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## ECONOMIC REPORT

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## NOVEMBER RETAIL SALES POINT TO GOOD HOLIDAY SEASON; JUMP IN UI CLAIMS NOT A CONCERN

## **SUMMARY**

- Retail sales rose 0.7 percent in November, with an upward revision to October sales as well. The details of the report were good.
- The strong retail sales report is a positive indicator for holiday spending and fourth quarter GDP growth.
- Initial claims for unemployment insurance jumped in the week ending December 7, but the increase is likely due to seasonal factors. Claims are consistent with continued solid job growth.
- Recent data indicate stronger economic growth in 2014.

Retail sales rose 0.7 percent in November, easily besting the consensus. Sales excluding autos were up 0.4 percent, and sales excluding autos and gasoline were up a very good 0.6 percent; sales at gas stations fell 1.1 percent over the month as gasoline prices dropped. October sales were revised up to a 0.6 percent gain, from the initially reported 0.4 percent increase. Sales excluding autos were up 0.5 percent in October (revised up from +0.2 percent), and sales excluding autos and gas were up 0.6 percent in October (revised up from +0.3 percent).

The November details were good. Most segments reported gains, with a 2.2 percent increase for nonstore retailers as online shopping continues to expand. Sales of motor vehicles and parts were up 1.8 percent, not a surprise given the big jump in unit auto sales over the month. Sales at furniture and home furnishing stores, electronics and appliance stores, building materials stores, and restaurants were all up by more than one percent from October to November. In addition to the decline at gas stations, sales also fell in November at clothing stores and at food and beverage stores.

On a year-ago basis overall retail sales were up 4.7 percent in November, the strongest growth since July. Sales excluding autos were up 3.5 percent, and excluding autos and gas were up a good 4.5 percent (see Chart).

Despite the doom and gloom over initial reports, the holiday shopping season looks like it will be a good one. PNC is forecasting an increase in holiday spending of 3.0-3.5 percent, with about 1.5 percentage points of that from higher prices, and 1.5-2.0 percentage points from an increase in "real" spending. Sales are up in 2013 because 2.3 million more people have jobs, stock prices are up by about one-quarter, house prices are up around 10 percent, and gasoline prices are lower by about 15 cents per gallon during this holiday season versus a year ago.

The release is also good news for fourth guarter GDP. Nominal retail sales are up almost 6 percent at an annual rate over the past three months, even with falling gasoline prices. It appears that businesses added to inventories in the third quarter because demand was picking up, so the drag from inventories in the fourth quarter won't be as bad as some are fearing.

Initial claims for unemployment insurance jumped to 368,000 in the week ending December 7, the highest level since early October. Claims fell the prior week by 21,000 to 300,000 (revised up from 298,000). The four-week moving average of claims rose from 322,750 to 328,750. The holiday season, including the late Thanksgiving this year, is likely skewing claims, and they will almost surely drop again next week. The underlying trend in late 2013 is weekly claims of between 320,000 and 330,000, consistent with monthly job growth of 175,000 to 200,000. Claims may be volatile in the near term because of Christmas and New Years, but the labor market recovery is real and ongoing, and is supporting growth in consumer spending, as seen in November retail sales.



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Overall recent data have been better than expected. In particular concerns over the labor market have faded with monthly job growth of around 200,000 according to the employer survey, and the decline in the unemployment rate to 7.0 percent in November. Job gains will support income and consumer spending growth in 2014. In addition the improving labor market will support the ongoing recovery in

the housing market, as people will be more confident about purchasing a new home. At the same time an improving global economy will support U.S. exports, and fiscal policy is becoming less of a drag on growth. PNC is forecasting real GDP growth of 2.5 percent in 2014, up from 1.8 percent this year.

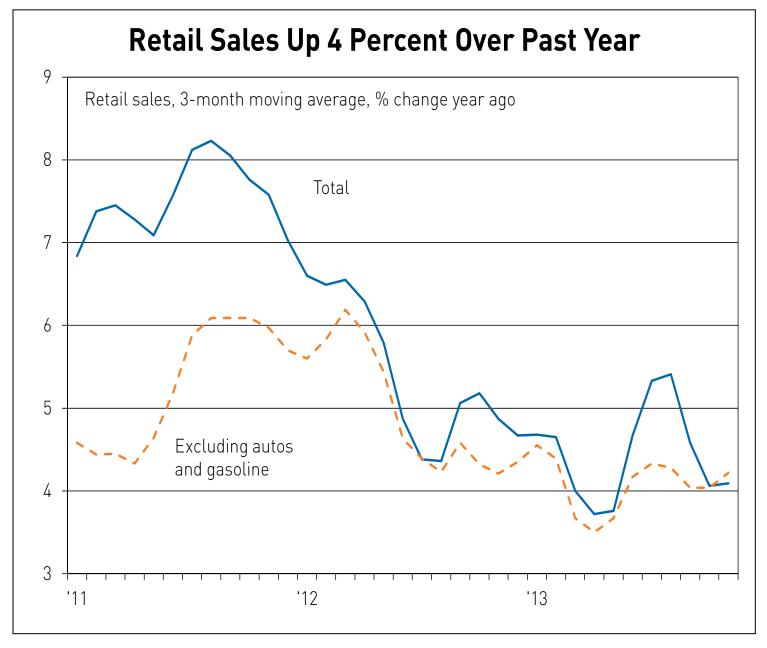


Chart source: Census Bureau

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