WELLS FARGO

Economic Indicator — December 17, 2024

Auto Sales and Ecommerce Drive Outsized Gain in Retail Sales

Summary

The November jump in retail sales owes much to the largest category of spending. Auto sales jumped 2.6%. The next-largest category, ecommerce, also notched a stout gain of 1.8%. No other category posted a gain of more than 1%, leaving our 3.3% holiday sales forecast right on track.

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U.S. Retail Sales: November 2024

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24
Retail Sales (MoM)	0.7	-1.1	0.7	0.5	-0.2	0.2	-0.3	1.2	-0.1	0.9	0.5	**0.7**
Retail Sales, Ex. Autos (MoM)	0.6	-0.8	0.3	0.6	0.1	0.0	0.5	0.5	-0.1	1.0	0.2	**0.2**
Control Group Sales (MoM)	1.0	-0.4	0.0	0.8	-0.3	0.4	0.9	0.4	-0.2	1.3	-0.1	**0.4**
Real Retail Sales (MoM)	0.8	-0.8	0.3	0.3	-0.4	0.6	0.1	1.3	0.0	1.1	0.5	**0.3**
Retail Sales (YoY)	5.5	0.3	2.1	3.6	2.8	2.6	2.0	2.9	2.0	2.0	2.9	**3.8**
Retail Sales, Ex. Autos (YoY)	4.6	0.9	2.0	3.7	3.2	2.9	3.3	3.2	2.3	2.4	2.7	**3.2**
Control Group Sales (YoY)	5.6	2.5	2.6	4.6	3.4	3.4	4.0	3.7	3.4	4.3	3.8	**4.4**
Real Retail Sales (YoY)	4.7	0.2	1.8	3.0	2.4	2.5	2.3	3.2	3.1	3.5	4.0	**4.1**

Notes: MoM = Month-over-Month Percent Change
YoY = Year-over-Year Percent Change

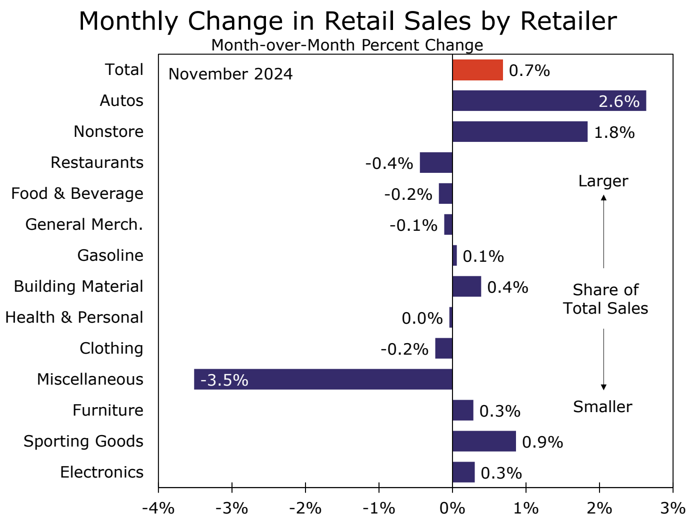
Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Economics

This Will Give Policymakers Something to Talk About

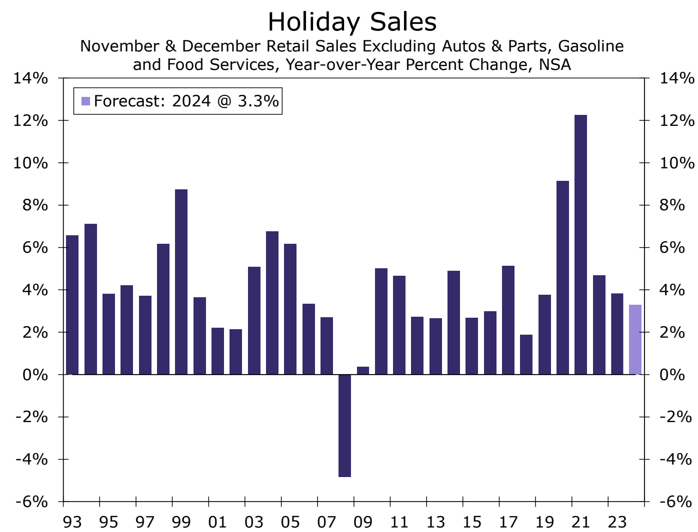
For the sixth month in a row, retail sales came in better than expectations in November, this time for a gain of 0.7%. This comes as the FOMC is convened in Washington today for day one of their two-day meeting in the lead-up to tomorrow's rate decision. Financial markets widely expect another 25 basis point cut, but the impulse to remove restrictive policy could be growing less urgent. Discussion among policymakers is apt to include the strange combination of a cooling in the jobs market even as consumer spending continues to show solid growth. Recent upward revisions to productivity data make these seemingly counterintuitive developments make a little more sense, but big spending and a wobbly labor market do not typically go hand-in-hand.

It has been a hallmark of the current expansion that consumer vitality has been a mixed blessing for policymakers: Good in the sense that it sustained the expansion during periods when many were braced for recession. Bad to the extent that robust demand sustained price pressure making the Fed's 2.0% inflation target an elusive one. That said, the worst of the consumer-related price pressure is on the services side of spending, which gets only modest representation in the retail sales report. Bars & restaurants saw sales fall 0.4% in November, though the category is still up 1.9% over the past year.

Higher financing costs have not materially slowed spending in the service sector, although earlier on in this cycle they have taken a toll on big-ticket durable goods. That dynamic is less true lately. A key factor in today's out-performance is the 2.6% jump in auto sales (chart). Excluding autos, retail sales rose just 0.2%, which was half the expected gain.



Source: U.S. Department of Commerce and Wells Fargo Economics



Source: U.S. Department of Commerce and Wells Fargo Economics

Holiday Check-in

Consumers continued to spend into the holidays. We define holiday sales as total retail sales excluding sales at auto dealers, gasoline stations and restaurants that take place in the months of November and December. This grouping rose 0.4% in November on a seasonally adjusted basis (+4.6% unadjusted), and unadjusted-sales are now up 3.5% year-to-date. All told these data suggest holiday sales are still tracking in the neighborhood of our forecast for a gain of just over 3% (chart).

We ultimately expect this will be a “decent” holiday sales season for retailers. It's not going to knock anyone's socks off in the wake of record pandemic gains, but continued consumer momentum means it's unlikely to be overly weak either. As the calendar flips to 2025, households could face some new challenges, namely around tariffs. Even as inflation has eased, still-high prices have eroded household purchasing power, particularly for those toward the lower-end of the income spectrum. The potential for new tariffs at some point next year suggests some new price pressure. We expect households to keep spending into the new year, but for the pace of consumption to slow as the year progresses and tariff-related price pressure bites. While the broad household sector is still in a decent financial position today, data suggest consumers are growing more vulnerable amid slowing real income growth and still-high financing costs.

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