TD Economics

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Data Release: Retailers end the year on a soft note

- Retail sales fell -0.9% M/M in December, worse than market expectations for a fall of -0.1% M/M. November's figure was also revised down to +0.4% from +0.7%.
- Severely weighing on the headline figure was gasoline prices, with the price of retail gas falling 12.7% M/M in December, according to the Department of Energy. Gasoline stations represent 9-10% of all retail spending.
- Excluding gasoline and autos, core sales also declined by a milder -0.3% M/M, far worse than the consensus view for a gain of 0.5% M/M. Revisions left the November figure unchanged.
- Gains in December were observed in 4 of 13 subcomponents. The largest increases were at food & drinking places (+0.8%), furniture stores (+0.8%), and health & personal care (+0.5%).
- Retailers seeing the largest declines include (unsurprisingly) gasoline stations (-6.5%), building materials (-1.9%), miscellaneous stores (-1.9%) – which includes offices supplies and used merchandise - and electronics and applicanes (-1.6%).
- Overall, retail sales grew 4.0% Y/Y in 2014, a slight deceleration from the 4.1% rise in 2013. However, the deceleration was due to a weak start – recall the GDP contracton in Q1. Since then, momentum has improved, even while price growth has softened (with the exception of the soft December print).

Key Implications

- A mildly disappointing report, however we would fade the weakness in the headline figure, which is largely due to the price impact of lower oil prices.
- Turning to the core metric, the outright decline is disappointing, but it follows two consecutive months of annualized gains of 7.3% and 6.9% in October and November, respectively. Therefore, perhaps a mild pullback was in store. The other issue is that retail sales remains a nominal figure, and therefore some of the weakness could be due to increased holiday discounting in 2014.
- Even with this disappointment, strong spending numbers in October and November suggest robust growth in real consumer expenditures of between 3.5%-4% in the fourth quarter, still a breakout pace from the average over the past several years.
- With most economic indicators remaining at high levels and with continued progress in the labor market, alongside the lower gasoline prices, we expect consumer spending to remain robust over the coming months and in 2015 generally.

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