Credit Rating Agency

Retail sales and consumer spending

The retail and food services report for December

United States of America

Economic Report January 23, 2020

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HR Ratings comments the relatively weak retail sales and food services report for December and the implications that it might have for 4Q19 personal consumer expenditures

The recently published retail sales and food services report for December suggests that the modest growth seen in personal goods consumer expenditures since late summer likely persisted through the fourth quarter. Retail and food services sales excluding food, gasoline stations and motor vehicles and parts dealers (roughly 60% of the total) declined 0.28% on an annualized basis in 4Q19 vs. 3Q19. The modest strength in total sales came from gasoline stations and motor vehicle dealers with annualized increases of 13.2%[1] and 6.48%, respectively.

With the inflation driven increase for gasoline stations, the major sales categories showed smaller nominal annualized increases during the 4Q vs. the strong growth int the 3Q (Table 1). Thus, for total retail and foods services sales the advance of 2.16% reflects less growth than the 5.71% observed in the third quarter. As we show in Graph 3, sales growth appears to have halted after the strong 3Q19 performance

Table 1: Seasonally Adjusted Monthly Retail Sales in Billions of USD (3MMA)

Sales Category	Dec-18	Sep-19	Dec-19	Annual change	Change vs. prior quarter* Sep-19	Change vs. prior quarter* Dec-19
Total Retail and Food Services	**507**	**525**	**528**	**4.09%**	**5.71%**	**2.16%**
Food Services	62	65	65	4.84%	7.63%	0.09%
Gasoline Stations	43	43	44	2.41%	-3.56%	13.22%
Motor Vehicles and Parts Dealers	102	105	107	5.32%	6.94%	6.48%
Other Sales	300	312	312	3.75%	6.24%	-0.28%

Source: HR Ratings with data from the U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis.
Seasonally adjusted data in nominal terms. *Annualized change vs. immediately prior quarter.

In Table 2 we show the trailing twelve-month (LTM) changes in sales for the years 2017-2019. Except for motor vehicle dealers, nominal growth in 2019 is below that of 2018.

Table 2: Retail and foods services sales in billions of USD (LTM)

Nominal Seasonally Adjusted				Annual change	
Sales Category	Dec-17	Dec-18	Dec-19	Dec-18	Dec-19
Total Retail and Food Services	**5,747**	**6,024**	**6,238**	**4.83%**	**3.55%**
Food Services	694	738	770	6.29%	4.32%
Gasoline Stations	454	512	514	12.60%	0.55%
Motor Vehicles and Parts Dealers	1,177	1,204	1,252	2.29%	3.98%
Other Sales	3,421	3,571	3,702	4.37%	3.68%

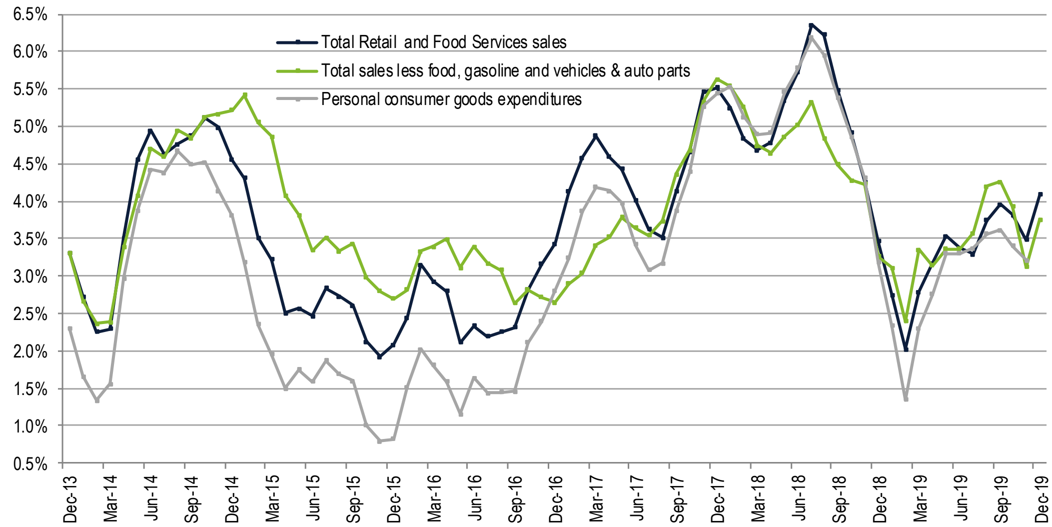
Source: HR Ratings with data from the U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis.

A major reason for the relevance of the retail sales report is as an indicator of the possible evolution of personal consumer expenditures which are the largest single component of GDP. Graph 1 below shows the relationship in terms of annual quarterly changes.

[1] In real terms the increase does not appear to be that impressive. The CPI seasonally adjusted index for all types of gasoline for all urban consumers increased at an annualized rate of 10.3% (based on trailing three-month moving averages for each quarter). Thus, in real terms the quarterly annualized increase was near 2.6%.

Specifically, we compare personal consumer goods expenditures with total retail and food services, and total sales excluding food, gasoline and motor vehicle dealers. The graph shows a relatively comparable evolution especially in the last few years. However, the growth in consumer goods spending is consistently lower than that for total sales. The consumer expenditure numbers are available only through November which makes the retail report of special interest.

Graph 1: Anual change in Retail Sales and Personal Consumer Goods Expenditures (3MMA)



Source: HR Ratings with data from the U.S. Census Bureau, BEA and FRED, Federal Reserve Bank of St. Louis.
Based on nominal seasonally adjusted data.

The graph shows that during much of 2018, sales growth was in a period of sustained deceleration, although beginning at a relatively high rate of growth. In contrast, during 2019 growth rates rebounded and showed a relatively constant acceleration. But overall growth levels were lower than those of 2018 producing the weaker full year growth seen in Table 2 above.

For its part, Graph 2 shows the quarterly evolution of the same sales and spending categories shown in Graph 1; however, it does so on an annualized basis vs. the immediately prior quarter and not on an annual basis vs. the same period for the previous year as was the case for Table 1.

Graph 2 shows an initial surge in annualized growth from the negative levels reached in early 2019. It then shows a decelerating rate of growth roughly beginning in the summer of last year, albeit from a very strong level. That decelerating trend is what has been basis for some fears that the economy is likely to experience more difficult times in 2020. The deceleration (or the expectation of one) probably had a role in the Fed's decision to make three cuts to its reference rates during the year. The decline in sales growth for the series that excludes three relevant categories (food, gasoline and auto) is especially marked (note the trailing three-month numbers for November and December) as initially observed in the -0.28% shown in Table 1.

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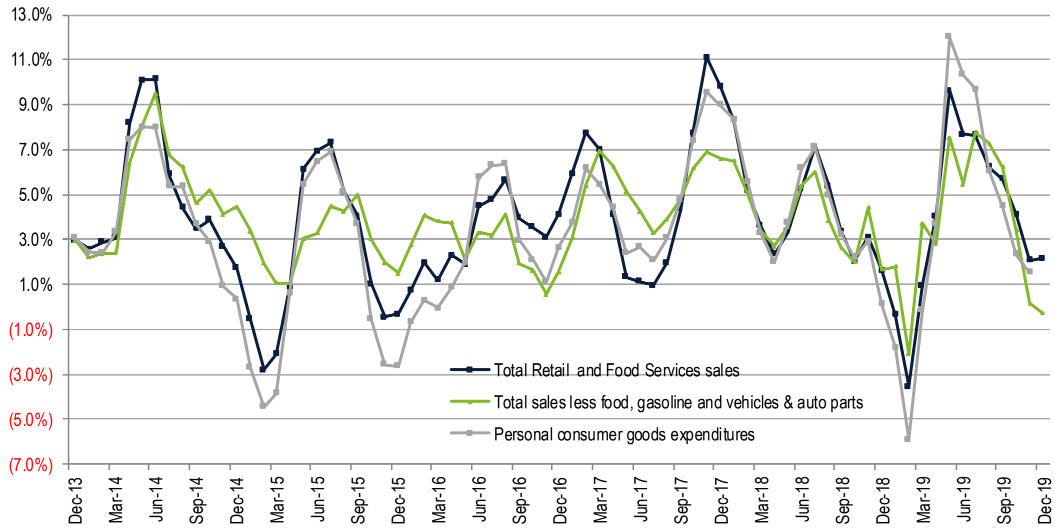
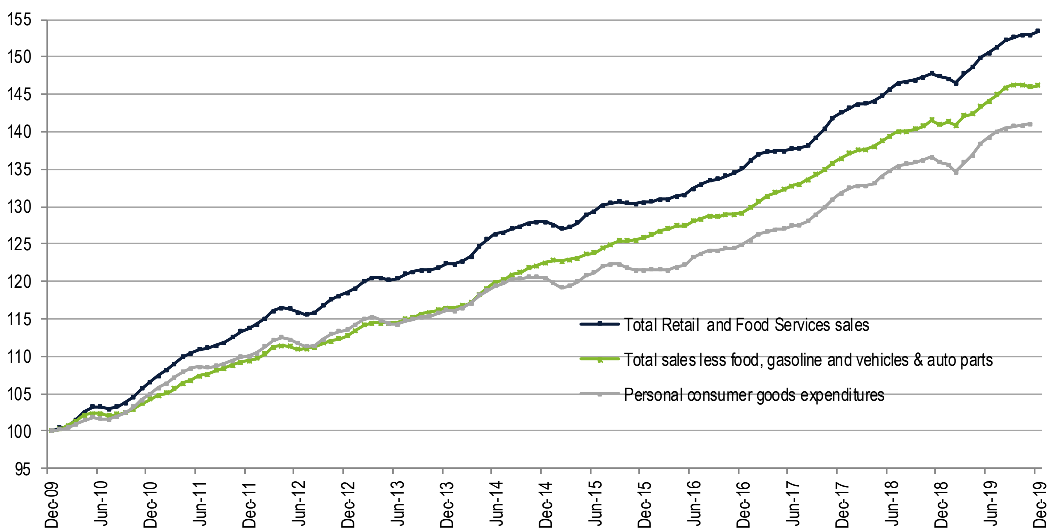
Graph 2: Retail Sales and Consumer Goods Spending annualized change (3MMA)



Source: HR Ratings with data from the U.S. Census Bureau, BEA and FRED, Federal Reserve Bank of St. Louis.
Based on nominal seasonally adjusted data.

In Graph 3 we present the evolution of the same series, but in terms of their absolute levels. In order to provide more comparability in the data we created indices with the base in the last quarter of 2009. The slower growth of consumer goods spending is relatively clear.

Graph 3: Indexed Retail Sales and Consumer Goods Spending (3MMA)



Source: HR Ratings with seasonally adjusted data from the U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis.
Based on nominal seasonally adjusted data.

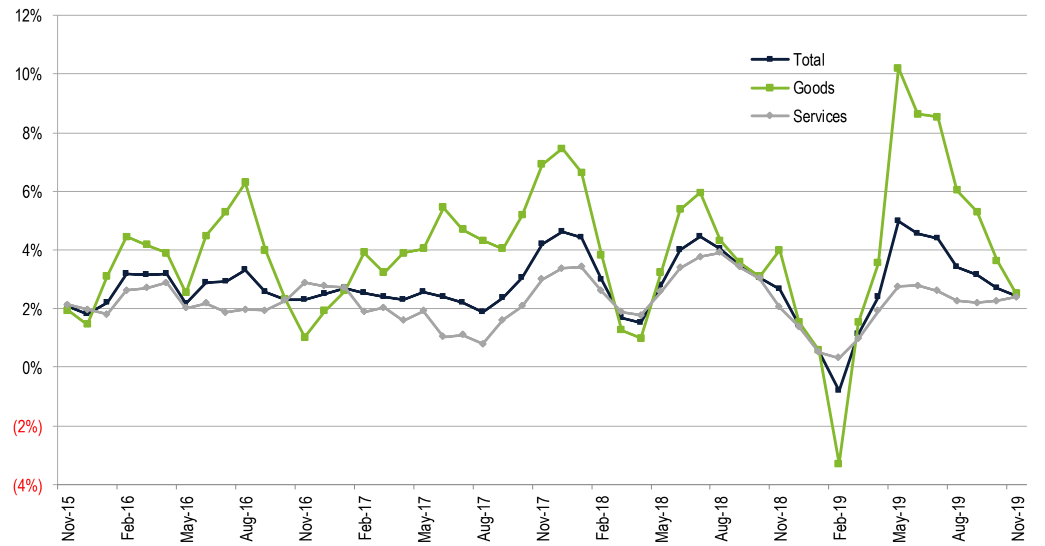
There are two relevant characteristics of the recent evolution of these variables that are worth noting. The first is the slowdown that is clear toward the end of 2018 and which extended into early 2019. This is especially relevant in appreciating the evolution of Graph 2 including the negative growth rates in 4Q18 and 1Q19 and the subsequent rapid rebound.

Graph 3 also shows the slow growth in total sales and the virtual stagnation in other sales category, (i.e., excluding the three categories previously mentioned). This dynamism continued through December.

Given the relationship between consumer goods expenditures and sales, especially the residual other sales category, we would expect that the declining rate of growth seen in previous periods will continue through December.

With respect to personal consumer expenditures we need to note two points. First, in this report we have focused on goods spending and not the larger services spending. In annualized real quarter-over-quarter terms, services spending growth has been relatively stable at roughly a modest 2.4%. In contrast, goods spending growth has been decelerating rapidly (as we have been noting) and has been bringing overall consumer expenditure growth down with it. This is seen in Graph 4.

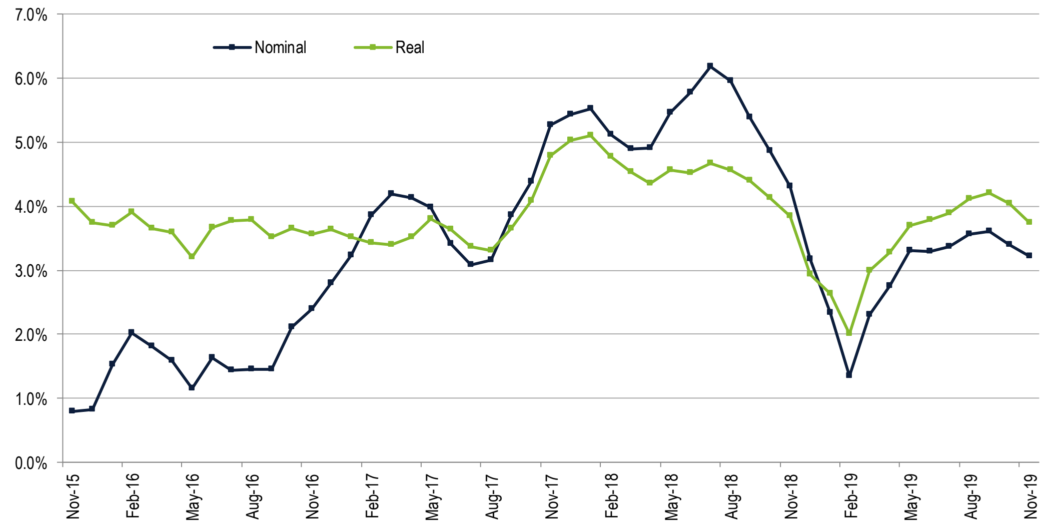
Graph 4: Annualized quarterly change in real Personal Consumer Expenditures



Source: HR Rating, with data from the BEA, converted into real USD. Three month moving averages.

A second point worth noting is that the retail sales data are in nominal terms. This is relevant as recent consumer expenditure reports have shown *deflation* in goods expenditures. Thus, real growth is stronger than nominal growth. This needs to be consider in evaluating the real strength of the retail sales numbers. The relationship between nominal and real consumer goods expenditures is seen in Graph 5.

Graph 5: Annual Growth in Consumer Goods Expenditures (3mma)



Source: HR Ratings with data from the BEA converted into real USD based on the 3MMA.

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