ECONOMIC UPDATE

REGIONS

February 17, 2021

January Retail Sales: "Not As Bad" Becomes A Seasonally Adjusted "Surge"

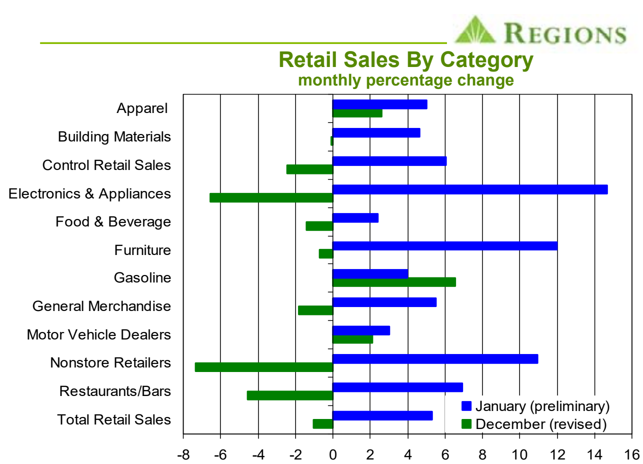
- Retail sales rose by 5.3 percent in January after falling 1.0 percent in December (initially reported down 0.7 percent)
- Retail sales excluding autos rose by 5.9 percent in January after falling 1.8 percent in December (initially reported down 1.4 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 6.0 percent in January

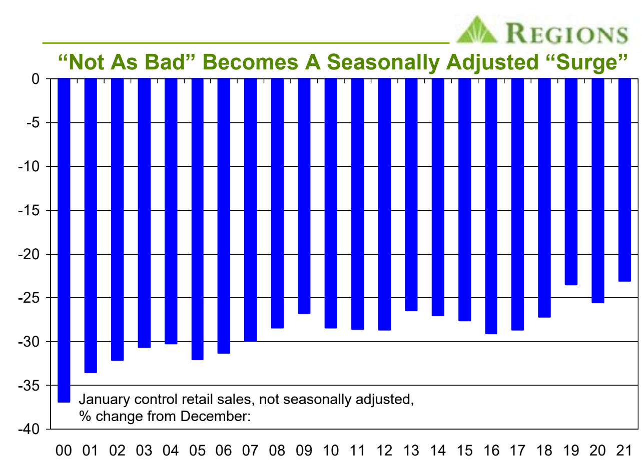
If this were the NFL, the report on January retail sales would be penalized 15 yards for taunting, with another 15 yards tacked on for excessive celebration. Total retail sales rose by 5.3 percent in January, making a mockery of our forecast of a 2.7 percent increase and sending the consensus forecast of a 1.0 percent increase slinking to the sideline in shame. Ex-auto retail sales were up 5.9 percent and control retail sales, a direct input into the GDP data on consumer spending, were up by 6.0 percent, easily outrunning our forecast of a 2.9 percent increase in each category. An already weak looking report on December retail sales was made even weaker, with downward revisions across the board – control retail sales are now reported to have fallen by 2.4 percent rather than by 1.9 percent as initially reported. Not to be that economist, but . . . just as last month we noted the report on December retail sales was nowhere as weak as it appeared to be on the surface, neither is the report on January retail sales as strong as it appears to be on the surface. This can only be seen, however, by digging down to the not seasonally adjusted data. So, just as one could construct a plausible narrative around the December headline numbers, the same can be done with the January data, which we suspect is how the coverage of the January data will largely go.

The not seasonally adjusted data for December showed retail sales rose in each of the broad categories for which data are reported. These increases, however, were not as large as the typical December increases, the result was a string of declines in the seasonally adjusted data. But, as we discussed in this week's *Economic Preview*, the smaller than normal increases in December meant the declines in sales this January – easily the weakest month of the year for retail sales – would not be as large as is typically the case. This set the stage for a sizable increase in seasonally adjusted sales in January, hence our well above consensus forecast.

For instance, on a not seasonally adjusted basis, total retail sales declined by 17.3 percent, which is not only smaller than the average January decline of 21.0 percent going back to January 2000 but is the smallest January decline on record in the data that go back to 1967. By the same token, not seasonally adjusted control retail sales fell by 23.1 percent in January, much smaller than the average January decline of 29.2 percent going back to 2000, which we illustrate in our second chart below. So powerful are the January seasonal adjustment factors that despite declines in unadjusted sales in each of the broad categories for which sales are reported, the seasonally adjusted data show increases across the board. For instance, sales at nonstore retailers fell by 29.5 percent on a not seasonally adjusted basis, but the seasonally adjusted data show an 11.0 percent increase, and while unadjusted sales at apparel stores fell by 51.6 percent, the seasonally adjusted data show an increase of 5.0 percent.

Just as a month ago we weren't attempting to put a happy face on an awful number, neither are we now trying to put an awful face on a happy number. Or something like that. Instead, our point is simply that the retail sales data over the past two months illustrate how the seasonally adjusted data can be distorted when typical seasonal patterns are disrupted. This has been the case across a wide swath of the economic data over the course of the pandemic, and it is important to understand why typical seasonal patterns are disrupted. A month ago, we pointed to several factors – the surge in COVID-19 cases, the looming expiration of various unemployment insurance benefits, and softening labor market conditions – that led to a smaller than normal December increase in retail sales. Still, unadjusted sales rose in December, perhaps by more than would have been anticipated in light of the factors we just cited, the broader point being that retail sales were not nearly as bad as the headline numbers on last month's report implied. And, while a smaller than normal increase in December naturally set up a smaller than normal decline in January, there is more to the story than that, primarily relaxation of limitations on activity and the arrival of the second round of Economic Impact Payments. While those funds bolstered spending amongst lower-income households, data from the Census Bureau's *Household Pulse Survey* suggest most of those funds were saved. Sure, it's hard to tie a nice, neat narrative around it, but in reality, spending is neither as dismal as the December data implied nor as robust as the January data imply.





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