Retail Sales Sag in November

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By Scott McIntyre

Headline retail sales rose by just +0.3% last month, well short of the +0.8% median forecast and significantly below the +1.8% revised October reading. The retail sales "control group," a proxy for the consumption component of GDP, was expected to increase by +0.8%, but it actually fell -0.1%. What's even more surprising is that the report isn't adjusted for inflation, so oversized increases at gasoline station and eating and drinking establishments actually pushed overall sales volume higher. Outside of these categories, November spending dropped significantly at electronics stores (-4.6%), department stores (-5.4%) and general merchandise stores (-1.2%). Even sales at non-store retailers (e-commerce) was flat.

On the surface, it was a disappointing report. However, like most economic releases over the past year-and-a-half, it contained considerable noise. Seasonal adjustments probably distorted both October and November as adjustments consider historical patterns that aren't nearly as relevant during a pandemic. It's also very likely that the report reflected consumers starting their holiday shopping much earlier this year with the expectation that store supplies would be leaner than in past years. These two factors combined to give a boost to October, while draining November. On a three-month annualized basis, spending appeared healthier, up +9.3%, while on a year-over-year basis, the volume of overall sales was up +19.5%.

The Fed will conclude its final FOMC meeting of the year this afternoon and is widely expected to announce a doubling of their taper pace. If this proves to be the case, new QE asset purchases would reach zero by March. The market fully expects this to happen. The bigger question is *when will Fed officials begin raising the overnight funds target rate off zero?* We know this won't happen until the taper is complete, but the timing of the liftoff is unknown. FOMC members will consider this morning's retail sales report, but it's very unlikely to alter the expected taper plan. However, the slowdown in headline spending along with the uncertainty of the emerging Omicron variant, should give Fed officials reason to proceed with caution.

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