ECONOMIC UPDATE

REGIONS

October 16, 2020

September Retail Sales: "Strength" In September Sales Not All It Seems

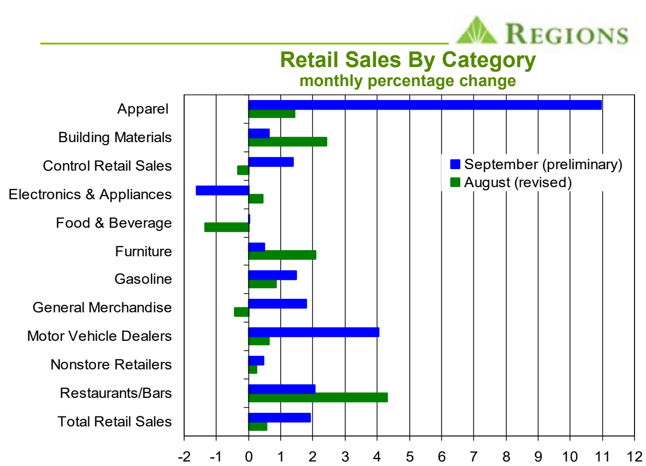
- Retail sales rose by 1.9 percent in September after rising 0.6 percent in August (as initially reported)
- Retail sales excluding autos rose by 1.5 percent in September after rising 0.5 percent in August (initially reported up 0.7 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 1.4 percent in September

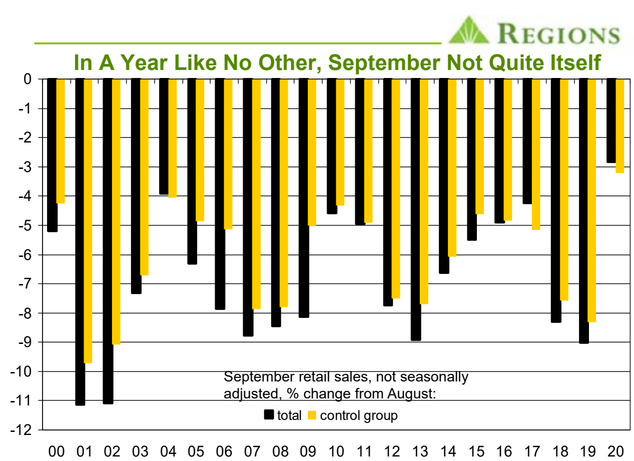
Total retail sales rose by 1.9 percent in September, a touch better than our well above-consensus forecast of a 1.8 percent increase. Ex-auto retail sales were up by 1.5 percent and control retail sales, a direct input into the GDP data on consumer spending, were up by 1.4 percent, in each case besting our forecasts, which were well above-consensus. The "strength" in September retail sales isn't a surprise, at least if you knew where to look for it. As we noted in our weekly *Economic Preview*, we expected the estimates of September retail sales to be biased higher by seasonal adjustment, which proved to be the case. On a not seasonally adjusted basis, September has been a weak month for retail sales – since 1992, not seasonally adjusted total, ex-auto, and control retail sales have never increased in the month of September. As we've noted, however, what for years have been typical seasonal patterns have this year been disrupted by the effects of the pandemic, and our forecast anticipated the declines in unadjusted September retail sales would be much smaller than has historically been the case, which proved correct. This does not mean the September retail sales data should be dismissed out of hand, but it does mean that care should be taken in interpreting the data, rather than just spinning a convenient narrative around a headline number that isn't necessarily what it appears to be.

To our point above, on a not seasonally adjusted basis, total retail sales fell by 2.8 percent in September while control retail sales fell by 3.2 percent, which compare to average declines of 6.4 percent and 5.7 percent, respectively, over the 1992-2019 period. That seasonal adjustment is geared toward the average declines over the past several years means that a smaller than typical decline can be transformed into a strong increase in the adjusted data. Apparel store sales are the most conspicuous instance of this in the September retail sales data. On a not seasonally adjusted basis, apparel store sales fell by 4.3 percent last month, much smaller than the average September decline of 14.2 percent over the prior six years, which translated into the 11.0 percent increase in the seasonally adjusted data.

Our point in all of this isn't to make your brain hurt, and we get that jumping back and forth between unadjusted and adjusted numbers can be a bit maddening when all you want to know is what's really going on. But, much of the recent narrative around consumer spending has been squarely focused on the late-July expiration of the $600 per week in supplemental unemployment insurance (UI) benefits provided by the CARES Act. While by no means trying to diminish the plight of those who have seen their cash flows cut substantially by this change, it is only part of the broader story on consumer spending. At least in our view, which helps account for why our calls on consumer spending have been above consensus estimates. Though the labor market is far from being healthy, it is healing, and wage and salary earnings have risen sharply in each of the past few months. At the same time, elevated levels of saving have helped sustain spending, including amongst lower-income households who may have suffered from the reduction in UI benefits. What all of this adds up to is an ongoing recovery in consumer spending on goods, and, yes, a smaller than normal decline in unadjusted September sales is consistent with that assessment.

There are a few other factors to keep in mind. First, the remaining hole in consumer spending is spending on services, which is not captured in the retail sales data but is captured in the BEA's monthly reports on personal income and spending. Much of that remaining gap reflects discretionary spending amongst upper income households remaining well below pre-pandemic levels, which is likely to remain the case for some time. Spending on goods, however, is easily above pre-pandemic levels. As we move through Q4, however, growth in spending on goods will slow, perhaps sharply. A slowing pace of improvement in the labor market and fading savings buffers can be expected to become increasing drags on consumer spending. We'll caution, however, that the data over coming months is likely to remain clouded by seasonal adjustment noise, so it will be important to be mindful of the patterns in the unadjusted data when assessing the state of consumer spending.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com