US retail sales plunge despite solid consumer backdrop

There's no doubt about it, December's US retail sales figures are off-the-charts bad. But there are a few reasons to treat these numbers with caution, as we think the strong jobs market should support a rebound over coming months

Source: iStockphoto

There's little doubt the December US retail sales report is grim. While the figures were always going to be dragged lower by a fall in the oil price, the broad-based nature of December's decline in sales will add to fears the US economy is entering a softer phase. The control group, which excludes a variety of volatile items, fell by 1.7% on the month, the scale of which has only been matched once before (in the aftermath of the September 2001 attacks).

1.7%

Fall in the retail sales control group

(MoM%)

Worse than expected

That said, there are a couple of reasons to treat these numbers with a bit of caution. Firstly, the numbers don't tally with some other retail indicators, some of which painted a much more reassuring picture of the Christmas trading period. For instance, data from Mastercard pointed to a 5.1% increase in sales during November and December relative to the year before, while also noting shoppers picked up the pace in the run-up to Christmas.

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It's worth noting that the sharp fall in December sales comes after a pretty decent increase in November. This is most likely thanks to the impact of Black Friday and Cyber Monday, which make it tricky for statisticians to seasonally adjust given the constantly evolving nature of sales strategies over the past few years.

We'll have to wait and see for the next few reports to see if this data was a blip, but either way, the outlook for consumers still looks decent. The jobs market remains in very healthy shape, and wage growth continues to rise as businesses find it harder and harder to fill vacancies. At the same time, the recent plunge in gasoline prices will put extra cash in the pockets of consumers, helping to offset the waning impact of last year's fiscal stimulus.

Admittedly, the overall growth picture for the first quarter looks fairly mixed. The impact of trade uncertainty, the government shutdown, the recent polar vortex as well as financial market wobbles could pull annualised 1Q growth below 2%.

That will likely see the Fed remain on pause this quarter, but we still feel the combination of a solid economic backdrop, perhaps coupled with a gradual easing in trade tensions later this year, will see policymakers deliver one further rate hike in 2019.

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