“We were transported from a horror house to a funhouse. We went from a government shutdown over a $5 billion deficit to a situation that was entirely unanticipated.” — Larry Jacobs, University of Minnesota political scientist. The state is now projecting a $876 million surplus over two years.

Did Black Friday save the season? Beware the retail hype.

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On Investing

Retail sales are spectacular, up 16 percent from last year! The best Christmas in a decade!

If you opened a newspaper or flipped on a TV last weekend, you were deluged with statements hyperventilating about holiday retail sales. Declarations that this was the best Black Friday in years, and it bodes well for the holiday season.

Savvy investors have learned to take these over-the-top declarations with a grain of salt. If you have paid attention in the past, the reality is far different from the spin: No Virginia, surveys of our gift-shopping intentions do not reveal our actual purchases. We humans are bad at forecasting the future and, as individuals, we are especially poor at predicting our own economic behavior. Marketers and trade groups, well aware of this, exploit that knowledge.

Let’s take a closer look at the annual hype that kicks off the season I like to call “Shopmas.” The actual data are much more revealing about the state of the consumer, the retail sector and the overall economy than the holiday hype.

We begin with a quick review of the retail sector in 2011: Sales improved versus 2010 by 3 to 4 percent. We use year-over-year comparisons because of the highly seasonal nature of retail sales. In 2010, sales were fairly soft, in part because much of the nation experienced severe weather. In the business, we call those “easy comps” — a low comparable data point that should be easy to beat.

Based on the first 10 months of the year, holiday shopping in 2011 should see similar improvements. Consistent with the year-over-year retail numbers, expect sales gains of 3 to 4 percent. Even so, these numbers come with caveats.

Prices in some products have risen — in some cases, substantially. The three most noteworthy are gasoline (up 15 percent), food (5 percent) and cotton (a whopping 230 percent).

The price pressures on these — all consumer staples — are reflected in the total retail sales data. When we look at total sales, we get a sense of how much the nation is spending — but, because of inflation, not how many goods people bought. Based on that data, we can conclude that a decent amount of the total dollar gains in retail sales are not improvements, but rather price inflation.

Let’s go back to the Black Friday hype, and see how this stacks up: Each year, we are deluged with “soft data” on Black Friday. We hear about foot traffic, personal surveys and expectations for the season. Overall, these early projections tend to paint a rosy picture of holiday spending.

The reports released with Black Friday and the holiday weekend are from trade groups representing retailers. (They do not hide this.) Each year, they make wildly optimistic projections, which are repeated in the media like clockwork. By the time the actual data come in, the projections have been forgotten. By then, we learn that early reports were pure hokum, put out by trade groups to create a “positive shopping environment.”

Let’s start with this whopper from an

15% price of gas is up

5% price of food is up

230% price of cotton is up

utterly breathless statement from the National Retail Federation (NRF):

“Traffic and spending were up both online and in stores, reaching historic highs. According to the survey, a record 226 million shoppers visited stores and Web sites over Black Friday weekend, up from 212 million last year. Digging deep into their holiday budgets, the average holiday shopper spent $398.62 this weekend, up from $365.34 last year. Total spending reached an estimated $52.4 billion.”

That would suggest that retail sales climbed 16 percent. They did not. Surveys where people forecast their future spending are pretty much worthless. They are far too unreliable to base sales forecasts upon.

When you conduct a survey, you are asking people to say what they plan to do. Hence, what you learn is what they believe about their future behavior. We are an unreliable bunch. If you want to learn how much people actually spent, you need to measure that at the cash register.

History has shown again and again that there is little correlation between our expectations and our actions. Yes, we want to save more for retirement, lose weight, get into shape. We say so each January. And by February, you will discover the yawning chasm between intentions and action.

So when those breathless retail sales surveys were released, we had no idea as to whether, and by exactly how much, sales might climb. The most that could be accurately said was that more people appeared to be in stores on Black Friday 2011 than in 2010. Indeed, that can be explained in part by the unseasonably warm weather around the country; as well as the extended store hours (including midnight Thanksgiving Day).

How far off have these surveys been in the past? Enormously. In 2005, based on a survey on Black Friday and Saturday, the NRF forecast a 22 percent increase in holiday shopping gains for the Thanksgiving weekend. The results? Up just 1 percent.

The same foolishness resurfaced again in 2006, with an 18.9 percent sales increase forecast. Of course, the reality was nowhere near that, with sales gains below 5 percent. Incidentally, it is not just Shopmas: The back-to-school-season was another opportunity to repeat the error. And in 2007, just as the recession was getting underway, they forecast a 4 percent gain in sales. What happened? Sales at U.S. retailers “unexpectedly” dropped 0.4 percent in December 2007, the weakest holiday season since 2002. In 2008, given the broad scale of the economic collapse, what’s perhaps most surprising was the expectations for a 2.2 percent sales gain (sales fell 6 percent). In 2010, Black Friday weekend sales rise were estimated at 9.2 percent, and overall sales were forecast to rise in November and December 2010 by 11 percent. (They rose 5.5 percent.)

You may have noticed that I omitted 2009. Coming out of the recession, with memories of the economic collapse fresh in everyone’s mind, the NRF’s 2009 Holiday Consumer Intentions and Actions Survey for holiday shopping reflected an awe-inspiring drop of 43 percent versus 2008. And of course, sales were nowhere near that level — they rose about 3 percent.

So far this year, the NRF is running true to form. According to actual spending data from MasterCard Advisors SpendingPulse, retail sales for the four-day Thanksgiving holiday weekend rose 8.7 percent — about half of the NRF’s estimate. SpendingPulse tracks actual purchases made with cash, checks, credit cards and debit cards as the basis of their analysis.

What is the bottom line? We have been adding jobs this year versus the last two years, and we should see some modest improvement in holiday sales. Easy comparables, better weather (plus inflation) suggest an improvement in retail sales versus 2010, consistent with the first 10 months of the year.

But holiday sales gains of 16 percent? Don’t bet your 401(k) money on it . . .

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