ECONOMIC UPDATE

REGIONS

January 15, 2016

December Retail Sales: Retailers Get A Lump Of Coal In December

- Retail sales fell by 0.1 percent in December after rising 0.4 percent in November (originally reported up 0.2 percent).
- Retail sales excluding autos fell by 0.1 percent after rising 0.3 percent in November (originally reported up 0.4 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.3 percent in December.

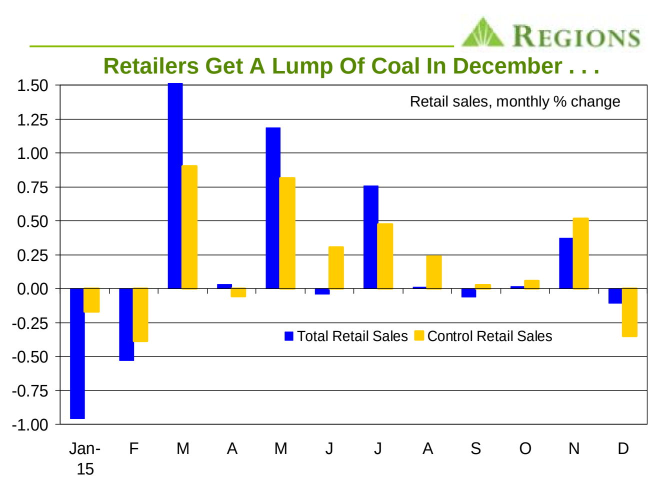
Holiday cheer was in short supply for retailers in December, as total retail sales fell 0.1 percent, matching the consensus estimate and a bit better than our expected 0.2 percent decline. Ex-auto sales fell 0.1 percent and control retail sales were down 0.3 percent, falling short of expectations. Price effects continue to weigh on retail sales, which are reported in nominal terms. Still, even accounting for price changes growth in real consumer spending in Q4 fell short of Q3's 3.0 percent annualized growth, which is one factor behind what looks to be real GDP growth of no better than 1.0 percent for Q4.

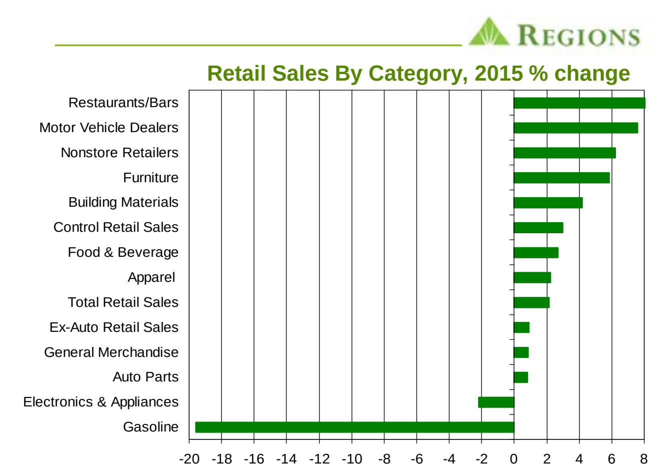
Revisions to prior estimates for October and November were pretty much all over the map. The main factor behind the upward revision to November retail sales was in the motor vehicle dealers category, where the initial estimate of a 0.6 percent decline in revenue is now shown to be a 0.3 percent increase. This is more in line with unit sales during November. Other categories with sizeable revisions to prior estimates for November include general merchandise stores (revised down), apparel stores (revised up), and gasoline stations (revised down). So, at this point, about the only thing we know about today's estimates for December retail sales is that a month from now they'll be different.

As the data now stand, the biggest declines in December sales came at gasoline stations (-1.2 percent), auto parts stores (-1.2 percent), general merchandise stores (-1.0 percent), and apparel stores (-0.9 percent). Sales at electronics stores were down 0.2 percent and grocery store sales were down 0.1 percent. These are some of the categories in which price effects are most evident, nowhere more so than gasoline stations. While retail gasoline prices typically decline in the month of December, the better than five percent decline, as reported by the EIA, last month was steeper than is typical for the month and thus not adequately accounted for by seasonal adjustment factors. Prices for other goods, most notably electronics and apparel, have also been trending lower and, at least for apparel, that downward trend was amplified in December by steep discounting. As an illustration of how price effects come into play, total retail sales excluding gasoline were up 4.4 percent year-on-year in December on an inflation adjusted basis using the core goods component of the CPI as the deflator. This isn't an attempt to put a happy face on the December retail sales report; it is a reminder that prices matter just as much on the way down as they do on the way up.

As we noted in our weekly *Economic Preview*, there were areas of retail that could have been expected to outperform in December – furniture stores, restaurants, building materials stores, and nonstore retailers. This was the case for all but the latter category, which posted a 0.3 percent increase that seems oddly small to us. While data for online retail sales come with a one-month lag, meaning we do not yet have a December number, this category saw gains of 1.6 percent in October and 1.1 percent in November. We'd expect to see a similarly strong number for December and, should this prove the case, December sales in the broader nonstore retailers category should be revised higher.

As seen below, restaurants, motor vehicles, and furniture stores turned in solid gains in sales in 2015, as did nonstore retailers. Still, for many of the other categories the same caveat about price effects applies so that inflation adjusted sales will paint a different picture. And, we'll also note that while control retail sales are a direct input into the GDP data, they account for just under a quarter of all consumer spending as reported in the GDP accounts. And, even with the slowdown in growth in real consumer spending in Q4, 2015 will have been the best year for growth in real consumer spending since 2006. The other point we'll make is that 2015 also marked the best year since 2006 for growth in real disposable personal income. And, while by no means pristine, household balance sheets are in better shape than has been the case for some time. If consumers are opting to save some of what has been an increased cash flow over the past year, that isn't actually a bad thing, though it is curious that some need to be reminded of that.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com