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April Retail Sales: The Issue Is How, Not How Much, Consumers Are Spending . . .

- > Retail sales rose by 1.3 percent in April after falling by 0.3 percent in March (originally reported down 0.4 percent).
- > Retail sales excluding autos rose by 0.8 percent rising by 0.4 percent in March (initially reported up 0.1 percent).
- > Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.9 percent in April.

A week of dismal earnings reports from retailers is capped off with a lousy report on April retail sales. Wait, what, you mean it wasn't a lousy report? Relax, we're only kidding, at least the part about the April retail sales report. It was actually a strong report, with total retail sales up 1.3 percent, ex-auto sales up 0.8 percent, and control retail sales – a direct input into the GDP data – up 0.9 percent. What was most assuredly not said in jest, however, was the part about the lousy earnings reports flowing out of the retail sector and, in the short time since the release of today's retail sales report, we've been asked more than once to reconcile the two. Our short answer is that, for the major retailers, the issue is more how, rather than how much, consumers are spending. Retailers, at least those still struggling with how to integrate the on-line channel, are increasingly on the wrong side of this trend.

In April, 11 of the 13 broad categories for which sales are broken out reported higher sales. Sales at motor vehicle dealers jumped by 3.5 percent, reflecting both the increase in unit sales and the greater share of those sales captured by higher priced SUV's/light trucks. Still, April's gain basically only retraces the 3.4 percent decline in March. Gasoline station sales rose 2.2 percent, following up on March's 3.1 percent increase. Retail pump prices logged an almost 8 percent gain in April after a double-digit gain in March. While it is true we are in that part of the year in which gasoline prices tend to increase, what we've seen in March and April tops the typical seasonal increases. Also posting solid gains in April were grocery stores, furniture stores, electronics stores, and clothing stores. Restaurants posted a more sedate 0.3 percent gain in April, but given the pattern of sizeable revisions to this category we won't be surprised to see that initial April estimate revised higher. Sales at general merchandise stores were flat in April and building materials was the only category for which a decline in sales was reported.

Sales at nonstore retailers jumped 2.1 percent in April, the largest increase since June 2014. As we often point out, this category includes, but is not limited to, online sales, which account for about 87 percent of

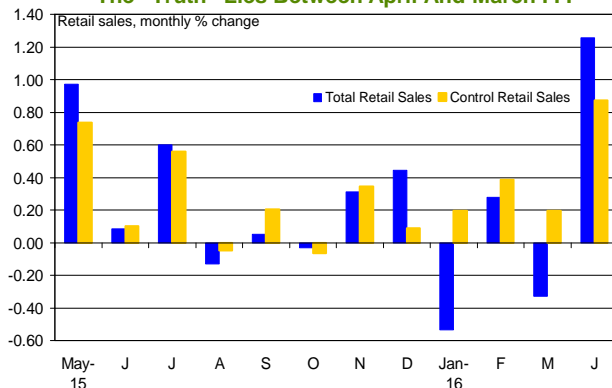
the nonstore retailer category (we're not sure but think Harry & David have a monopoly on that other 13 percent). Online sales are reported with a one month lag, so we do not have the April number yet but, as seen in the chart below, it is clear online sales continue to drive changes in the retail landscape. As we noted above, this is one way to reconcile the earnings reports from Amazon.com on one end and the more traditional retailers on the other end. It is not, however, the only factor in play. We have for some time been pointing out that falling goods prices, almost across the board, have been distorting the nominal retail sales data. But, more significantly, lower goods prices are acting as a drag on top-line revenue growth for many retailers while at the same time many are facing rising labor costs. As a result, margins in the retail sector have gotten hammered. These are, in our view, the two main drivers of the string of weak retail earnings reports.

As we do with all of the data releases, no matter how "good" or "bad" the headline number may seem, we'll note the importance of putting the April retail sales report in its proper perspective. We noted last month we thought this year's early Easter holiday had confounded the seasonal adjustment factors, leading to March sales being somewhat understated. We also noted, however, we expected payback in April which, to a large extent, seems to have been the case. A good rule for dealing with the ever shifting timing of the Easter holiday is to split the difference between the March and April reports, as it is typical to see sharply divergent headline prints on the two in any given year.

More significantly, many analysts and media accounts have managed to miss the significance of falling goods prices, hence the constant stream of "what's wrong with U.S. consumers?" chatter in the wake of the monthly retail sales reports. We have been steadfast in our view that the answer to this question is "not much," as we discussed in detail in our May *Monthly Economic Outlook*. So, contrary to one silly headline we've seen this morning about how consumers "are back," our view has all along been that consumers never left.



The "Truth" Lies Between April And March . . .



Raise Your Hand If You Can Spot A Trend Here . . .

