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October Retail Sales – Disappointing, Also Special Factors Make Waters Murky

Retail sales fell 0.3% in October after an upwardly revised 1.3% increase in the prior month. At first blush, this headline paints a picture of significantly soft retail sales in October, while details raise questions. Any assessment of the retail sales in the last two months would take note of the special factors that have affected sales in September (new iPhone sales) and October (and Hurricane Sandy). All major categories of retail sales posted declines in October, with general merchandise as the only exception. By contrast, there was a widespread improvement in September retail sales, excluding furniture sales. Based on this comparison, retail sales during October were disappointing. Auto sales, both as unit sales and as computed in the retail sales report, fell in October and auto firms have attributed a part of it to bad weather.

The influence of Hurricane Sandy on the non-auto component of retail sales is unclear because inclement weather rolled out only in the tail-end of October and a special note from the Census Bureau indicates that response rate of participants in the October retail sales survey was not noticeably small. Therefore, the appropriate conclusion is that retail sales numbers of November and revisions will give a more accurate picture of the impact of Hurricane Sandy and the trend of consumer spending. It is entirely possible that the October sales data do contain both gains and declines of components of retail sales related to the hurricane. The more important question is the performance of consumer spending in the fourth quarter. For now, the fourth quarter trajectory of retail sales points to a tepid performance compared with the third quarter. A retail sales rebound in the November-December period, partly reflecting a bounce back for weather-related reasons, could change the current assessment. An early Thanksgiving allows for a longer period of shopping than typical; we will be tracking these numbers closely to get a handle on the likely performance of consumer spending in the final three months of the year. On a related matter, revisions to retail sales data, inventories numbers, and trade figures for September point to stronger growth of third quarter real GDP compared with the advance estimate of a 2.0% annualized increase.

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