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GLOBAL ECONOMICS

SCOTIA FLASH

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Contributors

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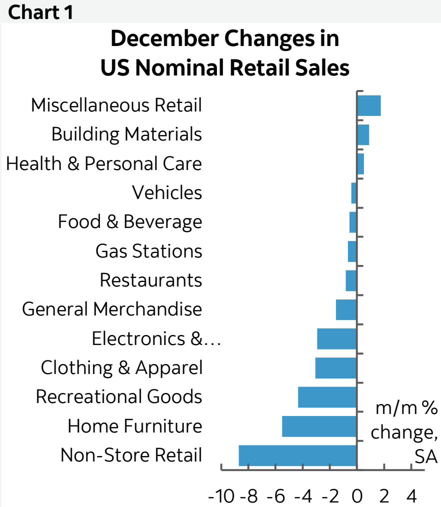
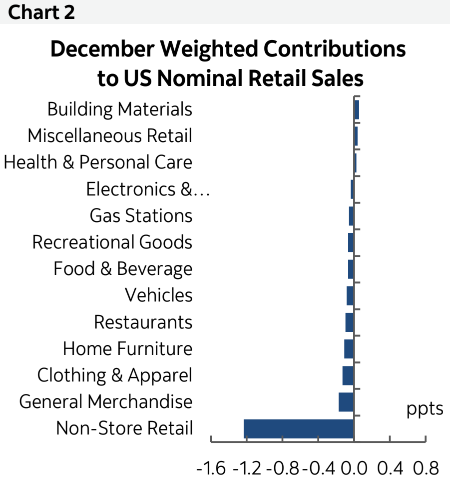
Chart 1



Sources: Scotiabank Economics, US Census Bureau.

Chart 2



Sources: Scotiabank Economics, US Census Bureau.

All the Reasons to Ignore US Retail Sales

- **Retail sales fell sharply in December with more weakness likely in January**
- **There were multiple drivers, but consumer fundamentals remain very strong**

US retail sales, m/m % change headline/ex-autos, SA, December:
Actual: -1.9 / -2.3
Scotia: -0.1 / +0.1
Consensus: -0.1 / 0.1
Prior: 0.2 / 0.1 (revised from 0.3 / 0.3)

Well, that hurt. Retail sales were a big disappointment and there will probably be further weakness into at least the early part of 2022Q1 such that the soft patch is not over yet. There are nevertheless several reasons for the weakness that caution against a bearish consumer narrative set against what are otherwise solid consumer fundamentals.

WHAT HAPPENED IN DECEMBER?

First, the results. The value of retail sales in the advance estimates was down by 1.9% m/m with the ex-autos component down by -2.3% and with sales ex-autos and gas falling by 2.5% m/m.

Breadth to the weakness was very high. Chart 1 shows the percentage changes by category and chart 2 does the same thing by weighting their contributions to the change in overall sales. E-sales were down 8.7% m/m and were the single biggest weighted drag on retail sales last month and so US consumers didn't even really shop from their devices. My gosh, maybe us phone addicts set the little corrupting devices aside for a moment! The softness did not stop there. Furniture/home furnishings were down 5.5%, clothing sales fell by 3.1%, sales at sporting goods and hobby stores were off by 4.3%, electronics/appliances sales fell by 2.9%, food/beverage sales were 0.5% lower and spending at restaurants and bars fell by 0.8%.

A NEVERTHELESS STRONG Q4

Still, for GDP purposes, the retail sales control group was up by almost 6% q/q annualized in Q4 after a 2.8% gain in Q3. sales ex-autos and gas were up 6.7% q/q SAAR in Q4 and total retail sales were up 8.7% q/q SAAR in Q4. Chart 3. Chart 4 shows that it's still the case that retail sales have more than fully recovered from the pandemic across almost all categories.

So what gives? Sales gains appear to have been brought forward this season with October up 1.8% m/m, September up 0.7% and August up 1.2%. So, the way the monthly readings evolved around the turn of the quarter drove the Q4 gain to be solid overall even though the quarter ended poorly.

Why were sales brought forward? Possible reasons include the fact that the industry ate its own holiday lunch with sales promotions that started earlier than ever this year. Black Friday in October?? September for that matter??? Yeesh. There's always a sale on and consumers have responded accordingly and against what may have been the industry's wish to trick people into spending more early and throughout the peak holiday season.

WHY THE SUDDEN WEAKNESS?

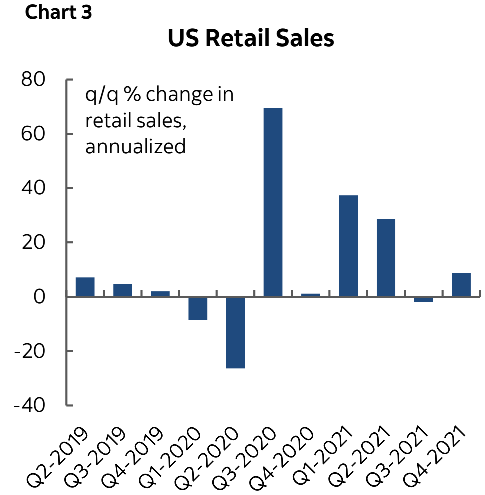
But the possible reasons for softness run deeper than that.

One reason is the bare shelves argument. Inventories as a share of sales across the entire supply chain are at a record low especially in retail (chart 5).

A second reason relates to delivery bottlenecks and transportation delays. Perhaps there were enough shoppers who knew about the challenges that they'd face getting product in time into the holiday shopping season that they behaved by shopping earlier.

A third reason is the probable rotation toward spending on higher contact services as the delta variant subsided. Most of that activity is not captured in retail but will be captured in total consumption for December toward month-end. Airfare, haircuts, lodging, sporting/concert tickets etc etc are all not captured in retail.

Chart 3



Sources: Scotiabank Economics, Census Bureau.

Chart 4

Sources: Scotiabank Economics, US Census Bureau.

WHERE TO FROM HERE?

I'm still of the belief that the consumer fundamentals are sound. Unfortunately, January's sales are likely to be rather poor and maybe February as well due to the omicron variant particularly on services. Online sales may pick-up in this period. My hope is that the way Q1 evolves will set up a bonanza into Q2 when winter weather and omicron both break.

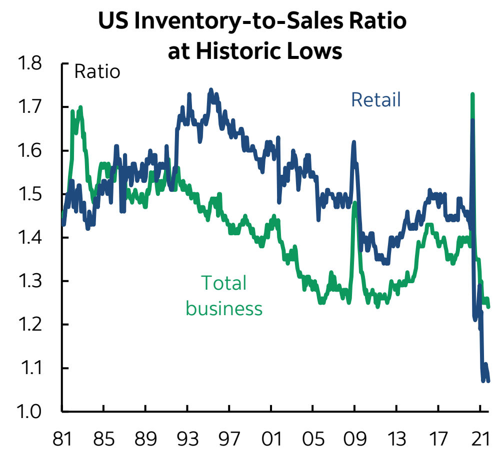
1. Debt payments as a share of disposable income are at a record low back to data that began in 1980. Americans spending only 9% of their after-tax disposable income on debt payments?? They had already brought this figure lower before the pandemic and the 'make households whole' policies of the pandemic (as labelled by folks such as St. Louis Fed President Bullard) have pushed this figure even lower (chart 6).

2. Net worth has been growing very strongly. No, it's not just billionaires as Bernie, Warren and AOC would have us believe. It's you. The homeowner. The mainstreet equity holder (chart 7).

3. Most of the stimulus cheques and accelerated child benefit payments have been stockpiled on household balance sheets. Cash and deposit holdings are up by trillions in the pandemic (chart 8).

4. We're likely at or very near (imo beyond) maximum employment. Wage gains have been picking up. Inflation is eating into wages now, but I'd expect positive real wage gains going forward plus add in benefits.

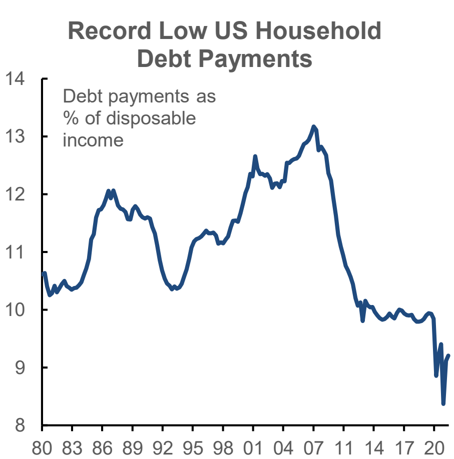
Chart 5



Sources: Scotiabank Economics, US Census

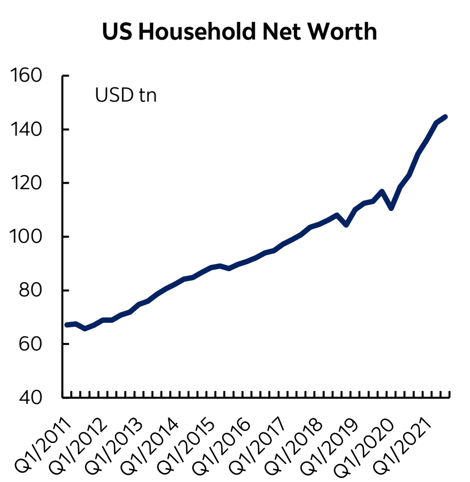
5. Overall, place the nasty data into the end of Q4 in the context of what I think is a mixed picture to read versus that still keeps alive prospects for a very positive consumer picture on a trend basis going forward.

Chart 6



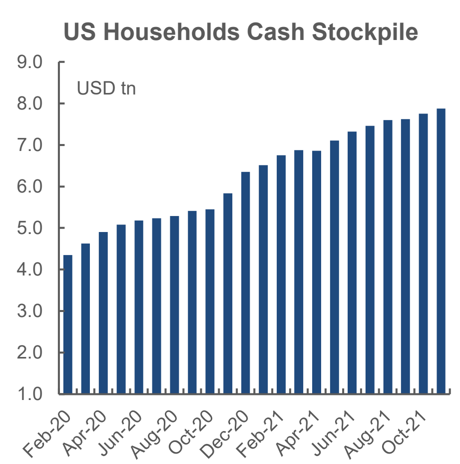
Sources: Scotiabank Economics, Bloomberg, Federal Reserve.

Chart 7



Sources: Scotiabank Economics, BEA.

Chart 8



Sources: Scotiabank Economics, Federal Reserve.