December Retail Sales

January 14, 2015

Retail sales fell 0.9 percent in December. The decline was broad based. Auto sales fell 0.7 percent. Gas stations reported a decline of 6.5 percent due to lower prices. Electronic and appliance sales as well as clothing receipts fell as well. Core sales, excluding auto, gasoline and building materials fell 0.1 percent showing weak consumer spending.

Time to deflate some of the over-exuberance on the U.S. economy. Consumer spending, which accounts for over two-thirds of economic growth, was holding the economy back in
December. The drop in online sales was a surprise. Before the report, the lower price of gasoline and the brighter job picture was supposed to make the shoppers more willing to open their wallets. Unfortunately, they did not.

Here are some of the reasons. Wages are not going up. Without fatter wallets, consumers are cautious about spending money. In addition, there weren't "must-haves" for electronics and apparel during the holiday shopping season. Finally, the holiday shopping season was stretched from early November to mid-January.

Looking ahead, the December fall in retail sales should be an aberration. The primary benefit of lower fuel prices are yet to be felt fully on consumer's pocketbooks. The cheap fuel costs have benefitted especially the poorest third of the population the most. If the price remains stable, it will save $1500 per household this year compared to last year representing about 3 percent of median household income. The people at the lower end of the income spectrum tend to spend most of the additional discretionary income saving very little of it.

As more shoppers go online, there will be more jobs at eCommerce sites and delivery firms such as FedEx and UPS. In addition, there are many other delivery-related jobs. When brick-mortar sales are combined with online spending, the overall picture for consumer spending should improve.

In 2015, consumer spending should be a plus for the economy. After all, economic fundamentals have improved. Employment gains have been healthy. Wage gains, which have been stuck in the 2-percent range, should accelerate in the future. The wealth effect from higher stock and home prices should support consumer spending.

Economic fundamentals are consistent with rising retail sales ahead. Healthy job growth has been padding people’s pocketbooks. The amazingly low gasoline prices stretch consumers’ dollars. High stock prices and rising home prices have been positive for retail sales.

During the final quarter of 2104, real consumer spending should rise at an annual rate of 4.5 percent up from 3.2 percent during the third quarter and 2.5 percent from the second quarter.