Daiwa Capital Markets

U.S. Data Review

- Retail sales: soft results; part lockdown effect, part regression to trend

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Retail Sales

Retail sales tumbled 1.1 percent in November, noticeably weaker than the expected drop of 0.3 percent. The decline was broadly based rather than driven by special factors or noise in volatile areas. The breadth of the weakness was evident in the drop of 0.9 percent ex-autos and 0.8 percent excluding autos and gasoline. Revisions in the prior two months were mixed (upward in September, downward in October). The changes were about offsetting, as the total dollar volume of sales in the two months combined was nearly unrevised (the slightest of downward adjustments); revisions excluding autos and gasoline had a slight upward tilt.

Retail Sales -- Monthly Percent Change

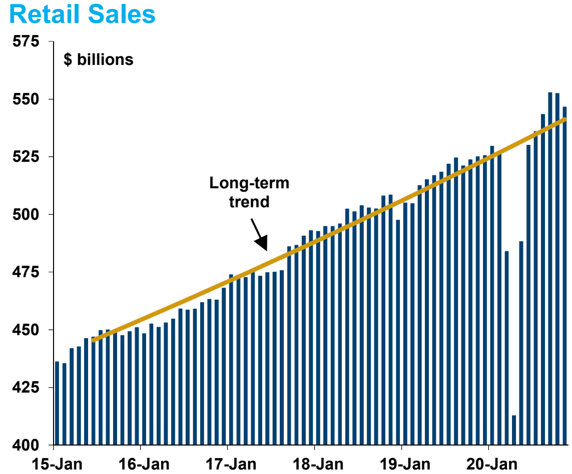
	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Total	1.1	1.4	1.7	-0.1	-1.1
Ex.-Autos	1.6	1.5	1.4	-0.1	-0.9
Ex.-Autos, Ex.-Gas	1.3	1.5	1.3	-0.1	-0.8
Retail Control*	1.6	1.4	1.3	-0.1	-1.0
Autos	-0.6	1.1	3.1	0.0	-1.7
Gasoline	4.5	0.8	1.8	-0.2	-2.4
Clothing	2.7	2.8	15.4	-3.4	-6.8
General Merchandise	0.0	-0.5	3.2	-1.1	-1.0
Nonstore**	0.4	4.6	-2.0	2.4	0.2

** Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.*
*** Primarily online and catalog sales; also includes sales by fuel-oil dealers.*
Source: U.S. Census Bureau via Haver Analytics

The causes or significance of the decline were not perfectly clear; one could give either a negative or positive (or at least neutral) spin to the results. Those with pessimistic leanings would argue that the spread of Covid and new lockdown restrictions are leading to economic weakness. Alternatively, one could argue that the drop was payback for unusually brisk results in prior months. Because of surges in May and June, and additional growth in the following four months, sales had moved well above pre-virus levels and above an extrapolated trend from pre-virus totals (chart). A correction or a regression-to-trend was likely at some point. We view both forces as playing a role in November. We would lean slightly in favor of the more optimistic view, but we would not deny that the spread of Covid is having an influence.

In terms of components, declines in most areas did little damage to solid results in prior months, as most areas remained in favorable positions relative to pre-virus totals. Sales at electronic and appliance stores fell for the second time in the past three months and now have more of a downward tilt. Food service and drinking establishments (i.e. restaurants and bars) fell for the second consecutive month and appear to have turned a corner after drifting upward. The onset of colder weather and the associated drop in outdoor dining no doubt had an influence, but so too did the spread of the virus and mandated lockdowns. Food stores and nonstore vendors posted gains and maintained strong performances.

Retail Sales



Source: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America