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## May Retail Sales: A Much Clearer View Of Consumer Spending

- Retail sales rose by 0.5 percent in May after rising by 1.3 percent in April (matching the initial estimate).
- Retail sales excluding autos rose by 0.4 percent after rising by 0.8 percent in April (matching the initial estimate).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.4 percent in May.

In our write-up of the April retail sales report, we stated the "truth" about consumer spending was somewhere between the March (down 0.3 percent) and April (up 1.3 percent) reports. As if by magic, May's 0.5 percent increase in total retail sales is exactly between the prior two months. Whether or not this is the "truth" about consumer spending remains to be seen but what it does tell us is we are seeing steady growth in consumer spending that remains the main support for overall economic growth.

Ex-auto retail sales were up 0.4 percent and control retail sales were up 0.4 percent on the back of an upwardly revised 1.0 percent increase in April. For the first two months of Q2, this leaves nominal control sales up at an annualized rate of 5.9 percent from Q1 which will leave us with a solid increase after accounting for inflation. Control retail sales are a direct input into the GDP data but keep in mind that this accounts for only about one-quarter of all consumer spending as measured in the GDP data. Still, factoring in our expectations for growth in spending on household services, far and away the largest component of total consumer spending, we look for Q2 growth in real total consumer spending to be roughly double the growth seen in Q1.

As we frequently note, the retail sales data are prone to large revision, but this was not the case with prior estimates for April. There were revisions across many categories, but these basically netted out with total retail sales revised trivially higher to the point that the initial estimate of a 1.3 percent gain was left intact. The May data show broad based gains, with higher sales in 9 of the 13 major categories for which sales are reported. Building materials, furniture, department, and general merchandise stores reported lower sales in May.

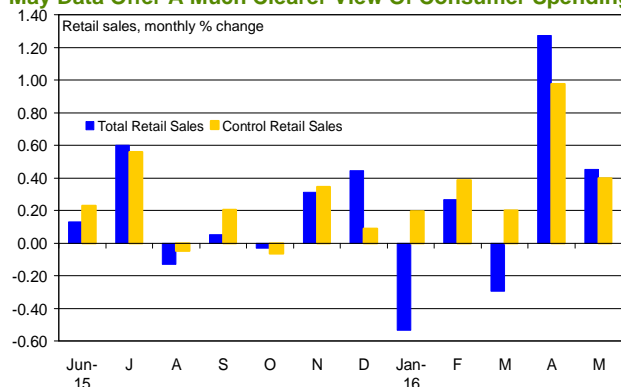
Thanks in part to a seven percent increase in retail gasoline prices, gasoline station sales rose 2.1 percent in May. Sales at nonstore retailers, which includes but is not limited to online sales, were up 1.3 percent following an upwardly revised 2.5 percent increase in April.

Apparel store sales were up 0.8 percent, as were restaurant sales. In the wake of today's release we heard one analyst warning that the recent increases in gasoline prices pose a risk to restaurants, on the premise that what consumers haven't been putting in their tanks they've been putting in their bellies. We'd simply note that restaurant sales have been one of the strongest performing segments of retail sales since well before last year's precipitous decline in gasoline prices – average monthly gains in restaurant sales were larger in 2014 than in 2015.

Our reaction to the March and April retail sales data was tempered by what we saw as a high degree of seasonal adjustment noise in the data, which is pretty much the norm around the floating timing of the Easter holiday. Our reaction to the retail sales reports going much further back, a period in which the headline retail sales numbers were mostly on the soft side, has been tempered by the understanding that falling goods prices were giving a misleadingly soft impression of growth in consumer spending. We've consistently pointed to the need to look at growth in real consumer spending as the truer gauge of the health of U.S. consumers, and doing so has offered a much different view of consumer spending than have the nominal retail sales headline numbers.

Consumers have benefitted from solid growth in real disposable income and low interest rates, and have responded by increasing discretionary spending, paring down debt, and building up saving. As we've pointed out more than once, there is nothing actually wrong with these latter two activities. The foundation under U.S. consumers is much firmer now than was the case in the years leading up to the 2007-09 recession. That of course does not mean the news for retailers is equally positive, as online shopping continues to make further inroads into the retail landscape – 2015 has seen average monthly gains of 1.4 percent in sales at nonstore retailers, up from average monthly gains of 0.6 percent in 2014. In other words, the issue isn't how much U.S. consumers are spending, it's how they are spending it that poses a challenge to brick and mortar retailers, at least those without a strong online presence.

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**May Data Offer A Much Clearer View Of Consumer Spending**



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