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### October Retail Sales: Pre-Holiday Pause, Sandy Hold Down October Sales

- Retail sales fell by 0.3 percent in October after a 1.3 percent increase in September (originally reported as a 1.1 percent gain).
- Retail sales excluding autos were flat, after a revised 1.2 percent increase in September (originally reported as up 1.1 percent).
- Core retail sales (excluding vehicles, gasoline and building materials) fell by 0.1 percent in October after an upward revision to September.

Total retail sales fell by 0.3 percent in October following an upwardly revised 1.3 percent increase in September. Ex-auto retail sales were flat in October and core retail sales posted a 0.1 percent decline. Previously released estimates for September were revised higher for ex-auto and core sales. October's retail sales data were impacted by Hurricane Sandy but also likely reflected a pre-holiday pause. Clearly, after a strong Q3 performance and an even earlier start to the holiday sales season – with many retailers so thoughtfully moving "Black Friday" up to Thanksgiving day – consumers clearly needed some time to rest up and plot out their holiday shopping strategy.

The Census Bureau stated they are unable to isolate the impact Sandy had on retail sales, with some retailers benefitting from pre-storm sales and others losing out on sales due to store closings and storm damage. There were 2,579 responses to the Bureau's monthly survey, which is well within the normal range of responses, but some retailers within the storm's impact area reported at a lower than normal rate.

The November data will to some extent reflect "catch-up" sales, as will likely be the case with motor vehicle sales. While we did not expect unit auto sales in October to match the 14.9 million unit annualized sales rate seen in September, October's decline was still larger than expected, which to some extent is due to lost sales in the Northeast over the last week of the month. Many of these sales will be made up for in November. All in all, the dollar volume of sales at vehicle dealers fell by 1.6 percent in October after an upwardly revised increase in September. Gasoline station sales rose by 1.4 percent despite a drop in the average price per gallon during the month, which could reflect some pre-storm sales in anticipation of disrupted supplies. This could also help explain the 0.8 percent increase in sales at grocery stores which came on the heels of a 1.2 percent gain in September.

Still, what is fairly broad-based weakness throughout the October retail

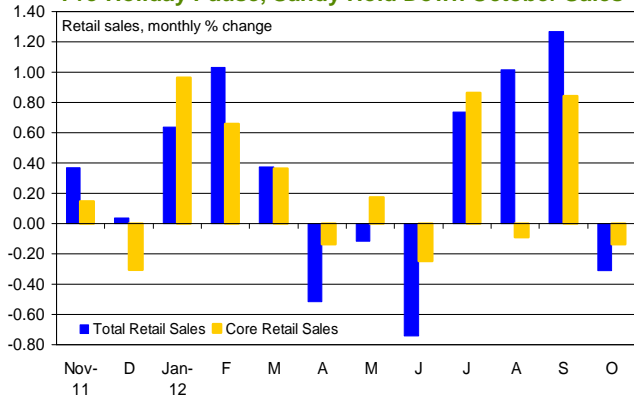
sales data suggests there is more to the story than Sandy. Apparel store sales fell after a string of solid gains, and sales at electronics, furniture, and department stores fell, while sales at nonstore retailers dropped by 1.8 percent following an upwardly revised gain in September. The declines in sales at electronics stores and nonstore retailers are a bit surprising, as it is unlikely that sales of the iPhone 5 were fully captured in the September sales data.

It will bear watching how consumers respond to what already look like increasingly aggressive promotional holiday sales campaigns. Sandy aside, we had expected far more modest retail sales in October than had been the case during Q3, when consumers clearly dipped into savings to help finance consumption spending. Income growth remains weak thus far during the recovery, thanks primarily to the high degree of slack remaining in the labor market. It is worth noting that in the face of this weak income growth, consumers have been paring down savings as opposed to building up credit card debt. Though there are analysts who content household deleveraging is already over, we do not agree with this and, at least thus far, low interest rates are not inducing consumers to begin running up credit card debt (we discussed this issue at length in our November *Economic Outlook*). While we could see increased card utilization around the holiday sales season, we don't see this as a support for faster growth in consumer spending over coming quarters.

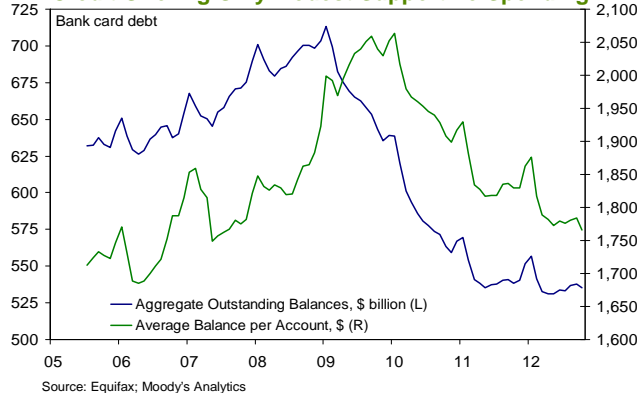
As to Sandy, the November data will likely reflect revisions related to those retailers within the storm's impact area who were unable to respond to the last monthly survey. But, given that the impact of the storm stretched into November some retailers will see additional lost sales. In short, it could be that the November data won't shed a lot of light on underlying trends in consumer spending, though we suspect that the "truth" lies somewhere between the sales pace seen during Q3 and the fairly weak October data. As such, we don't expect growth in real consumer spending for Q4 to match the pace seen during Q3.



Pre-Holiday Pause, Sandy Hold Down October Sales



Credit Offering Only Modest Support To Spending



Source: Equifax; Moody's Analytics