ECONOMIC UPDATE

REGIONS

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August Retail Sales: Summer Spending Goes Out With A Whimper

- Retail sales fell by 0.3 percent in August after rising by 0.1 percent in July (originally reported unchanged).
- Retail sales excluding autos fell by 0.1 percent after falling by 0.4 percent in July (originally reported down 0.3 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell 0.1 percent in August.

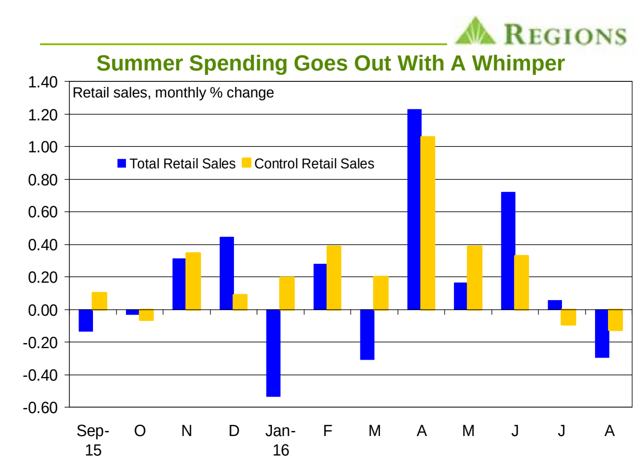
Retail sales came in weaker than expected in August, with total retail sales falling by 0.3 percent, ex-auto sales down 0.1 percent, and control retail sales – a direct input into the GDP data – also falling by 0.1 percent. Per usual with the retail sales data, there were significant revisions to prior estimates for July but the net result is that headline sales were revised higher by one-tenth of a percent and ex-auto sales revised one-tenth of a percent lower.

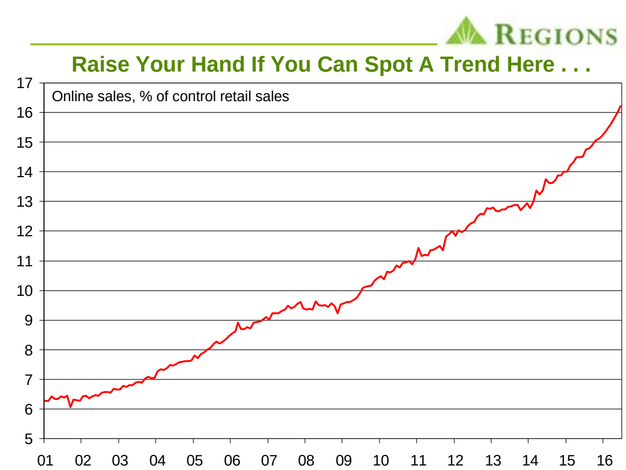
Motor vehicles and gasoline were sizeable drags on retail sales in August, the former on volume the latter on price. With a significant decline in unit sales in August, revenue at motor vehicle dealers was down by 1.0 percent, though this comes after an upwardly revised 2.0 percent increase in July. In our weekly *Economic Preview* we noted some element of uncertainty as to the extent to which the drop in unit sales would be reflected in the retail sales data, as sharply lower fleet sales were a primary culprit behind the drop in unit sales. The decline reported today was larger than we had anticipated. Lower retail pump prices led to a 0.8 percent decline in sales at gasoline stations, and also acted as a drag on sales at general merchandise stores – the warehouse and club stores that also sell gasoline roll up into this broad category. Sales at building materials stores were down 1.4 percent.

While a bit more pronounced than expected, the weakness in sales of motor vehicles, gasoline, and building materials is not a surprise. We are, however, taken by the weakness in control retail sales, and given the consensus forecast was for a 0.4 percent increase we apparently have a lot of company in this regard. Control sales fell 0.1 percent in August while prior estimates for June and July were revised lower. One main factor behind these results is the nonstore retailers category, which includes but is not limited to online sales. Sales at nonstore retailers are reported to have fallen 0.3 percent in August, while there were sizeable downward revisions to prior estimates for June and July. For instance, the initial estimate showed sales at nonstore retailers rising by 1.3 percent in July, which would have captured the impact of *Amazon Prime* day spending. Today, however, that July gain has been knocked down to 0.7 percent. The downward revisions to this category are puzzling, given the ongoing strength in online sales. The data for the online sales category, however, come with a two-month lag, so it will take some time to sort out the numbers we see in today's report. That said, it is hard to deny the strength of the underlying trend in online sales, as many brick and mortar retailers can attest to.

Elsewhere in the data, sales at furniture stores and department stores also declined in August while restaurants, apparel stores, and grocery stores posted sizeable increases. One caveat here, which we have been pointing to for some time, is that price effects are clouding the view of consumer spending reported in nominal (i.e., not adjusted for price changes) terms, as is the case with the retail sales data. As is clearly visible to anyone who goes through the details of the CPI reports, prices for consumer goods have been falling, almost across the board, for some time now. As such, the retail sales data make consumer spending look weaker than it actually is, and we suspect this is the case with the August spending data as well.

With its weak headline numbers the August retail sales report commands our attention. The problem, however, is we really have no idea what it is trying to tell us. While we're not prone to just dismiss any report out of hand, we have for some time had issues with the monthly retail sales reports. We have long pointed to what routinely are curiously large revisions in almost all of the broad categories for which spending is broken out, and it should be clear to anyone paying attention that price effects extent far beyond falling gasoline prices. More significantly, the August retail sales data are out of alignment with other indicators of the consumer sector, such as steadily rising real personal income, steadily improving household balance sheets, and firmer consumer confidence. So, while the August retail sales report does give us pause, we're not ready to change our assessment that the consumer will 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