

COMMENTARY NUMBER 324
August Retail Sales

September 14, 2010

**Boosted by Downside Revisions to July Retail Sales,
August's 0.4% Gain Still Was Not Statistically Meaningful**

Net of Higher Food and Gas Prices, "Core" Retail Sales Increased Less Than 0.1%

PLEASE NOTE: The next regular Commentary is scheduled for Friday, September 17th, following the release of the August CPI, including detail on the August PPI, August industrial production and the 2010 Poverty Report (2009 data).

-- Best wishes to all, John Williams

Inflation Begins to Move Retail Sales. As published on a seasonally-adjusted basis, before inflation adjustment, the reported 0.4% monthly retail sales gain in August was statistically indistinguishable from no growth or from an outright contraction. The reported monthly gain also was enhanced by downward revisions to prior-period retail sales estimates.

Separately, though, the bulk of the reported 0.4% gain was attributable to rising seasonally-adjusted food and energy prices, as reflected in sales at grocery stores and gasoline stations. The rising food and gasoline costs reflected some catch-up in seasonal factors that have been depressing reported consumer

inflation in recent months. Net of all inflation, August's real sales likely were flat versus the downwardly revised July estimate. Net of all seasonal factors, August retail sales contracted by 0.3% for the month.

Real retail sales still appear to be on track for a third-quarter contraction, which would be consistent with a quarterly contraction in third-quarter GDP.

Nominal Retail Sales. Today's (September 14th) August 2010 retail sales report -- issued by the Census Bureau -- indicated a statistically-insignificant, seasonally-adjusted monthly gain of 0.42% (up 0.28% net of revisions) +/- 0.6% (95% confidence interval), versus a revised 0.28% (initially 0.41%) increase in July.

On a year-to-year basis, August 2010 retail sales were reported up by 3.64% from August 2009, versus a revised annual July gain of 5.44% (previously 5.52%). Annual changes have been gyrating monthly due to year-ago comparisons ranging from a severe trough in activity to last year's cash-for-clunkers stimulus effects, while at the same time the Census Bureau plays games with the monthly seasonal factors and revisions to year-ago data.

Real Retail Sales. In contrast to the nominal (not-adjusted for inflation) numbers, the real monthly retail sales numbers (net of the effects of rising prices) likely were flat, consistent with a still-developing quarter-to-quarter contraction in the data. Details will be published in Friday's (September 17th) *Commentary*, following the release of August consumer inflation data.

Core Retail Sales. Assuming that the bulk of non-seasonal variability in food and gasoline sales is in pricing, instead of demand, "core" retail sales -- consistent with the Federal Reserve's predilection for ignoring food and energy prices when "core" inflation is lower than full inflation -- are estimated using two approaches:

Version I: August versus July 2010 seasonally-adjusted retail sales -- net of total grocery store and gasoline station revenues -- gained by 0.1% (0.06% to the next decimal) versus the official aggregate gain of 0.4%.

Version II: August versus July 2010 seasonally-adjusted retail sales -- net of the monthly change in revenues for grocery stores and gasoline stations -- also increased by 0.1% (0.08% to the next decimal) versus the official aggregate gain of 0.4%.

Week Ahead. Given the unfolding reality of a weaker economy (or re-intensifying downturn) and more-serious inflation problems than generally are expected by the financial markets, risks to reporting will tend towards higher-than-expected inflation and weaker-than-expected economic reporting in the months ahead. Increasingly, previously unreported economic weakness will be evident in prior-period revisions.

Industrial Production (August 2010). Due for release on Wednesday, September 15th, August industrial production should be due for partial reporting catch-up, where some recently reported strength was due to irregular auto production patterns (and resulting seasonal adjustment distortions). Briefing.com shows the consensus expectation for seasonally-adjusted monthly gain to have softened to 0.3% from 0.4% last week, versus an initial 1.0% gain reported for July. Reporting risk still favors a downside reporting surprise.

Producer Price Index -- PPI (August 2010). Due for release on Thursday, September 16th, the August PPI has a fair shot at topping a consensus estimate of a 0.3% (upped from 0.2% last week) seasonally-adjusted monthly increase (Briefing.com), versus 0.2% in July. Reversal of seasonal factor biases that depressed adjust PPI reporting earlier this year likely will add upside pressure to this somewhat randomly volatile series.

Consumer Price Index -- CPI (August 2010). Due for release on Friday, September 17th, the August CPI-U and related series also will receive seasonal-factor boosts to gasoline price inflation. Separately, in August 2009, the Bureau of Labor Statistics (BLS) did not include the government's cash-for-clunker payments as part of auto pricing at the time. Such artificially knocked off about [0.3%](#) from the CPI-U in August 2009, although it was recovered in later, post-clunker reporting. Nonetheless, those events may affect the seasonal-adjustment of August 2010 prices. In combination, the gasoline and auto circumstances offer a good bet for an upside surprise to the 0.2% (upped from 0.1% last week) consensus seasonally-adjusted monthly gain for the CPI-U (Briefing.com). The August retail sales report also would support a stronger CPI number. July CPI-U reporting showed a 0.3% increase.

Year-to-year inflation would increase or decrease in August 2010's CPI-U reporting, dependent on the seasonally-adjusted monthly change, versus the 0.37% adjusted monthly gain seen in August 2009. I use the adjusted change here, since that is how consensus expectations are expressed. To approximate the annual inflation rate for August 2010, the difference in August's headline monthly change (or forecast of same) versus the year-ago monthly change should be added to or subtracted directly from July 2010's annual inflation rate of 1.24%. A consensus result of 0.2% would leave annual CPI-U at about 1.1%.
