

ECONOMIC NEWS

United States: Retail Sales Slump in December

By Francis Généreux, Senior Economist

HIGHLIGHTS

- ▶ Retail sales tumbled 1.9% in December after rising 0.2% in November and 1.8% in October. Despite the weak monthly reading, retail sales were up 19.4% for the year after increasing 0.2% in 2020.
- ▶ Motor vehicle sales dipped 0.4% in December. Gasoline station receipts fell 0.7%. Excluding motor vehicles and gasoline, sales were down 2.5% after slipping 0.1% in November.
- ▶ Lower sales were led by nonstore retailers (-8.7%), department stores (-7.0%) and furniture stores (-5.5%).
- ▶ Industrial production declined 0.1% in December after rising 0.7% in November (revised upward from 0.5%). Manufacturing output dipped 0.3% and energy production fell 1.5%. Mining production was up 2.0%.

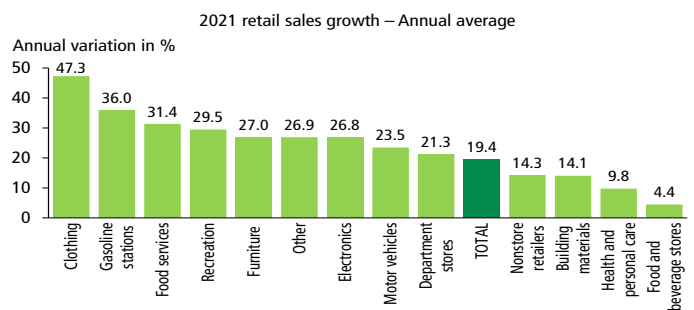
COMMENTS

December's weak retail sales report came as a surprise. Supply chain snarls likely constrained monthly sales volumes and prompted consumers to start their holiday shopping in October. There were probably also seasonal adjustment issues with the data. These could sort themselves out in the January report. The lower figures likely weren't attributable to Omicron, which didn't hit till later in the month. Previous waves of the virus drove consumer spending online, but nonstore sales saw their biggest monthly decline in a year. Weak retail sales and higher consumer prices will likely hamper December's real consumption growth and fourth quarter real GDP gains.

Industrial production wasn't as weak as retail sales. The December decline in manufacturing was due in part to a 1.3% drop in auto production after two months of strong gains. Aerospace and metal production was also lower. Unusually warm December weather led to lower energy production. That figure should rebound given the colder temps we've seen so far in January.

GRAPH

Retail sales were still up sharply on the year



Sources: U.S. Census Bureau and Desjardins, Economic Studies

IMPLICATIONS

Under normal circumstances, the Federal Reserve would tread carefully in response to December's weak retail sales, the diminution in manufacturing and modest job gains. But it will likely consider a March interest rate liftoff given soaring inflation.