



Economics Group

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Retail Sales Edge Higher in November

Retail sales rose 0.7 percent in November after an upwardly revised 0.6 percent gain in October. The report signaled that the holiday shopping season was off to a strong start. Core sales rose 0.5 percent for the month.

Broad-Based Sales Gains for the Month

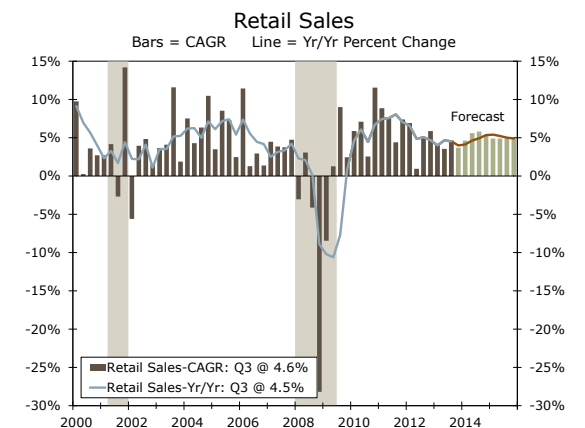
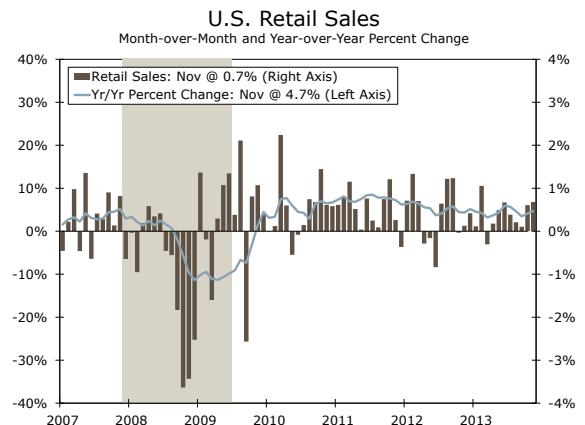
The 0.7 percent rise in retail sales in November was the strongest rise in retail sales since June of this year. The higher sales figures were primarily supported by stronger auto sales. Automobile sales climbed 1.8 percent on the month. Once auto sales are excluded, retail sales still rose at a robust 0.4 percent pace. Sales rose across a number of categories including furniture, electronics, and at non-store retailers. Sales declines were observed in food and beverage retailers, clothing stores, miscellaneous, and gasoline station sales. Given the recent pullback in gasoline prices, the decline in gasoline station sales likely reflects more price effects rather than softer demand. The all-important control group within retail sales that feeds into the GDP calculation rose 0.5 percent after an upwardly revised 0.7 percent rise in October.

Holiday Sales Off to a Modest Start

This month's report marks the first read on holiday sales this shopping season, and early indications are that things are off to a decent start. Holiday sales rose 4.4 percent on a year-over-year basis in November. The late Thanksgiving holiday this year and retailer's strategy to begin holiday promotions earlier to combat the shorter shopping calendar likely pulled some December sales into November. Early reads on black Friday shopping were a bit disappointing but one possible explanation can be seen in today's report. Online sales are captured in the non-store retail sales category, which rose a robust 2.2 percent in November. The jump in non-store retail sales remains consistent with the ongoing trend of shoppers increasing the number of purchases using mobile and online shopping portals rather than the traditional brick and mortar stores. Given the early promotions this year, we expect the strength in this month's holiday sales figures will likely pull some sales from December. Given the strength of today's report, it appears there is some upside risk to our 3.7 percent holiday sales forecast.

Implications for Growth

Overall retail sales have averaged 0.7 percent so far this quarter, which puts some upside risk to our forecasted 4.0 percent rise in total sales for the fourth quarter. Even with the stronger growth over the last two months, control group sales continue to support our view of 2.2 percent real consumer spending in Q4. Going forward, the year ahead will be marked by further improvement in the overall pace of retail sales, and thus, real consumer spending. Our expectation is that retail sales will average around 4.8 percent in 2014 with real consumer spending climbing 2.0 percent. Consumer spending growth will continue to be supported by modest job growth in the year ahead, which, in turn, will help to drive real disposable income growth higher to the 2.6 percent range.



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

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