ECONOMIC UPDATE

REGIONS

February 14, 2019

December Retail Sales: Weak, But Not This Weak . . .

- Total retail sales fell by 1.2 percent in December, with ex-auto sales down by 1.8 percent and control retail sales down by 1.7 percent
- Revised data show total retail sales rose by 0.1 percent in November, with ex-auto sales flat and control sales up 1.0 percent

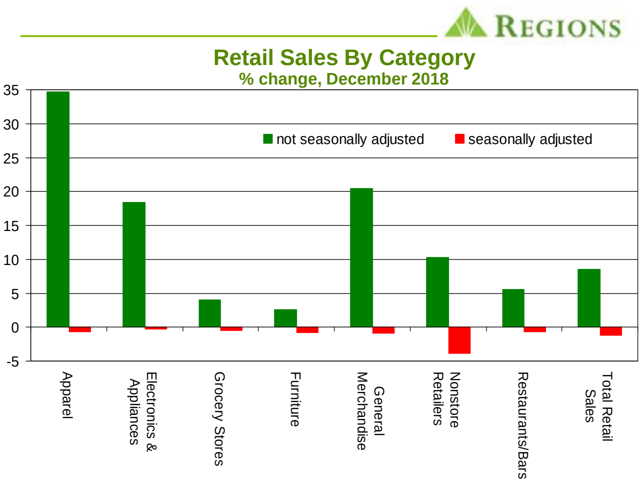
It is said that ignorance is bliss, and after this morning's release of the report on December retail sales, we have to say we agree wholeheartedly with that assessment. Total retail sales fell by 1.2 percent in December, with ex-auto sales down by 1.8 percent and control retail sales, a direct input into the GDP data on consumer spending, down by 1.7 percent. The December retail sales data are not only weak, they are shockingly weak. For some perspective, the consensus forecast was for a 0.1 percent increase, which was also our forecast, and the lowest forecast called for a 0.2 percent decline.

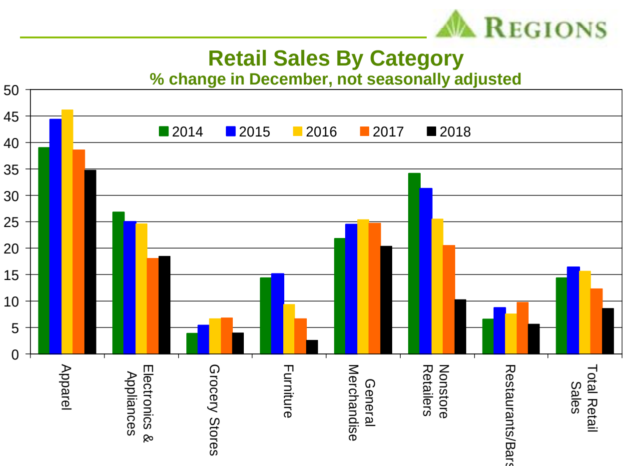
Today's release was originally scheduled for January 16 but was delayed by the partial government shutdown. Now that we have the numbers, however, the question becomes what to make of them. We can't help but to recall what a wise old economist, now older but no less wise, told us long ago – "the numbers are what the numbers are" – his point being that even if we don't believe the numbers, they're what we have to work with. Given the backdrop of plummeting stock prices, the partial shutdown, mounting concerns about global growth, and a seemingly nonstop barrage of headlines containing the word "recession," it makes perfect sense that consumers would have pulled in the reins. We simply do not think they did so to the extent implied by the December retail sales data.

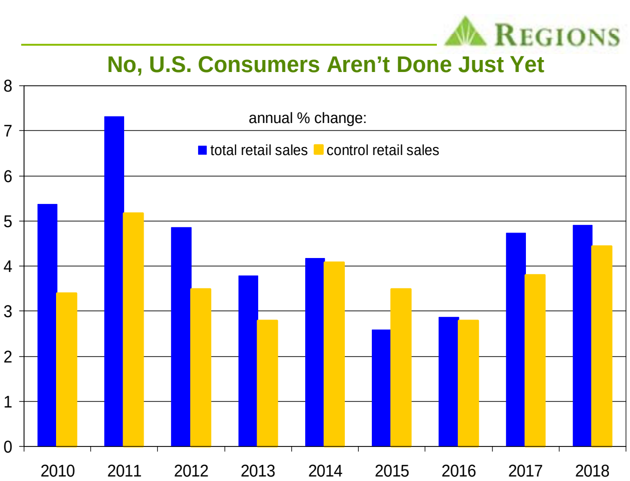
As our regular readers can verify, our view is that the initial estimate of retail sales in any given month is useless, given the extent to which that initial estimate is revised in subsequent months. So, this isn't just us attempting to brush aside the initial estimate for December. But, as these are the numbers we've been given, at least for today, we'll do our best to put them in some kind of context. So, for openers, gasoline station sales fell by 5.1 percent in December, on the heels of a 4.4 percent decline in November. This is where it helps to recall that the retail sales data are reported on a nominal basis, meaning they are not adjusted for price changes. As reported in the CPI data, on a seasonally adjusted basis retail gasoline prices fell by 5.2 percent in November and by 5.8 percent in December (the not seasonally adjusted declines were much larger). So, this clearly acted as a drag on retail sales on a nominal basis. One can argue that falling gasoline prices freed up extra cash for consumers to spend, and while this may have helped support spending in November – control retail sales were up by 1.0 percent in November – it doesn't seem to have done much for spending in December, which could reflect the factors we cite above.

Leaving aside the drag from falling gasoline prices, perhaps the best way to try and process the December retail sales data is to look at the not seasonally adjusted data. We routinely scour through the not seasonally adjusted data for any given data release, and as a general rule any time we are surprised, let alone shocked, by a given data release, the first place we look is the raw, i.e., unadjusted, data. We show some comparisons for a few components of retail sales in our first two charts. For instance, on a not seasonally adjusted basis, total retail sales were up by 8.6 percent in December, which in the seasonally adjusted data translated into a 1.2 percent decline. What matters for seasonal adjustment, however, is the change this December compared to past Decembers, which we show in our middle chart. The raw data show sales increased in December 2018, but to a lesser degree than the month of December in recent years. One way to think about it is that the seasonal adjustment factors were anticipating a larger increase in sales in December 2018 and basically overcompensated when sales didn't increase as much as is "normal" for a December.

Again, what all of this tells us is that consumer spending was soft in December, but not as weak as implied by the initial estimate of December retail sales. To be sure, given the state of the world in December, you can craft a plausible narrative around the retail sales data. But, put the reported decline in retail sales in the context of a gain of over 200,000 jobs, cycle-high wage growth, and still-elevated consumer confidence, then ask yourself which of these numbers isn't like the others. So, while not dismissing today's release out of hand, it does nothing to change our view of the underlying health of the U.S. economy.







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