

ECONOMIC UPDATE

REGIONS

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August Retail Sales: Many Factors Behind Softer Than Expected Sales

- › Retail sales rose by 0.6 percent in August after rising 0.9 percent in July (initially reported up 1.2 percent)
- › Retail sales excluding autos rose by 0.7 percent in August after rising 1.3 percent in July (initially reported up 1.9 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.1 percent in August

And so it begins . . . "it" in this case being the superficial "analysis" of the August retail sales data. Total retail sales rose by 0.6 percent in August, short of what we (1.1 percent) and the consensus (1.0 percent) expected, with ex-auto retail sales up rising by 0.7 percent and control retail sales falling by 0.1 percent. So, the question isn't whether the August retail sales data disappointed, the question is why that was the case. The obvious answer is that the expiration of the \$600 per week in supplemental Unemployment Insurance (UI) benefits at the end of July led households to pull back spending. Which is as lazy of an answer as it is off base. While by no means attempting to diminish the plight of those having seen a reduction in cash flows, a look at the details of the August retail sales data suggests a different answer.

We noted in our weekly *Economic Preview* that, aside from the usual, and often maddening, quirks of the retail sales data, a disjointed back to school shopping season could lead to seasonal adjustment issues with the August data, and there is more than a little evidence suggesting this to be the case. One need to look no further than control retail sales to see this. On a not seasonally adjusted basis, control retail sales fell by 0.98 percent in August, which is relevant given that over the prior 28 years, unadjusted control retail sales rose by an average of 3.9 percent in the month of August. Obviously, this is an aggregated category so one has to go through the individual components to isolate the sources of the weakness seen this August, and in so doing it is clear that sales at general merchandise stores were much weaker this August than is typical for the month, as is also the case with sales by nonstore retailers, which includes but is not limited to online sales. As we noted in our *Economic Preview*, with many districts across that U.S. having delayed school reopening and others having shifted to online instruction as opposed to in-class instruction, at least to begin the school year, it wasn't even clear what "back to school" meant this year, which obviously impacted shopping patterns in terms of both the timing and the composition of sales. Additionally, unadjusted sales at grocery stores were down by 3.4 percent in August, which to some extent reflected another month of falling

grocery store prices (the retail sales data are not adjusted for price changes) as well as a further shift, even if at a more moderate pace, back toward restaurants (not included in control retail sales) and away from meals prepared at home.

To a disjointed back to school shopping season, seasonal adjustment noise, and price effects, we can add the usual, and often maddening, quirks of the retail sales data. For instance, sales revenue at motor vehicle dealers as measured in the retail sales data has been inexplicably weak in each of the past two months, reported as having fallen by 0.9 percent in July and being down slightly in August despite solid increases in unit motor vehicle sales in each month and higher vehicle prices, particularly for used motor vehicles. On a not seasonally adjusted basis, sales revenue at motor vehicle dealers is reported to have fallen by 0.7 percent in August, which may not sound like a big deal, but it is in the context of this being the first decline in the month of August since 2010. We can make the same case about sales at nonstore retailers – back to school issues notwithstanding, unadjusted sales in this category are reported to have fallen by 4.2 percent in August; heck, we have a certain colleague whose online purchases of wine alone make this an impossible outcome.

In any event, August retail sales clearly fell short of expectations, on top of which initial estimates for July were revised sharply lower, particularly control retail sales. The soft August retail sales data came despite another month of sizable increases in both employment and aggregate wage and salary earnings and despite many households, including lower income households, having higher than normal levels of savings at their disposal. Again, we by no means are dismissing any effects of the end of the supplemental UI benefits, but rather pointing out that the seemingly obvious answer and the correct answer aren't always the same. Aside from issues with the data, keep in mind that retail sales are further along in the process of normalizing from the steep declines seen in March and April than are most other series, meaning that monthly gains in retail sales will be more closely aligned with, well, more normal increases.

