

Wentz Weekly

November 22, 2021

October Retail Sales Suggest Solid Start to Holiday Shopping



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Americans possibly started their holiday shopping earlier than usual, at least according to the very strong data from the October retail sales report. The Census Bureau said U.S. retail and food service sales rose 1.7% in October, almost doubling expectations, while 16.3% higher than the same month a year ago and 22.8% higher than the level from January 2020, right before the pandemic started. October's gain was the largest monthly increase since March when it rose 11.3% from the government's last round of stimulus payments. October's increase was broad across all categories, unlike reports over the first half of the year where large ticket items drove most the gains. Gasoline sales saw a 3.9% increase (+46.8% from a year ago), due to higher oil prices and vehicles and parts rose 1.8%, both of which can sometimes skew results. However, measuring the "control group" – which excludes items such as vehicles, gasoline, restaurants and building materials – reduces the monthly noise and rose 1.6%, indicating the broad-based gains. Electronics and appliance sales rose 3.8%, building materials rose 2.8%, sporting goods and hobby items rose 1.5%, department stores rose 2.2%, and e-commerce sales rose 4.0%.

The other side of the argument says retail sales were strong but take into consideration the large increase in inflation and sales aren't that impressive since it is measured in dollars and not volume. 'Real' retail sales, which takes into consideration October's 0.9% increase in prices, rose 0.8%. The average monthly increase in retail sales for the 10-year period prior to the pandemic was 0.3%, suggesting October sales were as solid as the headline suggests and not just due to higher prices. Now the question is were sales from the important November and December holiday shipping period pulled forward to October as consumers rushed to make purchases ahead of the holiday shopping season in fear of higher prices and missing out due to shortages if they had otherwise waited to do their shopping, or was October the start of a strong three-month stretch. We believe it is the latter, as the consumer still has plenty of savings built up from the last 18 months and remain ready to spend.

Several manufacturing surveys last week suggested manufacturing activity accelerated again in November with a "substantial" increase in new orders, production, and shipments. The Philly Fed index rose 15 points to 39.0, while the Empire State index rose 11 points to 30.9. A reading above zero indicates expanding activity while a reading below zero indicates contracting activity. In the Empire State survey only 12% reported worsening conditions while just 3% did in the Philly Fed survey, both very low levels. Firms in both surveys reported increase in prices for inputs and for their own goods with the index for prices near its highest level ever. The employment index suggested strong hiring in both regions with more hours worked, helping production. However, firms were less optimistic about the six month outlook with the index for future conditions falling 15 points to 36.9 as firms are expecting longer delivery times, higher prices, and higher labor costs.

The Biden Administration moved closer to passing a key part of Biden's economic agenda in the passing of the "Build Back Better" reconciliation bill in the House. The \$1.75 trillion bill now moves to the Senate where it will be adjusted and will be reviewed for final approval from the Senate Parliamentarian that all reconciliation rules are followed. The bill does not include any of the significant changes to tax laws that were proposed several weeks ago with the initial versions, alleviating a concern for the markets, but does include a tax on the ultra-wealthy along with a new minimum corporate tax rate of 15%. The largest items on the spending side include \$555 billion in clean energy investments, \$400 billion for childcare, \$200 billion to expand the child tax credit, and \$300 billion for home care and housing. The Congressional Budget Office released its analysis of the bill and indicated it will add \$367 billion to the deficit despite Democrats saying it will be fully paid for. It will take some work in the Senate to get to the 50 votes needed to pass as there are still several Democrats on the fence due to the high spending figures, impact on the deficit, and inflationary concerns.

A wave of big box retailers reported earnings last week and more are expected to this week as earnings season winds down. The highlights last week was solid results from Walmart, Target, and Home Depot. All three easily beat expectations and provided guidance that was better than consensus expectations. But the bigger issue was how each company is responding to supply chain issues and higher prices. Each highlighted higher costs and supply chain constraints, but Walmart said it will try to keep prices down during the holiday season against inflationary pressures and has already passed enough of its cost inflation onto customers to protect margins. Target was lower as its margins contracted more than expected. The company looked to keep prices competitive to avoid losing customers, but that ended up costing them with a lower margin and pressuring profits. The good news is the companies have said hiring issues have eased somewhat and are forecasting a strong holiday shopping season.

Company News

- Qualcomm announced in its Investor Day presentation a deal to provide its Snapdragon chip technology to BMW for the carmakers next generation of autonomous vehicles. The company said deals like this will help grow its auto chip revenue from \$1 billion this year to \$3.5 billion by 2026.
- Bloomberg reported Apple reached a major milestone last week with the development of a processor for a self-driving car, eliminating the need for a third-party supplier. The company has set a goal to produce a fully self-driving car by 2025.
- Chip maker Nvidia blew past expectations in its most recent earnings report, driven by its chips that go into gaming and data centers, pushing shares higher and making the company the seventh largest S&P 500 company by market capitalization.

The Week Ahead

It will be a holiday shortened trading week in the U.S. Despite the shorter week, the economic and earning calendar still have several notable reports. On the economic calendar, the week begins with existing home sales from the National Association of Realtors where economists expect the annualized sales pace to remain relatively flat at 6.200 million. Wednesday includes durable goods orders, the second revision on third quarter GDP (expecting a small upward revision due to better spending figures), weekly jobless claims, new home sales from the Census Bureau, consumer sentiment, and most notably monthly income and spending figures for October. Expectations call for a 0.2% increase in income and another strong 1.0% increase in spending. Also, the Fed's most recent meeting minutes will be released Wednesday. On the earnings calendar the most notable earnings reports include Zoom Video on Monday, Best Buy, Autodesk, Dell, Dick's Sporting Goods, Dollar Tree, HP, JM Smucker, and Medtronic on Tuesday, and Deere on Wednesday. The traditional kickoff to the holiday shopping season with the busiest shopping days of the year will be this weekend including Black Friday. The National Retail Federation expects holiday sales during the November and December period to increase 9.5% this year to \$851 billion. U.S. equity and Fixed income markets will both be closed Thursday and close early at 1:00 pm and 2:00 pm on Friday, respectively.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. Every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Information contained herein was received from sources believed to be reliable, but accuracy is not guaranteed. Information provided is general in nature and is not a complete statement of all information necessary for making an investment decision and is not a recommendation or a solicitation to buy or sell any security. Investing always involves risk and you may incur a profit or loss. Keep in mind that individuals cannot invest directly in any index. Past performance does not guarantee future results. There is no assurance these trends will continue, or forecasts will occur.