ECONOMIC UPDATE

REGIONS

October 14, 2022

September Retail Sales: Beneath It All, A Fairly Typical September

- Retail sales were unchanged in September after rising 0.4 percent in August (initially reported up 0.3 percent)
- Retail sales excluding autos rose by 0.1 percent in September after falling 0.1 percent in August (initially reported down 0.3 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.4 percent in September

Total retail sales were unchanged in September, with ex-auto sales up 0.1 percent, and while both were shy of our forecasts, there were modest upward revisions to the initial estimates of August sales. Control retail sales, a direct input into consumer spending on goods as measured in the GDP data, were up by 0.4 percent, a touch lighter than our forecast of a 0.5 percent increase. As anticipated given another sharp decline in prices, gasoline was a drag on total retail sales. Contrary to expectations given higher unit sales and higher prices for new vehicles, motor vehicles were also a drag on top-line sales. On the whole, however, it's hard to take away any meaningful conclusions on the state of U.S. consumers based on the September retail sales data. As we noted in this week's *Economic Preview*, September is a tough month for retail sales as it falls after the back-to-school shopping season and before the holiday sales season. To that point, in the history of the current series, which dates back to 1992, on a not seasonally adjusted basis there has never been a September increase in total, ex-auto, or control retail sales, and this year proved no exception to that rule. Our forecast did anticipate a smaller than normal (for the month of September) decline in unadjusted control sales, which proved to be the case. In addition to the tough timing, September retail sales also figured to be held back by aggressive discounting on the part of many retailers sitting on top of undesired inventory they want to clear ahead of the holiday shopping season – recall that retail sales are not adjusted for price changes. Finally, while true in any month, that the retail sales data do not, with the exception of restaurants, capture services spending likely had a bigger impact this year given shifting spending patterns that have favored services spending over recent months.

To our earlier point, on a not seasonally adjusted basis, total retail sales fell by 5.7 percent in September, with ex-auto sales down 5.1 percent and control sales down 5.0 percent. One interesting note is that, while these declines are larger than the September declines seen over the prior two years, they are in most cases not out of line with the typical September declines in the pre-pandemic years. In any event, sales fell in September in seven of the thirteen broad categories for which data are reported.

Gasoline station sales were down by 1.4 percent, and while this is a smaller decline than our forecast anticipated, the decline in August is now pegged at 5.2 percent compared to the initial estimate of a 4.2 percent decline. Sales revenue at motor vehicle dealers is reported to have declined by 0.6 percent in September after having risen by 3.0 percent in August, despite unit motor vehicles sales having fallen in August and risen last month. While lower prices for used vehicles will have weighed on sales revenue, that both unit sales and prices of new vehicles rose last month should have more than offset the drag from used vehicles.

Sales at furniture stores fell by 0.7 percent in September while sales at electronics and appliance stores fell by 0.8 percent, but in each case the not seasonally adjusted data show much larger declines. Spending in these areas is suffering from the sharp decline in home sales, but these are also areas in which sales were boosted over the prior two years by sizable financial transfers to the household sector and by ultra-low mortgage interest rates boosting housing and housing-related spending. These are also areas in which prices have been falling of late, which to some extent reflects unwanted inventory accumulation. So, between meaningfully lower demand and weak pricing, these two categories could be drags on top-line retail sales in the months ahead.

One area in which price effects might be expected to boost retail sales is grocery store sales. That said, the monthly increases reported over recent months have been smaller than implied by the rate at which prices for food consumed at home have been rising. This seeming disparity may be at least partially reconciled by people doing more of their grocery shopping at the larger warehouse/club stores, where prices tend to be lower than in grocery stores, and in part by shoppers in grocery stores switching away from national brands to cheaper store brands.

Again, we're not sure how much September retail sales actually say about the state of U.S. consumers. To be sure, higher prices are weighing on spending, but there is too much else going on – discounting, sated demand for consumer durables, shifting shopping patterns – to simply chalk up soft September sales to consumers tightening their belts.