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December Retail Sales: Motor Vehicles Drive December Retail Sales (yes, we said it)

- › Retail sales rose by 0.6 percent in December after rising by 0.2 percent in November (originally reported up 0.1 percent).
- › Retail sales excluding autos rose by 0.2 percent after rising by 0.3 percent in November (originally reported up 0.2 percent).
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose 0.2 percent in December.

Total retail sales rose by 0.6 percent in December, slightly below the consensus forecast of a 0.7 percent increase. Ex-auto and control sales, however, came in well below expectations, with each posting a 0.2 percent gain. There were modest upward revisions to the initial estimate of November retail sales, which are now reported to have risen by 0.2 percent. For Q4 as a whole, total retail sales rose at an annualized rate of 6.8 percent before accounting for price changes, the fastest quarterly growth rate since Q2 2014, while control retail sales rose at an annualized rate of 3.6 percent in Q4 on a nominal basis.

With unit motor vehicle sales capping a record year with an annualized sales rate of 18.4 million units in December, it comes as no surprise sales revenue at motor vehicle dealers was up sharply, with an increase of 2.4 percent, while sales at auto parts retailers is reported to have risen by 3.0 percent. Thanks in part to a 3.0 percent increase in retail pump prices, out of line with typical seasonal patterns, sales at gasoline stations were up 2.0 percent in December. Nonstore retailers, building materials stores, and furniture stores all posted solid sales increases.

On the down side, department stores got crushed, once again, in December, with a 0.6 percent decline in sales marking the eighth consecutive month in which department store sales fell, as they did in ten of the twelve months in 2016. Sales at electronics stores, grocery stores, and restaurants all fell in December while apparel store sales are reported to have been unchanged. We totally discount the reported decline in restaurant sales, as initial estimates in this category are consistently revised higher, often significantly, in subsequent months.

As is often the case with the retail sales data, some of the post-release "analysis" has bordered on nonsensical. For instance, we heard one analyst proclaim "autos won Christmas" in that those ads showing shiny happy consumers in snow-covered driveways dancing around shiny new cars wrapped with nice red bows were so enticing that consumers went out and bought cars but apparently neglected to buy nonessential stuff

like food, clothing, and hatchimals. Seriously?

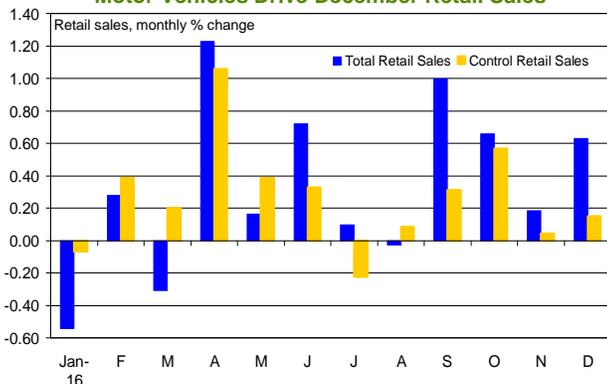
As is also the case with the retail sales data, the details of the report are consistent with things that, you know, actually happen. For instance, general merchandise/department stores have been getting crushed not because consumers are not spending money but because they are spending it differently. Online sales have been accounting for a steadily rising share of total spending on goods, and that trend was exaggerated during the holiday sales season. And, while many use the terms "online" and "nonstore retailers" interchangeably, this is not correct. Online sales account for about 88 percent of sales in the broader nonstore retailers category. Moreover, online sales are reported with an additional month lag, so while some analysts characterized the 1.3 percent gain in sales at nonstore retailers as "a miss" in estimates of online spending, there is no basis on which to make that call. As more complete data on online sales become available the nonstore retailers category typically sees sizeable revisions, and in this case we think that revision will be up, not down.

It is also striking that many analysts never touch on price effects, which as we have been noting for some time make retail sales reported on a nominal basis look weaker than is actually the case. Prices for consumer goods have been falling for the better part of three years and this is clearly weighing on the retail sales data. When you add what, by most accounts, was aggressive discounting this holiday season, these price effects are compounded. The chart below, showing retail sales by category, nicely sums up both the rising influence of nonstore retailers/online sales and also how price effects are weighing on sales of things ranging from gasoline to apparel.

The December retail sales report doesn't really shed any new light on consumer spending. It does affirm the underlying trends that have been in place for some time, even if those trends get lost in shoddy analysis of the headline retail sales number.



Motor Vehicles Drive December Retail Sales



Retail Sales By Category 2016 % change (preliminary)

