

## There Was More To A Strong US Retail Sales Gain Than Stimulus Cheques

- Stimulus cheques may have helped...
- ...but the math suggests that most of that effect may lie ahead
- Other explanations for January's sales gain include gift cards, income gains and distortions
- Coming months could see a powerful surge in retail sales

### US retail sales, headline / ex-autos, m/m % change, January, SA:

Actual: 5.3 / 5.9

Scotia: 1.0 / 0.9

Consensus: 1.1 / 1.0

Prior: -1.0 / -1.8 (revised from -0.7 / -1.4)

US consumers stormed back in January to blow away consensus expectations for the monthly rise in retail sales. Total retail sales were up by about five times what consensus expected. Stimulus cheques probably played a role, but we need more evidence to support that contention, they were not the only driver anyway, and timing their effects is marked by considerable uncertainty. In fact, I think it's plausible that the vast bulk of the effect of stimulus cheques sales may still lie ahead.

Before turning to the drivers, check out charts 1–4. The first two show that the dollar value of retail sales significantly surpasses the pre-pandemic level and that most retail subcategories have also more than recovered pre-pandemic levels. Laggards include categories that wouldn't surprise, like restaurants, clothing, and gas stations. Chart 3 shows what categories drove the sales gain during January and chart 4 does the same thing on a weighted contribution basis which shows the out-sized role played by on-line 'nonstore' retailers.

**There were likely multiple drivers.** First, stimulus cheques of US\$1,200 per married couple, US\$600 per single individual and US\$600 per child with tighter means-testing applied to recipients earnings up to US\$75k per year than earlier cheques were mostly deposited by mid-January and sent by mail to others around the same time frame. Similar timing marked the April 2020 stimulus cheques that were arriving by mid-month but may have been more skewed toward the back half of April than this time around. Back in the April environment, the cheques were spent the next month. This time they might have been significantly spent in-month during January which may reflect a combination of greater confidence with vaccines coming and perhaps pandemic fatigue. Still, if so, that's a very rapid turn around compared to customary lags that include recognition effects followed by decisions on what to spend them on. I personally doubt that Americans immediately spent the proceeds they only received mid-month by traipsing off to stores that drove two-thirds of the sales gain last month with on-line the remainder.

### CONTACTS

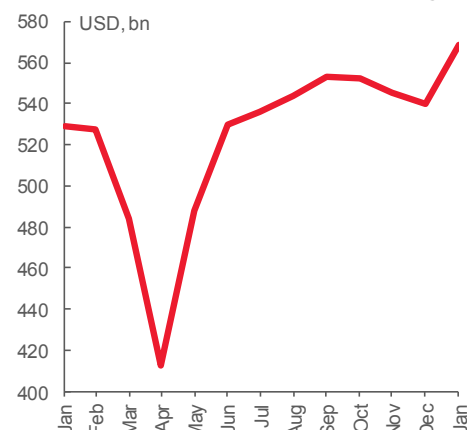
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Chart 1

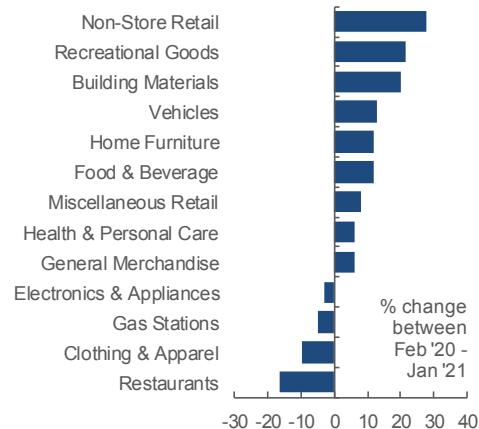
#### US Nominal Retail Sales Recovery



Sources: Scotiabank Economics, US Census Bureau.

Chart 2

#### US Retail Sales Recovery to Pre-Pandemic Levels by Sector



Sources: Scotiabank Economics, US Census Bureau.

Further evidence is therefore required before hastily jumping to this conclusion. For one thing, **I'd like to see the consumer credit figures for January (March 5th) to see if some of the cheques simply went toward paying off debt.** That was likely a contributing factor behind the US\$78 billion drop in consumer credit last April and May. Was there less of a debt paydown effect this time because of optimism toward the future, or more of a debt paydown stimulus 'leakage' effect away from consumption because there are many more permanently unemployed people today than in the early stages of the pandemic?

**Further, given that the cheques cost US\$166 billion, if they were spent in droves then why was there only a US\$28.5 billion rise in seasonally adjusted retail sales?** That either suggests that over 80% of the total amount of the disbursed cheques was squirrelled away toward debt consolidation or to be spent in future, or they were spent on services that are under-represented in retail sales. The latter explanation is unlikely because of the pandemic's effects on services. The 80% hoarding estimate is likely too low because it doesn't allow for the fact that a considerable portion of the US\$28.5 billion sales gain might have been driven by other factors. Also recall that unemployment benefit cheques were jacked up by another US\$300/week by the December stimulus bill through to March.

So what else might explain the strong rise in retail sales last month? Well, for one thing, **good old income growth ex-transfers might have driven the sales gain.** Real weekly earnings were up by 6.1% y/y in January. A contributor was a monthly rise in hours worked of 0.9% m/m last month for the strongest gain since September. **Americans worked longer and got paid more so they likely spent some of that.**

**There was probably also a much larger than usual gift card effect this past holiday season** that was driven by pandemic restrictions including reticence to shop in-person and perhaps also because they could be delivered faster given shipping delays and often electronically. InMarket figures that gift card sales in early December were twice what they were the prior holiday season. Another source, Rise.ai, figures gift card sales were up by 48% during the weekend right before Christmas. Blackhawk Network figures that gift card sales were up 19% y/y in December. For the year as a whole, InMarket figures that gift card sales were up by 17.6% y/y.

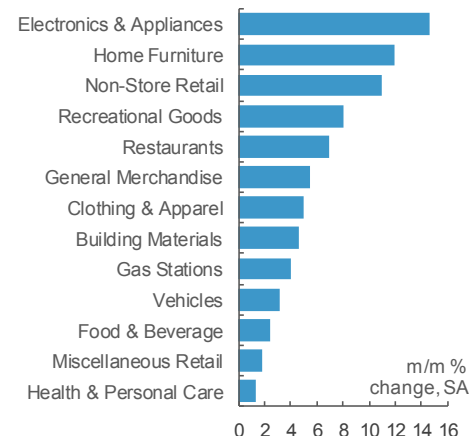
**Gift card sales are included in retail sales only at the time they are redeemed.** They are typically redeemed with a lag which could contribute toward an understanding of what happened to overall retail sales last month. Getting hard industry figures on monthly or weekly card balances is nary impossibly it seems beyond the cottage industry of consulting groups purporting to estimate such amounts by relying on surveys.

I think another factor was that **the peak rush for holiday spending in December was punted into January for many.** Recall, for example, that **shipping delays** were a likely contributor to the 7.4% m/m drop in non-store retailers during December which is where e-retailers show up. That category bounced back with an 11% m/m rise in January that contributed a weighted 1.7 percentage points to the overall gain in total retail sales. I'm not sure that should be extrapolated versus treating it as a one-off.

**So where does this dog's breakfast of ifs, buts and maybes leave us?** That's somewhat uncertain, but the tentative conclusion I would leave you with is that **it's feasible January had little to do with stimulus cheques relative to other drivers with more of the effect on spending perhaps forthcoming in February, not to mention when another batch of Biden bonuses hit bank accounts just as Spring is in the air and vaccinations are pushing rapidly toward herd immunity.**

Chart 3

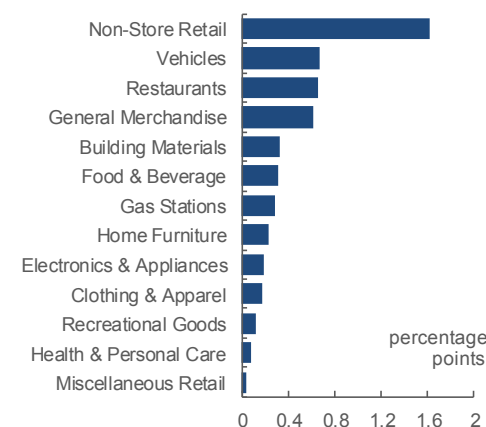
### January Changes in US Nominal Retail Sales



Sources: Scotiabank Economics, US Census Bureau.

Chart 4

### January Retailer Contributions to US Nominal Retail Sales



Sources: Scotiabank Economics, US Census Bureau.

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