



Economics Group

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Retail Sales Rise Less Than Expected, But Sales Still Look O.K.

Retail sales rose 0.2 percent in November and October's sales were revised slightly higher. While November's increase was short of expectations, sales have risen at an 8.7 percent annual rate over the past three months.

Holiday Sales Remain On Track

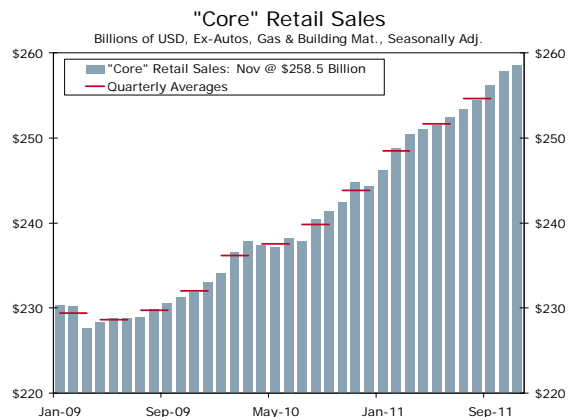
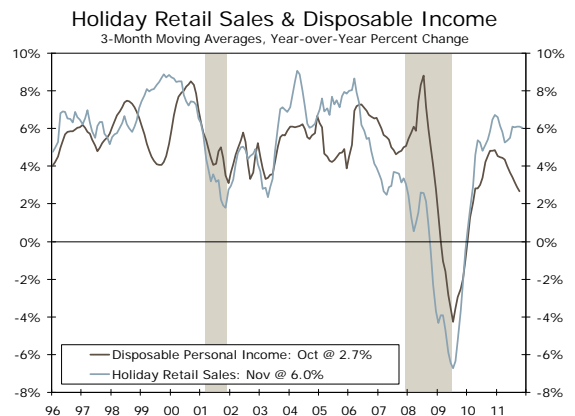
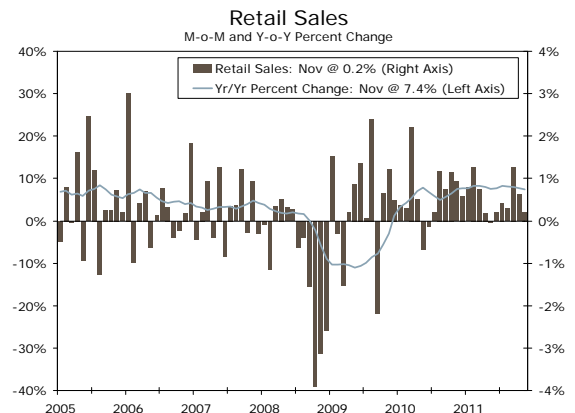
Retail sales rose 0.2 percent in November, following gains of 0.6 percent in October and 1.3 percent in September. November's smaller gain follows reports of blowout sales around Black Friday. Those sales helped ignite a rally on Wall Street as the holiday shopping season appeared to get off to a strong start. Reports from retailers since Black Friday have been less upbeat. Business has been good, but not surprisingly so, and in some sense it seems the excitement of the holiday shopping season has already passed.

Despite November's smaller increase, retail sales still look pretty solid. There are a lot of numbers tossed around during the holiday shopping season. The early returns from Black Friday appear to have been skewed to the upside this year by the large number of retailers opening their stores earlier than in years' past. The extra store hours and widely publicized discounts likely pulled some sales forward, creating a bit of a lull in its aftermath. That said, holiday retail sales remain on track to rise solidly this year, with sales likely to climb around 6 percent from their year-ago level.

Spending rose across most of the categories that you would expect to do well this holiday season. Spending at electronics and appliance stores rose 2.1 percent in November, likely reflecting strong sales of tablet computers and smart phones. Sales at clothing and accessory shops rose 0.5 percent and spending sporting goods, hobby, book and music stores rose 0.3 percent. Department stores posted a 0.3 percent gain as well. Nonstore retailers, which include catalog and online merchants, saw sales rise 1.5 percent in November, bringing the year-to-year gain up to 13.9 percent.

Declines were concentrated in a handful of categories. Sales at grocery stores fell 0.3 percent and spending at gasoline stations fell 0.1 percent. Both likely reflect less inflationary pressure, which is good for consumers and should provide a little extra purchasing power for the holidays.

November's smaller-than-expected rise in retail sales does not diminish the prospects for strong fourth quarter economic growth. Core retail sales, which measure sales excluding gasoline stations, building materials and motor vehicle dealers, provide a pretty good indication of how much personal consumption expenditures are rising. Core retail sales also rose 0.2 percent in November, but the strong gains over the previous two months leave the level of retail sales well above their third-quarter average. Core retail sales will likely rise at around a 6.0 percent pace in the fourth quarter, which means real personal consumption should at least; match the third quarter's 2.3 percent growth rate, even if sales rise only modestly in December. That said, another modest gain next month would set the stage for much slower growth in the first half of 2012, which is what we expect given the sluggish recent reported income growth.



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