Insights

November 20, 2019

Monthly Retail Sales and Why They Matter

The October rebound in retail sales provides further evidence of consumer resilience amid trade uncertainties that have eroded business confidence. Retail sales rose 0.3% m/m after falling -0.3% m/m in September. Retail sales for the "control group" that feeds into the personal consumption expenditures component of GDP and excludes sales from food service, gas stations, building materials stores, and motor vehicle dealers rose 0.3% m/m. The increase in retail sales contrasted sharply with industrial production data that fell -0.8% m/m in October. While prospective data for manufacturing activity appear to have bottomed out in August and September according to readings from purchasing managers' surveys, business activity will continue to be sensitive to headlines on trade. This means the onus of sustained economic growth and higher rates still falls on the consumer.

Retail sales are estimated from monthly surveys collected by the Census Bureau from retail and food services companies that sell to final consumers. Advance estimates are released nine working days following the end of the reference month and provide market participants with an early indication of consumer demand strength. The advance estimates are compiled from a sample of 5,500 companies stratified by kind-of-business and sales size. Final estimates of retail sales are released six weeks after the end of the reference month and are based a larger sample size of 13,000 retail businesses. The table below shows the major categories of retail sales as presented by the Census Bureau.

NAICS		Share of Retail Sales			Sales Growth	
Code	Kind of Business	2009	2018	Difference	5yr CAGR	10yr CAGR
441	Motor vehicle and parts dealers	16.5%	20.0%	+3.5%	+4.2%	+6.7%
442	Furniture and home furnishings stores	2.1%	1.9%	-0.1%	+4.0%	+3.6%
443	Electronics and appliance stores	2.4%	1.7%	-0.7%	-1.0%	+0.4%
444	Building mat. and garden equip. and supplies dealers	6.4%	6.3%	-0.2%	+4.4%	+4.2%
445	Food and beverage stores	14.0%	12.5%	-1.5%	+3.1%	+3.2%
446	Health and personal care stores	6.2%	5.7%	-0.5%	+3.5%	+3.5%
447	Gasoline stations	9.6%	8.5%	-1.1%	-1.3%	+3.0%
448	Clothing and clothing access. stores	5.0%	4.5%	-0.5%	+1.9%	+3.2%
451	Sporting goods, hobby, musical instrument, and book stores	1.9%	1.3%	-0.6%	-1.3%	+0.3%
452	General merchandise stores	14.5%	11.7%	-2.8%	+1.4%	+2.0%
453	Miscellaneous store retailers	2.5%	2.2%	-0.3%	+3.0%	+2.8%
454	Nonstore retailers	7.7%	11.4%	+3.8%	+10.0%	+9.2%
722	Food services and drinking places	11.1%	12.3%	+1.1%	+6.4%	+5.6%

Source: US Census Bureau, Clearwater Advisors

In a separate quarterly survey, the Census Bureau estimates that retail e-commerce sales (seasonally adjusted) comprised 11.2% of total retail sales in the third quarter compared to just 7.4% five years ago. Over a twelve month period, e-commerce sales grew 13.6% which was significantly greater than retail sales excluding e-commerce growth of 2.1%, but weaker than the five year growth rate of 14.6%. E-commerce should continue to take share from traditional retail sales channels, but when we think about potential downside risks, we question to what extent e-commerce sales will be additive.

Price competition from retailers' desire to increase their e-commerce market share raises three key concerns: 1) retailers' already thin margins have eroded making them susceptible to downturns; 2) increased price and product transparency reduces the ability of retailers to differentiate consumers who otherwise may have been willing to pay more in the past; and 3) consumers' price elasticities have flattened making them more sensitive to future price increases especially during an extended period of low inflation. These factors may have little material bearing while underlying drivers of retail spending remain healthy, but should newfound buyer power begin to wane, the PCE growth that has lengthened the economic expansion may suffer contraction resulting in a bias for lower rates.