizeable revision, revisions which at times are ridiculously large. There were large revisions to the initial estimates August sales in many of the main categories, but those revisions largely canceled each other out, leaving the estimate of the change in top-line sales unscathed, at up 0.1 percent. Apparel sales were originally reported to have fallen by 1.7 percent in August, that decline is now pegged at 2.8 percent. There were also large downward revisions to furniture store sales and gasoline sales, while there were significant upward revisions to auto parts and building materials sales.

As to the initial estimate of September sales, restaurant sales were down 1.8 percent, while department store sales and gasoline sales each fell by 0.8 percent. While some of the decline in restaurant sales could be

attributed to Hurricane Florence, that is not likely a large factor, and the reported decline in September stands out because this has been one of the categories exhibiting the strongest growth over the past several months. The factors that were driving that growth, such as solid growth in disposable income and elevated consumer confidence, did not just turn on a dime in September, so we'll not jump to any conclusions based on this initial estimate. There were price effects in play with the reported decline in gasoline sales which apparently outweighed what is typically seasonally strong demand in the month of September.

It is the large declines in a small number of categories that color the September report on retail sales, as sales were up in 10 of the 13 broad categories for which sales are reported. The 0.1 percent increase in sales at building materials stores was softer than our forecast anticipated, though we did expect the bulk of any post-Florence effects to turn up in the October data. Sales revenue at motor vehicle dealers rose by 0.8 percent, half of what our forecast anticipated. Unit sales of new motor vehicles were up better than 4.0 percent in September and the sales mix, which was heavily weighted toward SUVs/light trucks, was revenue friendly. Based on the sizeable decline in prices for used motor vehicle sales reported in the September CPI data, used vehicles may have weighed on the broad motor vehicle dealers category. That said, this first estimate is a prime candidate for upward revision. Sales at nonstore retailers, which includes but is not limited to on-line sales, rose by 1.1 percent in September, matching our forecast. Furniture stores (1.1 percent), electronics stores (0.9 percent), auto parts stores (0.7 percent) and apparel stores (0.5 percent) all posted solid gains in September. One trend we've been pointing to for some time now is price deflation in consumer goods. Though abating, this effect nonetheless continues to cloud the retail sales data, which are reported on a nominal basis.

The soft headline print on the September retail sales report does nothing to change our outlook on U.S. consumers. What remains solid growth in inflation adjusted control sales gives us confidence in our view.

