ECONOMIC UPDATE

REGIONS

February 12, 2016

January Retail Sales: U.S. Consumers Apparently Didn't Get The Memo . . .

- Retail sales rose by 0.2 percent in January after rising 0.2 percent in December (originally reported down 0.1 percent).
- Retail sales excluding autos rose by 0.1 percent after rising 0.1 percent in December (matching the initial estimate).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.6 percent in January.

The widely circulated memo detailing the impending collapse of the global economy and instructing recipients to sell everything they own and head for the high ground apparently has not made its way to U.S. consumers, at least not yet. Total retail sales rose by 0.2 percent in January while ex-auto retail sales were up 0.1 percent, both ahead of consensus by one-tenth of a point each. While those may not seem to be doom-defying retail sales numbers, we'll point to the one single number in the retail sales report with the most meaning, control retail sales – a direct input into the GDP data on consumer spending – were up 0.6 percent in January, clobbering expectations. This tells us that despite the ongoing turmoil in global financial markets, consumer spending still managed to get off to a firm start in Q1 2016.

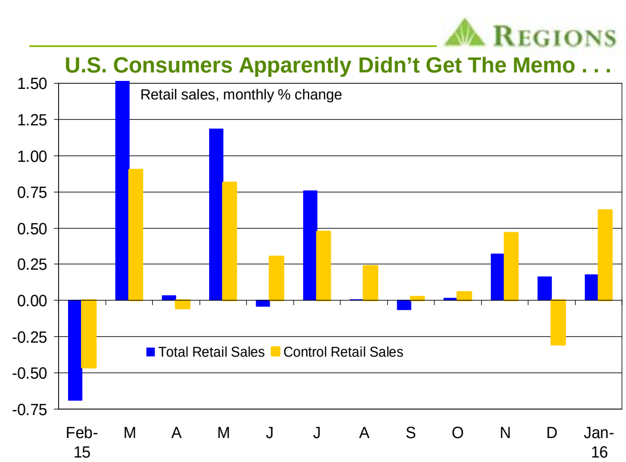
Of the 13 broad categories for which data are reported, nonstore retailers posted the largest monthly gain in January, with sales up 1.3 percent. This category includes but is not limited to on-line sales – data for on-line sales are reported with a one month lag so there is no data for January but we do know on-line sales account for roughly 87 percent of sales in the broader nonstore retailers category. Thus, the gain in sales by nonstore retailers suggests an atypically solid January for on-line merchants. It could be the harsh winter storm that shut down many large population centers for a few days in January kept consumers stuck inside but did not prevent them from going shopping – from the warmth and comfort of their sofas.

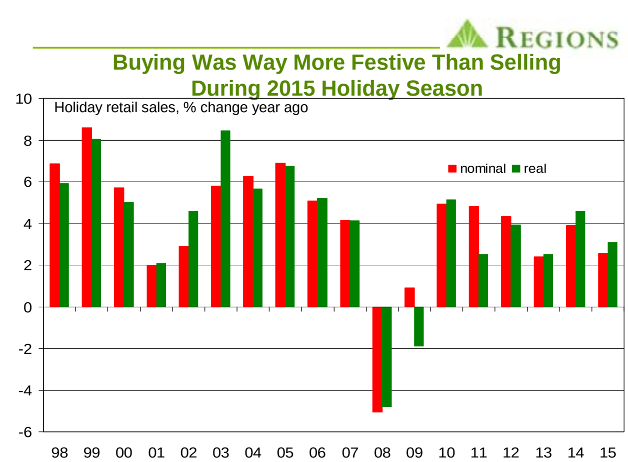
January also saw solid gains reported by general merchandise stores (up 0.8 percent), building materials stores (up 0.6 percent), motor vehicle dealers (up 0.5 percent), and grocery stores (up 0.8 percent). Apparel stores managed to scratch out a 0.2 percent gain – pricing trends have been notably weak in this segment but a return to more typical winter weather in January likely boosted sales of higher-ticket winter clothing. Among the laggards in January were furniture stores and restaurants, two segments that have been posting fairly solid gains over recent months, and gasoline stations, which reported a 3.1 percent decline in sales in January, reflecting sharply lower pump prices.

This brings us to our least favorite part of our discussion of the monthly retail sales report – the part where we bring in those pesky price effects that must be accounted for by anyone purporting to offer an analysis of consumer spending but yet that manage to be widely ignored. It's hard to miss the precipitous decline in gasoline prices over the past year but it is apparently easy to overlook what for many months now have been falling prices for non-energy goods. Indeed, a recent conversation with a member of the media had that person continuously referring to the downtrodden state of U.S. consumers based on nominal spending numbers and us repeatedly referring to strength in real consumer spending on goods and services, including the fact that 2015 saw the strongest growth in inflation adjusted consumer spending since 2005. Or, as we have put it, strength of consumer spending has been hiding in plain sight. Needless to say, we were most relieved when that conversation came to an end, not because we finally managed to get the point – when properly accounting for price changes spending looks much better – across but because the conversation came to an end.

As a side point, with the January data we finally have a look at how holiday sales fared – data for some of the categories we include in our measure are reported on a lagged basis. Holiday sales rose 2.6 percent on a nominal basis, well shy of our estimate of a 3.7 percent gain. One potential drag we noted in our forecast (presented in our November 2015 *Monthly Economic Outlook*) was – you guessed it – those pesky price effects. On an inflation adjusted basis, holiday sales were up 3.1 percent, but both nominal and real sales fell well short of 2014's gains. One explanation for softer 2015 holiday sales could be greater use of gift cards, booked as sales at the time of redemption not the time of sale.

Either way, the January retail sales data reflect ongoing solid growth in inflation adjusted personal income. The data also tell us that, at least so far, U.S. consumers remain calm, in contrast to the financial markets.





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