

Economic Analysis

October Retail Sales Weaken Expectations for 4Q15

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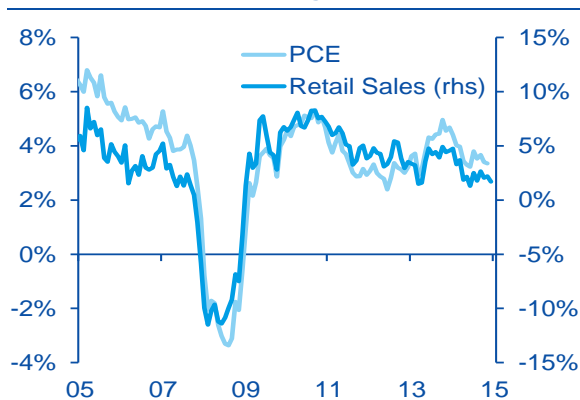
- **Retail sales rose 0.1% MoM and 1.7% YoY in October**
- **Purchases of goods rose in 8 out of 13 categories, held back by weak auto and gas sales**
- **Core retail sales were up for the eighth consecutive month, rising 0.3% MoM**

Retail sales were up 0.1% MoM in October, a noticeable improvement from the flat levels of the previous two months. This was below expectations that called for a 0.3% MoM increase, signaling that consumers remain cautious about increasing their spending despite the 0.4% MoM wage gain seen in the last employment situation report and savings from low gas prices. On a bright note, core retail sales, excluding autos and gas, were positive for the eighth month in a row, up 0.3% MoM in October. This indicates that much of the weakness in last month's retail sales was driven by weak auto and gas station receipts. On a YoY level, retail sales were up 1.7%, while core sales rose a promising 3.5% YoY.

Sales in eight out of 13 categories were up last month, with the largest increase seen in miscellaneous store retailers, up 1.8%, which includes florists, office supply and used merchandise stores. After a strong showing in September, sales for motor vehicles and parts declined 0.5% MoM. Gas station receipts, down 0.9% MoM, tumbled for the fourth month in a row due to continued declines in oil prices. Notably, September gas station receipts were revised even further downwards, to a decline of 4.0% MoM after an initially reported drop of 3.2% MoM. Consumers could be opting to pocket their savings at the pump, rather than spending that money; however, the retail sales report doesn't take into account spending on travel and rent, both of which have shown recent gains.

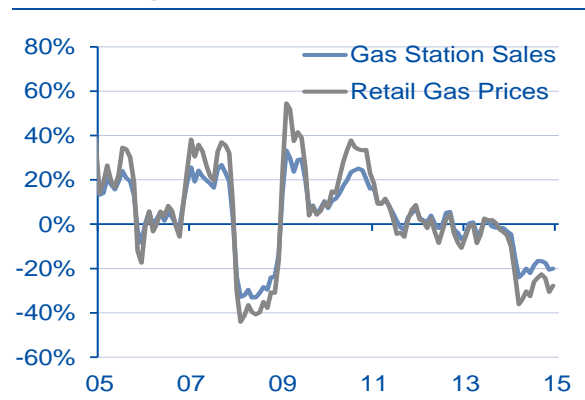
This relatively weak retail sales report is a sour start to 4Q15 and could dampen expectations for strong sales in the upcoming holiday season. However, wage gains are expected to continue after the labor market showed promise in October, and this should support consumer spending into the remainder of the year.

Chart 1
Retail Sales and Personal Consumption Expenditures (YoY %Change)



Source: US Census Bureau, BEA, & BBVA Research

Chart 2
Gas Prices and Sales (YoY %Change)



Source: US Census Bureau, EIA, & BBVA Research

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