

ECONOMIC UPDATE



REGIONS

March 14, 2018

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February Retail Sales: Sure, Whatever . . .

- Retail sales fell by 0.1 percent in February after falling by 0.1 percent in January (originally reported down 0.3 percent)
- Retail sales excluding autos rose by 0.2 percent after rising by 0.1 percent in January (originally reported unchanged)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.1 percent in February

"These numbers just don't make any sense" was, in our younger days, a common reaction to the various economic data releases until one day a wise old economist, a/k/a the boss, put an end to that by somewhat forcefully stating "the numbers are what the numbers are." His point was that, regardless of what we might think of the numbers in any given data release or how accurately we think those numbers portray what is actually going on in the economy, those are the numbers we, and the markets, have to deal with, so deal with them. For the record, the data release in question at the time he made this statement was not the monthly retail sales report. In fact, we spoke with this now older but no less wise economist just this morning and, after reminding him of the rule he laid down for us many years ago, we asked for his take on today's retail sales release. As much as we'd love to share his reply, it is simply not printable in any respectable publication. Neither is it printable here.

So, since the numbers are what the numbers are, these are the numbers from the February retail sales report. Total retail sales fell by 0.1 percent and the 0.3 percent decline originally reported for January is now pegged as a 0.1 percent decline. Ex-auto sales rose by 0.2 percent, and control retail sales, a direct input into the GDP data on consumer spending, rose by 0.1 percent. Across the board, the February figures came in well below expectations, both ours and the consensus. That of course is no grounds for holding the retail sales data in such low regard, that we do simply reflects the capricious manner of the retail sales data and that, for any given month, the initial estimate is virtually useless given what are typically sizeable revisions in subsequent months.

February sales declined in seven of the 13 broad categories for which data are reported. Sales at motor vehicle dealers fell by 0.9 percent, which is not out of line with the 0.5 decline in unit motor vehicle sales for the month. At the same time, though, this is one of the categories for which the revision to the initial estimate in any given month is the largest. The initial estimates for February show sales at gasoline stations

fell by 1.2 percent, sales at department stores were down 0.9 percent, furniture stores were down 0.8 percent, and sales at grocery stores fell by 0.2 percent. On the flip side, sales at nonstore retailers are reported to have risen by 1.0 percent, though this comes on the heels of a 0.9 percent decline in January (the initial estimate for January showed no change in sales in this category), sales at building materials stores were up 1.9 percent, and apparel store sales were up 0.5 percent.

A common thread in these changes is one that impacts the retail sales data in any given month – price effects. Recall the retail sales data are reported in nominal terms, i.e., they are not adjusted for price changes. For instance, apparel prices, as reported in the CPI data, rose by 1.7 percent in January and 1.5 percent in February, and the retail sales data show sizeable increases in both months. Prices for new and used motor vehicles fell in February, and new car prices were also down in January. Furniture and appliance prices were down in February, as were gasoline prices. The point here is that core goods prices have been persistently weak and price changes must be accounted for in order to put the retail sales data in proper context. Sure, there are some clear seasonal biases in the CPI data, but it is simply unreasonable to argue that these same biases don't cloud the retail sales data at least to some extent.

With time, i.e., revisions, and adjustment for price changes, the retail sales data can help inform the view of U.S. consumers, but that simply is not the case with the initial estimate for any given month. The bigger picture shows healthy job growth with growth in aggregate labor earnings easily outpacing inflation, rising household net worth, and elevated consumer confidence. Also, keep in mind that control retail sales account for just under one-quarter of all consumer spending as measured in the GDP data, so even if the retail sales data were flawless, they would still tell only a small part of the overall consumer spending story. No one expected growth in inflation adjusted consumer spending to be as strong in Q1 2018 as it was in Q4 2017, but the retail sales data nonetheless paint a misleadingly weak portrait of U.S. consumers.

