

US Watch

Retail sales: December giveth, January taketh away

Retail sales came in above consensus, as we expected

Retail sales beat consensus expectations across the board again in December. Headline retail sales were up 0.6%, while the ex-autos component increased 0.4% (consensus: 0.2%, BofA forecast: 1.1%). The core control group came in even stronger than our above-consensus projection at 0.8% (consensus: 0.2%, BofA: 0.7%). Net revisions to the prior two months were close to zero for headline the ex-auto retail sales, while the core control group was revised up a tenth on net.

Seasonal factors explain the beat in retail sales...

As we flagged in our retail sales preview, the strength in the data was driven by more favorable seasonal adjustments than in past Decembers. The seasonal factor (SF), i.e., the ratio of the not seasonally adjusted (NSA) figures to the seasonally adjusted (SA) figures, was 2.2 percentage points (pp) more favorable (lower) in December 2023 than in December 2022. The corresponding figures for the ex-autos and core control components were 1.2pp and 1.7pp, respectively (Exhibit 2).

...As they catch up to shifting spending patterns

We had argued that SFs would be more favorable in December 2023, partly because seasonal adjustments were catching up to the fact that holiday spending has become less concentrated in the month of December. As SFs start to account for this reality, they should be more favorable for holiday-related categories in the month of December, which in turn would boost SA spending those categories. Indeed, the strongest categories in December 2023 on a SA basis were clothing, nonstore retailers and general merchandise (Exhibit 1). These categories are all related to holiday spending, and clothing in particular has benefited from a more favorable SF this year (Exhibit 4).

Seasonal factors are a zero-sum game

Over the course of a full year, seasonal factors must even out. Accordingly, the Census is projecting that the more favorable SFs in December will be offset by less favorable SFs in January for headline retail sales, as well as the above-mentioned components that outperformed in December (Exhibit 3).

Bottom line: fade Dec strength, expect payback in Jan

The bottom line is that the outsized gains in December retail sales were more noise than news. While we do not yet have an official forecast for January retail sales, the risks are skewed toward a weak print, which we would again fade. We recommend averaging the December and January retail sales data, or averaging over the November to February period, to get a more reliable read on the state of the consumer. We retain our view that consumer spending is healthy: it is neither surging nor slumping.

17 January 2024

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Exhibit 1: Retail sales heat map (% m/m SA)

Retail sales beat consensus expectations in December

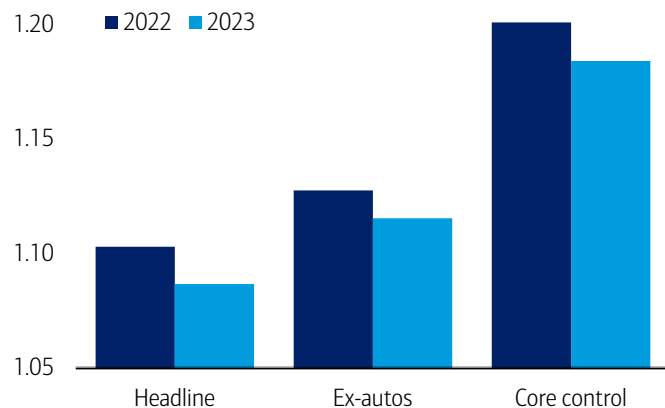
Dec-'23 wt	Category	Dec-'23	Nov-'23	Oct-'23	Sep-'23	Aug-'23	Jul-'23
100.0%	Headline retail sales	0.6%	0.3%	-0.3%	0.8%	0.7%	0.6%
80.8%	Ex-autos	0.4%	0.2%	-0.1%	0.8%	0.8%	0.8%
7.5%	Gas stations	-1.3%	-3.4%	-1.7%	1.0%	6.7%	0.3%
13.3%	Restaurants & bars	0.0%	1.7%	0.3%	1.7%	0.6%	0.9%
5.9%	Building supplies	0.4%	-0.1%	0.1%	-0.3%	0.5%	0.1%
55.7%	Core control	0.8%	0.5%	0.1%	0.6%	0.1%	0.8%
1.5%	Furniture	-1.0%	2.4%	-2.2%	-0.3%	-1.5%	-1.6%
1.1%	Electronics & appliances	-0.3%	-1.8%	0.6%	0.1%	1.4%	-1.0%
11.7%	Groceries	0.2%	0.2%	0.1%	0.4%	0.3%	0.7%
5.2%	Health & personal care	-1.4%	-0.2%	1.3%	0.9%	1.5%	0.1%
3.7%	Clothing	1.5%	1.0%	-0.1%	-1.2%	1.0%	1.2%
1.2%	Sporting goods & hobbies	0.3%	1.4%	0.0%	0.5%	-2.1%	1.7%
10.4%	General merchandise	1.3%	-0.2%	0.0%	-0.3%	0.3%	1.0%
2.2%	Miscellaneous stores	0.7%	-0.3%	0.9%	4.9%	-3.2%	-1.4%
17.0%	Nonstore retailers	1.5%	1.2%	-0.3%	1.3%	-0.2%	1.7%
1.6%	Auto parts	0.7%	0.4%	0.6%	0.8%	0.2%	0.3%
17.6%	Autos ex parts	1.2%	0.8%	-1.1%	1.1%	0.4%	-0.3%

Source: Census Bureau

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Exhibit 2: Seasonal factors for key retail sales aggregates in the month of December

Seasonal factors were more favorable (i.e., lower) in December 2023 than in December 2022

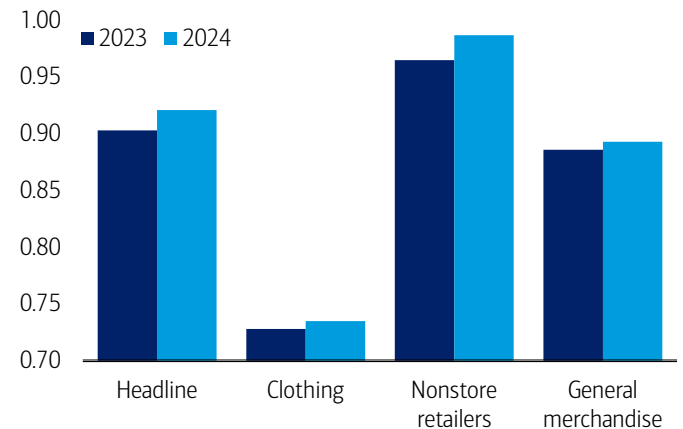


Source: Census Bureau

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Exhibit 3: Seasonal factors for headline retail sales and select components in the month of January

Seasonal factors are projected to be less favorable (i.e., higher) in January 2024 than they were in January 2023

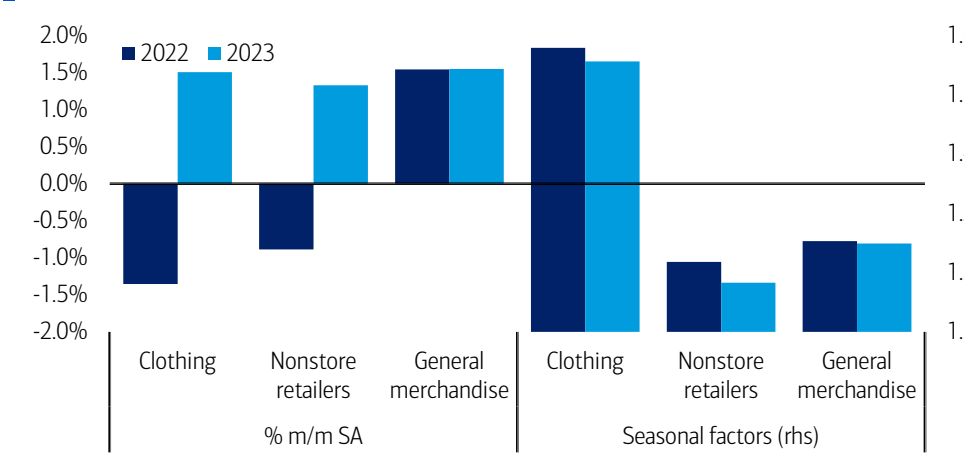


Source: Census Bureau. Note: SFs for Jan 2024 are projected by the Census Bureau

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Exhibit 4: % m/m SA retail sales growth and seasonal factors for select components in the month of December

Categories related to holiday shopping outperformed in December, with clothing in particular from a more favorable seasonal adjustment than last year



Source: Census Bureau

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