



Economics Group

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Retail Sales Lose Momentum in December

Retail sales came in below expectations in December, although November sales were revised higher. More worryingly, “core” retail sales declined in December, the first monthly drop in a year.

Headline Is Better Than It Looks

Retail sales for December posted a modest gain of just 0.1 percent, although the increase comes on the heels of a November retail sales report that was revised higher from an initially reported increase of 0.2 percent to a gain of 0.4 percent. Factoring in the revisions, today’s report was not too far off the mark of what the consensus had been expecting. That said, electronics stores sales were off 3.9 percent on the month, and sales at non-store retailers, which includes online shopping, fell 0.4 percent, indicating a soft finish for holiday sales.

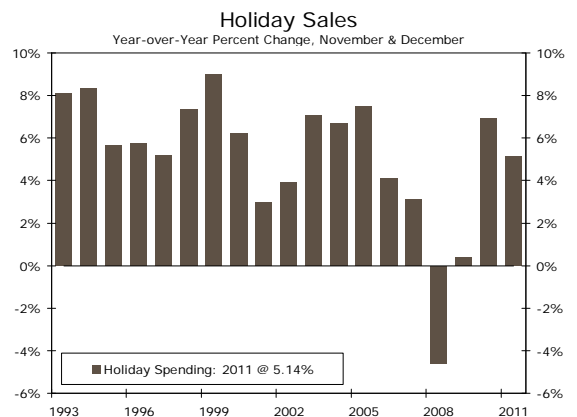
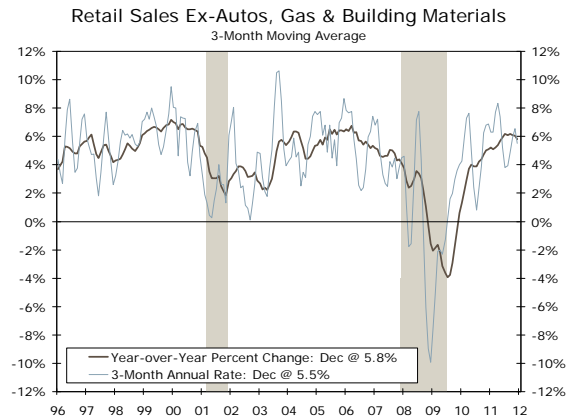
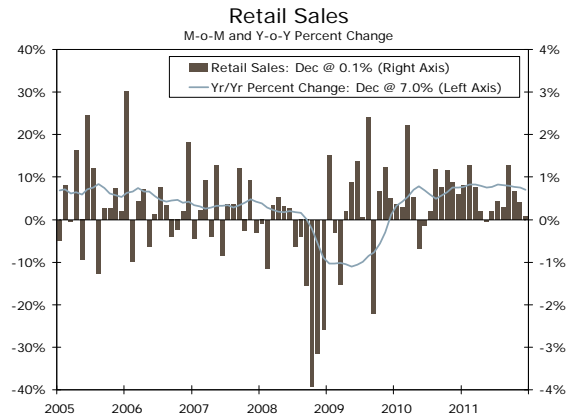
While the pace of growth in consumer spending has been choppy, the improvement in retail sales was presaged somewhat by a recent recovery in consumer sentiment. Consumer confidence, as measured by the Conference Board, increased every month in the final quarter of 2011, finishing the year at an 8-month high. Retail gasoline prices fell on trend during the fourth quarter. That price movement was partly reflected by a 1.6 percent monthly decline in gas station sales. Lower gas prices can lift consumers’ spirits, but the real driver of improving confidence is more likely the improvement in the labor market. Not only have weekly claims for unemployment insurance come down on trend, but employers have also been adding to payrolls, bringing the unemployment rate down to 8.5 percent from more than 9 percent in the summer.

Spending Poised to Slow

“Core” retail sales offer a better look at consumer spending outside of spending on things that are heavily influenced by volatility in prices or by the business cycle. This measure excludes sales of autos, gas and building materials, and in December it posted the first drop in a year. On a 3-month annualized basis, the trend remains positive, but the decline here in December gets our attention. We do not think the consumer is completely going into hiding, but we do think that the pace of consumer spending growth is poised to slow. The past several months have shown a gradual decline in the saving rate, and the Federal Reserve’s consumer credit report has shown an increase in revolving credit, which suggests that consumers put some of their holiday spending on the credit card. After pulling out all the stops for the holidays, we forecast consumer spending growth to slow to an annualized pace of 1 percent to 1.5 percent in the first half of 2012.

Holiday Sales

Given the somewhat weak nature of today’s report, it may come as something of a surprise to note that the components that comprise our measure of holiday sales posted a healthy gain of 5.1 percent. It looks as though holiday shoppers hit the Black Friday specials hard in November, but the momentum did not carry through to December.



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