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Economics Group

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October Retail Sales Signal Continued but Slower Growth

Retail sales bounced back in October. Control group sales continued to rise at a solid pace, but have cooled from their breakneck pace earlier this year. This report does not materially change our outlook for holiday sales.

Bounce-back in Retail Sales

Retail sales bounced back in October, rising 0.3% over the month. This was a welcome sign after retailers saw the first decline in sales (-0.3%) in seven months in September. While the report was broadly positive, only six of thirteen retail categories reported higher sales, and with sales reported in nominal terms, we suspect some of the gains were price-related.

Overall sales were boosted by a 1.1% jump at gasoline stations, but we suspect that was related more to higher prices rather than increased trips to the pump. Earlier this week, we learned that higher energy costs were a driving factor in October's pickup in CPI inflation.

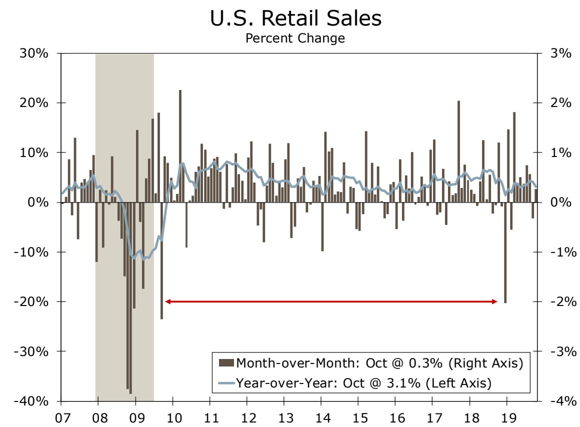
While retail gasoline prices measured by AAA actually moved more-or-less sideways in October, they averaged the month about 1% higher than where they were in September. A similar price story could be behind the 1.0% decline in sales at clothing stores, as apparel prices measured by the CPI declined 1.8% in October.

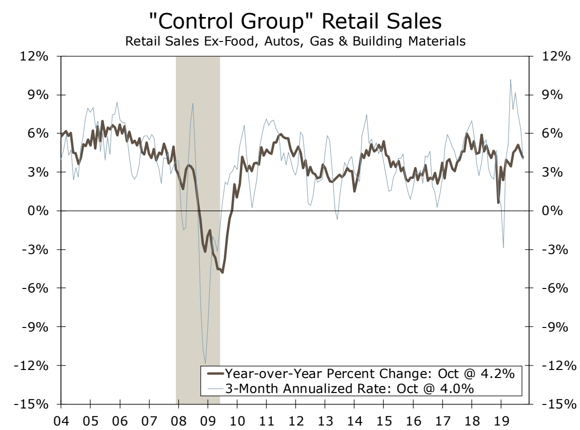
Motor vehicles & parts sales rose 0.5% in October. This was somewhat surprising, given we already knew sales at automakers dropped to a 16.55 million annualized unit pace in October—the weakest pace in seven months. The two measures do not always move together from month-to-month, and the dealer figures tend to be more accurate than the retail auto figures.

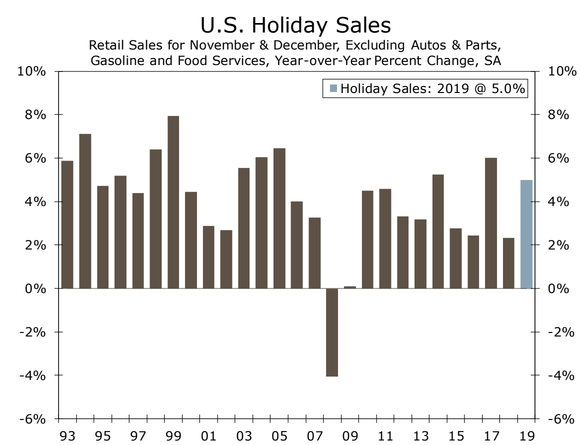
Looking through some of these volatile components, control group sales, which excludes sales at restaurants, gasoline stations, building materials stores and auto dealers, also rose 0.3%. That trend-like gain, however, wasn't enough to sustain the breakneck, and unsustainable, pace of growth in recent months, and pushed the three-month annualized rate down to 4.0% in October. While that is still a solid pace, it's the slowest in nine months. This sales measure feeds into the Bureau of Economic Analysis' calculation of personal consumption expenditures (PCE), meaning while we expect PCE to slow to about a 2% annualized pace in Q4, it is still off to a solid start.

With the holidays right around the corner, the October retail sales report does not materially change our call for a solid holiday sales season. Our holiday sales measure—which we define as total retail sales less sales at auto dealers, gasoline stations and restaurant—actually rose right in-line with our expectation for October. Admittedly, August and September sales were revised lower, but the October retail sales report still suggests no material change to our forecast of a 5% gain in 2019 holiday sales.

Our forecast is predicated on solid consumer fundamentals and consumer confidence remaining elevated, but also is boosted by low-base effects due to the oddly weak holiday sales season last year. Recall, while control group retail sales saw its largest decline since the recession, our measure of holiday sales saw their largest decline on record in December 2018. Those low-base effects alone boost year-over-year sales comparisons.







Source: U.S. Department of Commerce and Wells Fargo Securities

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