ECONOMIC UPDATE

REGIONS

March 15, 2017

February Retail Sales: Discount Soft February Retail Sales Data

- Retail sales rose by 0.1 percent in February after rising by 0.6 percent in January (originally reported up 0.4 percent).
- Retail sales excluding autos rose by 0.2 percent after rising by 1.2 percent in January (originally reported up 0.8 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.1 percent in February.

Today is national "Everything You Think Is Wrong Day," a day on which people are to contemplate their lack of knowledge. While a single such day may be sufficient for most people, in our case every day that brings an economic data release is an opportunity for reflection. So, against that backdrop, total retail sales rose by 0.1 percent in February, with ex-auto sales up 0.2 percent and control retail sales up 0.1 percent. While those numbers don't seem like much, they are better than we had expected, and also come in the context of significant upward revisions to prior estimates of January retail sales.

One reason expectations, ours and others', were so low for February sales is delays in processing tax refunds/credits meant many households were faced with a cash crunch in February, and there are anecdotal reports from various retail and restaurant chains of sluggish sales. By late-February, however, those funds had largely been distributed, which means any shortfall in spending in February will be made up for in March. When looking at consumer spending for Q1 as a whole, then, these swings won't even be noticeable, but they will be in the monthly spending data. Accounting for this and the upward revision to January sales, particularly control sales, Q1 growth in real consumer spending will be stronger than we had been expecting.

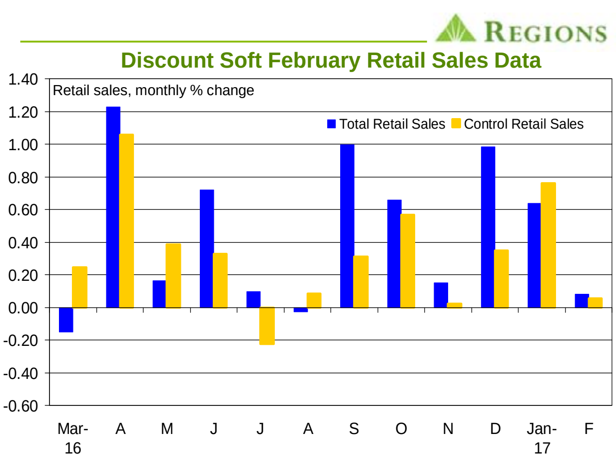
Only four of the thirteen broad categories for which sales are reported posted increases in February. Sales at building materials stores were up 1.8 percent and sales at nonstore retailers were up 1.2 percent. On the flip side, sales at electronics & appliance stores plunged by 2.8 percent, department store sales fell by 1.1 percent, gasoline station sales fell 0.6 percent, and apparel store sales were down 0.5 percent. Many of the declines reported for February, however, come off of large gains in January, particularly after the revisions to the initial estimates.

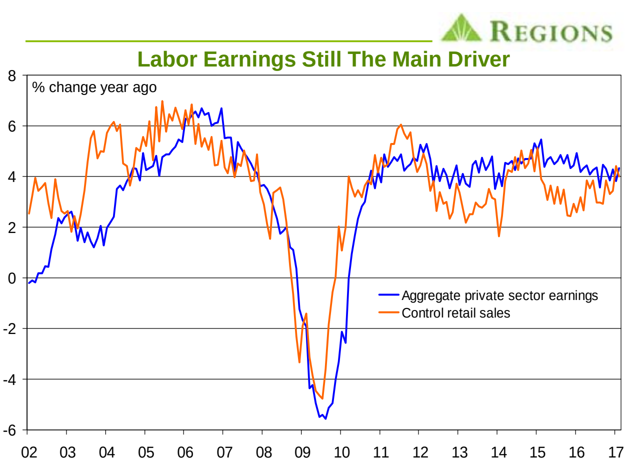
Those revisions were particularly kind to building materials stores, furniture stores, general merchandise stores, restaurants, and nonstore retailers. For instance, sales at furniture stores were originally reported to have fallen slightly in January, but in today's release are reported to have risen by 2.4 percent, which is a ridiculously large revision even by the standards of the retail sales data. The upward revision to sales at nonstore retailers puts January's increase at 0.5 percent compared to the initial estimate of no change, but the revised January figure is still below the run rate for this category which includes but is not limited to online sales. February's reported increase is more in line but we expect this category to post even stronger growth in the months ahead.

Unit motor vehicle sales were slightly lower in February but the mix of sales was more revenue friendly, i.e., more skewed to higher priced SUVs/light trucks. As such, revenue at motor vehicle dealers was flat, but another large decline at auto parts stores left sales for the broader motor vehicle and parts dealers category down by 0.2 percent.

To the extent delayed tax refunds/credits held down retail sales last month, the March data will bring a reversal. It is also worth noting that spending on goods accounts for only about one-third of all consumer spending as captured in the GDP data, with spending on services accounting for the bulk of consumer spending. Spending by those more reliant on the delayed tax refunds/credits will be more heavily skewed to spending on goods, so the March report on personal spending, which includes spending on both goods and services, figures to look at least a little better than today's retail sales report. The broader point to keep in mind is that growth in aggregate labor earnings, which incorporate the number of people working, the number of hours they work, and what they earn for each hour they work, is far and away the main driver of growth in overall consumer spending.

As such, ongoing improvement in labor market conditions puts a solid floor under growth in consumer spending, despite the typical bumps in the data. As remaining labor market slack is absorbed over coming months, we see ample capacity for firmer growth in labor earnings, thus ensuring consumers remain the key driver of overall economic growth.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203

Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com