ECONOMIC UPDATE

REGIONS

September 16, 2021

August Retail Sales: Just Your Typical Retail Sales Report – Whatever That May Mean

- Retail sales rose by 0.7 percent in August after falling 1.8 percent in July (initially reported down 1.1 percent)
- Retail sales excluding autos rose by 1.8 percent in August after falling 1.0 percent in July (initially reported down 0.4 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 2.5 percent in August

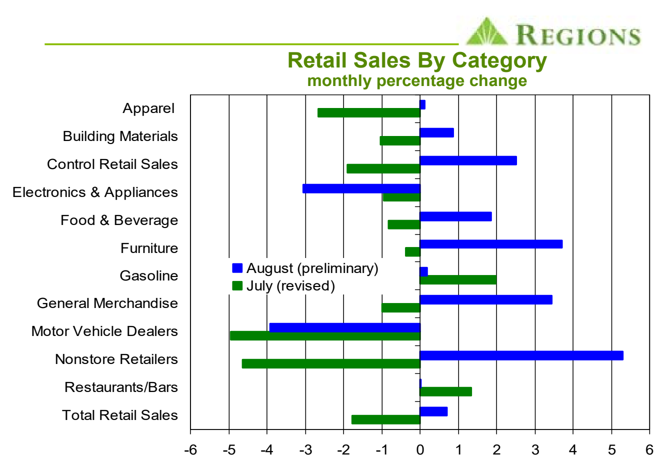
Start with sizable revisions to estimates of sales in prior months, add in some head scratching estimates in a few main categories, top it all off with some curious seasonal adjustment, and what do you end up with? Just your typical monthly retail sales report. Total retail sales rose by 0.7 percent in August, with ex-auto sales up by 1.8 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, up by 2.5 percent, in each case considerably above expectations for declines across the board. The increases in August come on top of declines in July that are, across the board, now shown to be larger than first reported. For instance, total retail sales were initially reported to have declined by 1.1 percent, revisions now put that decline at 1.8 percent, and control retail sales were initially reported to have declined by 1.0 percent, a decline that is now shown to be 1.9 percent. On a not seasonally adjusted basis, total retail sales declined by 0.7 percent in August, which is typically a strong month for retail sales, yet the seasonally adjusted data show the 0.7 percent increase. In any event, to once again relay the words of a wise old economist, the numbers are what the numbers are. So, between the revisions to the July data and the initial August estimates, nominal control retail sales in Q3 are running slightly behind Q2 sales. Once inflation is accounted for, control sales will have declined in Q3, a decline that will carry into the GDP data on consumer spending on goods. As such, growth in real consumer spending for Q3 as a whole will be dramatically slower than was the case in Q2.

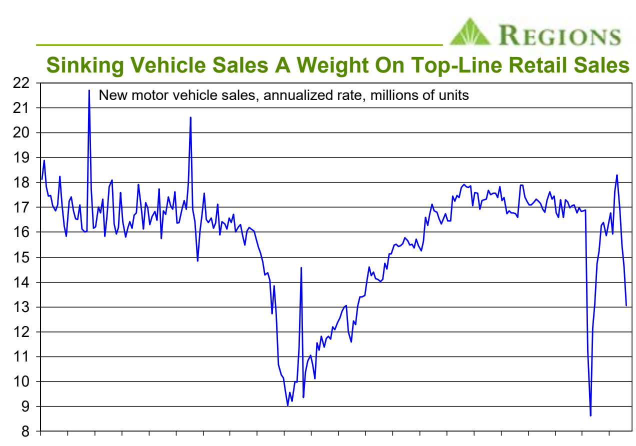
August saw sales increase in ten of the thirteen broad categories broken out in the monthly retail sales report. The largest increase was the 5.3 percent jump in sales by nonstore retailers, which followed a 4.6 percent decline in July (originally reported as a 3.1 percent decline). Keep in mind that online sales account for roughly 90 percent of sales in the broad nonstore retailers category, and to the extent some consumers may have been hesitant to visit physical stores in August amid spiking COVID case counts, shopping online meant they were still able to shop – and spend. General merchandise store sales were up by 3.5 percent in August, at least on a seasonally adjusted basis, as the not seasonally adjusted data show a 0.7 percent decline in this category. Sales at furniture stores were up 3.7 percent in August, while grocery store sales were up by 2.1 percent.

It helps to keep in mind that the retail sales data are reported on a nominal basis, i.e., the data are not adjusted for changes in prices. This helps put the reported increases in categories such as grocery stores and furniture stores in context given the extent to which retail prices have risen over the past several months. At the same time, higher prices can cushion the impact of declining sales volumes, as with motor vehicle sales. Sales revenue at motor vehicle dealers is reported to have declined by 3.9 percent in August, a much milder decline than implied by a double-digit decline in unit sales of new motor vehicles. One offset was higher prices for new vehicles. Another offset was an increased volume of sales of used motor vehicles, despite lower prices on the retail level. Still, even with these offsets, the decline reported in the August retail sales data seems too small, and this is one of the categories in which revisions to the initial estimate of sales in any given month tend to be larger. It is also worth noting that, while sales of used motor vehicles may have helped support the retail sales data, that will not be the case in the GDP data, as sales of used goods, such as motor vehicles, are not included in the GDP data.

The seasonally adjusted data show sales at restaurants and bars were flat in August, in contrast to the not seasonally adjusted data showing a 2.8 percent decline. The latter is consistent with other indicators showing traffic fell off sharply in August amid rising COVID case counts.

To the extent that rising case counts weighed on consumer spending in August, the effects will be much more visible in consumer spending on services, which is not accounted for in the retail sales data. We'll get a sense for that on October 1 when the BEA releases its August data on total consumer spending. We have no doubts about consumers having the wherewithal to spend, but their willingness and the manner in which they spend is being tested by the COVID virus. Along with higher prices and some curious seasonal adjustment, that makes it hard to interpret the message being sent in the retail sales data. Nothing at all new there . . .





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