ECONOMIC UPDATE

REGIONS

April 13, 2016

March Retail Sales: March A Mixed Bag For Retail Sales

- Retail sales fell by 0.3 percent in March after being unchanged in February (originally reported down 0.1 percent).
- Retail sales excluding autos rose by 0.2 percent being unchanged in February (initially reported down 0.1 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.1 percent in March.

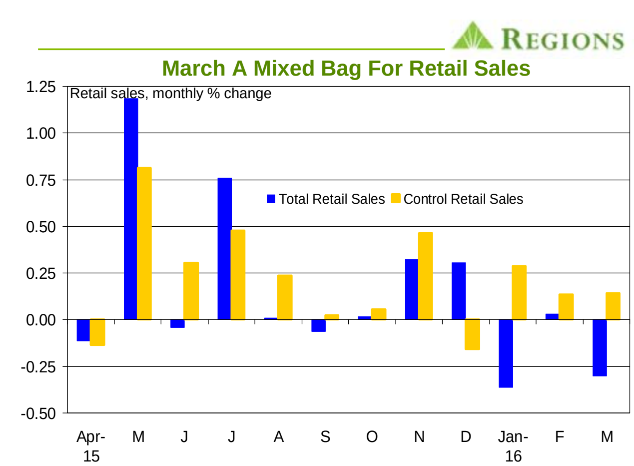
Total retail sales fell by 0.3 percent in March, despite rising sales in nine of the thirteen broad categories for which sales are broken out. Ex-auto retail sales were up 0.2 percent while control retail sales, a direct input into the GDP data on consumer spending, were up 0.1 percent. While the headline numbers on the March report came in below expectations, there were upward revisions to prior estimates for sales in January and February. With the revisions, annualized growth in control retail sales for Q1 as a whole came in faster than growth in Q4 2015.

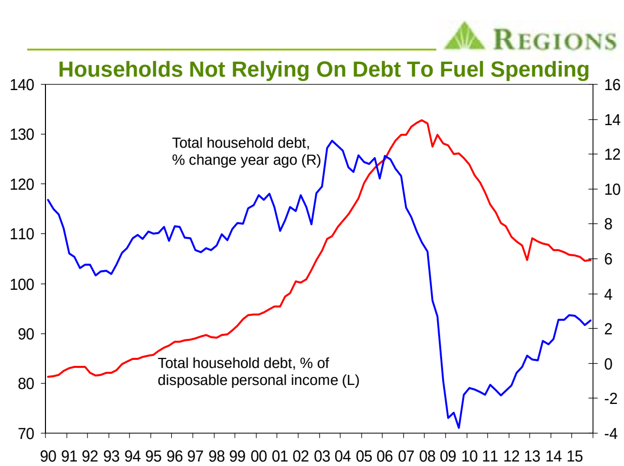
As noted above, sales rose in nine of the thirteen broad categories for which sales are broken out. But, were there were declines, they were substantial in three of the four categories. Revenue at motor vehicle dealers fell by 2.3 percent in March, not terribly surprising given unit sales fell sharply in March. Sales at apparel stores are reported to have fallen 0.9 percent while restaurant sales are reported to have fallen 0.8 percent. We don't put much credence in the estimate for restaurant sales, as this is a category which has persistently seen significant revisions to the initial estimate. For instance, February restaurant sales were initially reported to have risen by 1.0 percent but with today's report that is now shown to be a 1.8 percent increase. Sales at nonstore retailers fell 0.1 percent in March, but prior estimates for both January and February were revised higher, significantly so for February.

The largest increase in March sales came at building materials stores (up 1.4 percent), gasoline stations (up 0.9 percent), and general merchandise stores (up 0.5 percent). Note retail gasoline prices were up by almost ten percent in March on a month-to-month basis, but most of this gain was washed away by seasonal adjustment, at least for sales at gasoline stations. Note, however, that the warehouse/club stores that also sell gasoline roll up into the general merchandise stores category, for which the March seasonal adjustment is not nearly as punitive as for gasoline stations. As such, we suspect gasoline was a prime contributor to the reported 0.5 percent increase in sales at general merchandise stores even though department store sales, another component of general merchandise, are reported to have fallen by 0.6 percent. Sales at furniture stores were up 0.3 percent in March while prior estimates for both January and February saw significant upward revisions.

Over time we have come to attach increasingly less meaning to the retail sales data, at least the initial print for any given month. Those initial estimates are subject to large revision. But, no matter how one feels about the soundness of the data, they should be wary of drawing broad conclusions about overall consumer spending based on the retail sales data. As we have been noting for some time now, falling prices for gasoline and other goods have made the nominal retail sales numbers look misleadingly weak over the past several months. Additionally, control retail sales capture less than one-quarter of all consumer spending as reported in the GDP data while the retail sales data do not capture spending on services. As such, the monthly retail sales data give only a limited view on the overall state of U.S. consumers.

Still, growth in inflation adjusted total consumer spending in Q1 will be slower than that seen in Q4 2015 and it is fair to ask whether something is amiss with U.S. consumers. We do not think this to be the case. Labor market conditions continue to improve, underpinning steady growth in disposable personal income. At the same time, household net worth hit a new record high in Q4 2015, fueled mainly by rising housing equity. What many fail to consider, however, is that household debt levels remain high relative to household income, as seen below. While low interest rates make it easier for consumers to service debt, our view is high levels of debt mean consumers are hesitant to take on new debt. As seen below, growth in total household debt remains well below historical norms, and clearly consumers are not resorting to debt in order to finance consumption. While we are seeing some growth in discretionary consumer spending, we are also seeing consumers pare down debt and build up savings, neither of which should be seen as a bad thing. As such, we have a much more constructive view of consumer fundamentals than implied by the retail sales data.





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