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February Retail Sales: Wait A Month, The Numbers Will Change

- > Retail sales fell by 0.1 percent in February after falling 0.4 percent in January (originally reported up 0.2 percent).
- > Retail sales excluding autos fell by 0.1 percent after falling 0.4 percent in January (initially reported up 0.1 percent).
- > Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) were unchanged in February.

In Texas, people are fond of saying that if you don't like the weather, wait five minutes and it will change. In the land of economic data the parallel is if you don't like the retail sales numbers, wait a month and they will change, then wait another month and they'll change again. Case in point is today's release, showing total retail sales fell 0.1 percent in February, with ex-auto sales also down 0.1 percent and control retail sales unchanged. These numbers were largely in line with expectations – we had total sales down 0.3 percent and no change in control sales. The main story here, however, is the complete makeover to the January report, as total, ex-auto, and control sales were revised significantly lower. If it's of any consolation, December sales now are reported to be better than was shown in the last round of revisions. This of course illustrates the problem with trying to draw any conclusions from the retail sales data –doing so requires a great deal of flexibility.

At least for now, there was broad based weakness in February retail sales, with eight of the thirteen broad categories showing lower sales. First and foremost is gasoline, with sales down 4.4 percent thanks to a nine percent, before seasonal adjustment, decline in retail pump prices in February. Estimates for gasoline sales in December and January were revised lower in today's release. Furniture store sales were down big in February, falling 0.5 percent while prior estimates for both December and January were also revised lower. This is the same pattern seen in electronics and appliance store sales, i.e., down in February with the prior two months revised lower. Though not nearly to the same extent, of course, as with gasoline, furniture, appliances, and electronics are categories in which prices have been trending lower over the past several months, so it is never entirely clear in the retail sales report the extent to which pricing is driving reported sales totals lower.

Sales revenue at motor vehicle dealers is reported to have fallen 0.2 percent in February with, stop us if you've heard this one before, prior estimates for both December and January revised lower. Sales at general merchandise stores were down 0.2 percent in February, with

large revisions to the past two months – higher for December and lower for January. Keep in mind sales at the warehouse/club stores that also sell gasoline roll up into the broad general merchandise stores category (but are only reported with a lag) and this is another area in which price effects are likely having a significant impact on the sales data.

There were some categories in which sales were reported to have risen sharply in February. Sales at building materials stores were up 1.6 percent and here the revisions are off the charts with sizeable upward revisions to December sales and downward revisions to January. Restaurant sales were up 1.0 percent in February but this doesn't fully offset the downwardly revised 1.1 percent decline in sales in January. The January number is the outlier here as this is one of the most consistently strong categories in the retail sales data, though, again, it is the retail sales data we're talking about here. Apparel store sales were up 1.0 percent in February after a modest increase in January, and sales here have likely been boosted by more seasonal winter weather which means more sales of higher margin winter apparel.

Control retail sales, a direct input into the GDP data on consumer spending, were flat in February but January sales were revised sharply lower. Real control sales in February, however, will post a decent gain once lower prices are accounted for. This is a point we continue to stress, i.e., falling prices for goods continue to distort the nominal retail sales data. Gasoline is the primary, but by no means the only, instance of how falling prices are distorting the data, and the chart below shows solid over-the-year growth in ex-gasoline sales, which should give pause to anyone tempted to draw sweeping conclusions from today's report.

Job and income growth remain healthy and inflation remains low. On the whole, then, the outlook for consumer spending is better than implied by the February retail sales data. Data which, of course, will look much different a month from now.

