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ECONOMIC DATA

Retail Sales Declined in December at Fastest Pace Since 2009

The government report sent stocks lower and raised new questions about the vigor of economic growth

The Commerce Department said sales fell last month in every major retail category aside from cars and building materials.
PHOTO: RICHARD B. LEVINE/ZUMA PRESS

By Harriet Torry

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WASHINGTON—U.S. retailers registered a far worse December selling season than many analysts had realized, according to a government report Thursday that sent stocks lower and raised new questions about the vigor of economic growth.

Sales at stores, restaurants and online fell a seasonally adjusted 1.2% in December from November, the retail sales report said, the biggest monthly drop since September 2009. The performance was so poor that some analysts questioned the report's accuracy.

On average in this economic expansion since 2009, retail sales have risen 0.4% a month.

The drop was particularly jarring because it happened in December, at the height of the holiday shopping season.

Economists were puzzled by the decline because reports from individual retailers in recent weeks, though soft, hadn't suggested such a disappointing holiday season. Other reports on holiday shopping, such as from Mastercard, suggested solid gains.

Government data on retail sales tend to be volatile and subject to large revision. Some economists wondered whether the partial government shutdown, which started in December, led to quirks in processing the figures.

The Commerce Department, which produced the report, said in its release that response rates from the retailers it surveys were normal. An agency spokesman referred back to that statement when asked whether any other quirks in processing the data might have skewed the results.

The numbers were all the more surprising because a strong report on U.S. hiring this month suggested that household income is robust and would support continued consumer spending.

The report was "much weaker than expected, but so much so that the data lose credibility; the trend may be slowing, but a sudden collapse is at odds with other evidence," said Jim O'Sullivan, chief economist at High Frequency Economics Ltd.

Still, given losses in stock markets in December, the government shutdown and signs of a global economic slowdown, some analysts took the report as a new piece of evidence that growth is slowing.

The report "suggests the economy entered 2019 with much less momentum than anticipated," Michael Pearce, an economist at Capital Economics, wrote in a note to clients.

Forecasting firm Macroeconomic Advisers estimated that gross domestic product expanded at a 2.3% pace in the fourth quarter, and projected a 1.6% growth rate in the current quarter, a slowdown from 3.4% growth in last year's third quarter.

Federal Reserve Governor Lael Brainard said in a television interview Thursday that the report "certainly caught my eye." Already concerned about headwinds to growth, the Fed decided last month to halt a campaign of interest-rate increases and wait to see how the economy performs in the months ahead before moving again.

"It appears that worries over the trade war and turmoil in the stock markets impacted consumer behavior more than we expected," said Matthew Shay, chief executive of the National Retail Federation. NRF's chief economist, Jack Kleinhenz, said he was "skeptical" about the number given the strength of the labor market.

The government's report on the performance of online retailers, such as Amazon.com Inc., was especially stunning. It said online sales fell 3.9% from November, the biggest monthly decline since November 2008, and were up just 3.7% from a year earlier.

Amazon reported last month its fourth-quarter revenue was up 20% from a year earlier.

"They indicated they saw minimal impact from any consumer slowdown," Colin Sebastian, an analyst at Robert W. Baird & Co., said of Amazon. He and other analysts said some shopping might have shifted to November, tied to promotions.

Every major category tracked by the Commerce Department aside from motor vehicles and building materials posted sales declines in December. Among them, department stores were down 3.3% from a month earlier, according to the government.

The department stores themselves have reported mixed though generally positive results so far. Macy's Inc. sales for the November-December period grew 1.1% from a year earlier, while Kohl's Corp. sales rose 1.2%, less than analysts had expected. J.C. Penney Co.'s sales fell 5.4%. Target Corp. , meantime, saw its sales grow 5.7%.

"The holiday season began strong—particularly during Black Friday and the following cyber week, but weakened in the mid-December period and did not return to expected patterns until the week of Christmas," Macy's Chief Executive Jeff Gennette said in January.

John Morikis, chief executive of Sherwin-Williams Co. , said last month that the paint company was confident about demand in most of its markets this year.

"I'm less confident about the increasing number of economic, political and social variables that are beyond our control. These would include government shutdowns, Fed rate hikes, tariffs, trade wars, immigration and security, to name a few, any one of which could disrupt market demand and raw material supply," he said during a Jan. 31 earnings call.

The Commerce Department figures will bring greater scrutiny to a string of retail earnings reports due next week, including from the nation's largest retailer, Walmart Inc.

A Bank of America Merrill Lynch report released this week said its credit- and debit-card data showed month-over-month retail sales, excluding autos, were flat in December and slid in January. Cold weather from the polar vortex weighed on sales in January, while the government shutdown had a more muted impact on the aggregate data, according to the brokerage.

"This is the weakest trend we have seen since mid-2016, suggesting to us that consumers might be cutting back into 2019," the report said.

—Suzanne Kapner, Lauren Pollock and Laura Stevens contributed to this article.

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