



## TD Economics

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### Data Release: Retail Sales Fall Short of Expectations

- Retail sales expanded 0.1% in December, disappointing market expectations for a 0.3% gain. November sales were revised up to 0.4% from a previously reported 0.2%.
- Excluding autos and gas, core sales were flat. Markets were expecting to see growth of 0.4%.
- Weakness was primarily concentrated in gasoline stations (-1.6%), general merchandise stores (-0.8%), non-store retailers (-0.4%), and electronics (-3.9%). Motor vehicle and parts sales (1.5%), as well as sales of building materials (1.6%) and at eating establishments (0.7%) were the strongest performers.

### Key Implications

- Markets hoped to reap a bounty from today's report, yet the yield fell short of expectations. Core retail sales were flat in December, after averaging nearly half a percentage point month-over-month growth since September. That is puzzling because before today's report there was reason to believe that momentum in the retail sector would carry through to the end of year. Last quarter, auto sales posted their best quarterly gain since 2008. Employment growth in the retail sector is tracking multi-year highs. And revolving credit growth – which reflects credit card usage – has finally turned positive after years of decline.
- So what happened? Part of this is an inflation story. Retail sales is a nominal series, so as the pace of price growth in the economy slows, as it has in recent months, so too will the growth rate in the dollar value of sales, holding the volume of sales constant. Last month's decline in sales at gasoline stations, for example, likely resulted from continued downward pressure on fuel prices.
- Still, it is clear that retail sales slowed in the last month of the year, even without a potential price effect. That is in keeping with something we have argued for a while now, namely, that strong retail sales are unsustainable without income growth. Until that happens, robust sales growth is likely more of an exception than a new norm.

**Chris Jones, Economist**  
**416-983-0500**

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