ECONOMIC UPDATE
REGIONS
December 15, 2022

November Retail Sales: Seasonal Comps, Lower Prices Do A (Negative) Number On Sales

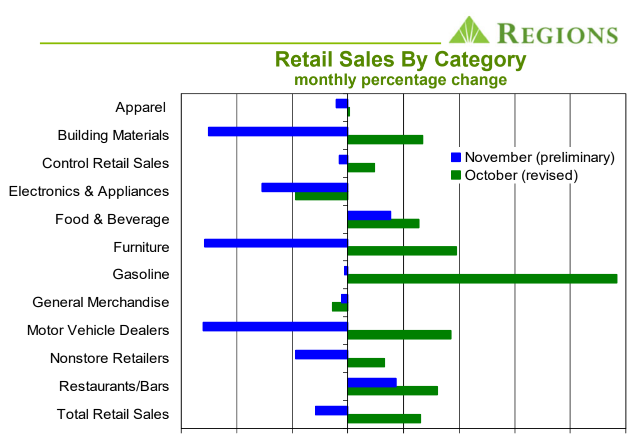
- Retail sales fell by 0.6 percent in November after being rising 1.3 percent in October (matching the initial estimate)
- Retail sales excluding autos fell by 0.2 percent in November after rising 1.2 percent in October (initially reported up 1.3 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.2 percent in November

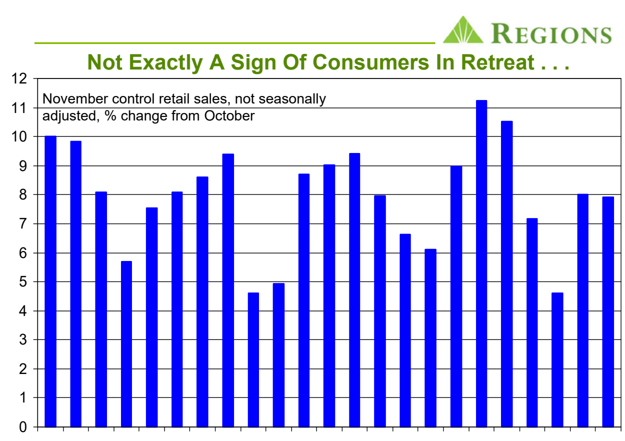
Total retail sales fell by 0.6 percent in November, with ex-auto sales and control retail sales each falling by 0.2 percent, each coming in below our forecast. Though some will not be able to resist the temptation to see the report on November retail sales as a referendum, and a pretty glum one at that, on the state of consumers and/or the U.S. economy, we'd urge you to resist any such temptation. In our weekly *Economic Preview*, we noted the report on November retail sales would say more about softening goods prices and tough seasonal comparisons than it would about the state of U.S. consumers, and though our forecast of November sales was a bit off the mark, our interpretation of the data stands. To be sure, the ongoing shift in spending patterns – away from goods, toward services – played a part, but retailers were nonetheless more successful in drawing consumers into stores over the Thanksgiving weekend than many had anticipated. The problem for many retailers, however, is that lower prices were the lure, so the spike in foot traffic didn't translate into blow-out sales revenue, and that is seen more broadly in the report on November retail sales. Recall that the retail sales data are not adjusted for prices and do not account for spending on services, with the exception of restaurant sales. As such, the November retail sales data tell us more about retailers than about consumers, with inventory-laden retailers heavily discounting merchandise in an effort to lower these unwanted stocks.

A look at control retail sales (retail sales excluding motor vehicle, gasoline, building materials, and restaurant sales) helps illustrate our points about seasonal comps and prices. Not surprisingly, in a typical year November is a strong month for retail sales as it traditionally has marked the start of the holiday shopping season. As such, the not seasonally adjusted data tend to show sizable increases in control retail sales in November, as we illustrate in our second chart below. Control retail sales rose by 7.9 percent this November, just shy of the 8.0 percent increase seen last November but further below the average November increase over the past five years. As such, on a seasonally adjusted basis, control retail sales are reported to have declined by 0.2 percent. Sales by nonstore retailers are a prime illustration of this point. The unadjusted data show sales by nonstore retailers, which includes online sales, rose by 14.0 percent this November, and while that seems an impressive gain, it is nonetheless smaller than the typical November increase, to the point that the seasonally adjusted data show sales by nonstore retailers fell by 0.9 percent. So, ask yourself which is the more relevant comparison. We make this point all the time in our takes on the economic data, i.e., you cannot come up with a meaningful interpretation of any given number in any given month without accounting for typical seasonal patterns in the data as a step in your analysis.

We could go category by category and point to the same pattern. To be sure, it is fair to ask why the increases in unadjusted sales this year fell short of the typical November increases. This is where prices come into play. Again, with many discounters resorting to aggressive discounting to move unwanted stocks, the gain in nominal sales revenue was smaller than would otherwise have been the case for the same quantity of goods sold. Indeed, core goods prices fell by 0.5 percent in November as reported in the Consumer Price Index, and while a plunge in prices for used motor vehicles played a big role in that decline, it is by no means the only factor. To that point, if we deflate nominal control sales using the index of core goods prices, we find that real control sales rose by 0.4 percent in November, a number which would no doubt be given an entirely different spin by those whose thing is spinning headline numbers.

There are other factors than price in play. For instance, recall that a considerable portion of spending on goods had been pulled forward, leaving less of a gain in November than would otherwise have been the case. Goods spending was greatly exaggerated by the policy response to the pandemic, largely at the expense of services spending, but those patterns had started to reverse over the past several months, which would have weighed on goods spending in November. Moreover, many retailers began holiday promotions much earlier this year than is typically the case, in no small measure an attempt to clear unwanted inventories. Finally, the patterns that wreaked havoc on retail sales in November will do the same, but to a greater extent, to the December data. Just something to keep in mind when processing the reactions to the data.





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