ECONOMIC UPDATE

REGIONS

December 14, 2016

November Retail Sales: More To November Retail Sales Than Meets The Eye

- Retail sales rose by 0.1 percent in November after rising by 0.6 percent in October (originally reported up 0.8 percent).
- Retail sales excluding autos rose by 0.2 percent after rising by 0.6 percent in October (originally reported up 0.8 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose 0.1 percent in November.

Total retail sales rose by 0.1 percent in November, below expectations for a 0.3 percent increase and our forecast of a 0.2 percent gain. Ex-auto sales were up 0.2 percent while control retail sales, a direct input into the GDP data on consumer spending, rose a scant 0.1 percent. Aside from the soft headline print on the November report, prior estimates for October retail sales were revised lower. The soft headline number on the November retail sales report will no doubt touch off another round of "what's wrong with U.S. consumers?" chatter – whereas prior to the election we heard a lot of talk about how consumers were too anxious to spend, maybe the post-election narrative is they're too distraught to spend, or perhaps the prospect of a winless season for the perpetually hapless Cleveland Browns has destroyed our national will to spend (oh come on, that's no more ridiculous than trying to pin it on the election). Our take, however, is that U.S. consumers are just fine, and certainly in a more giving mood than implied by the November retail sales report.

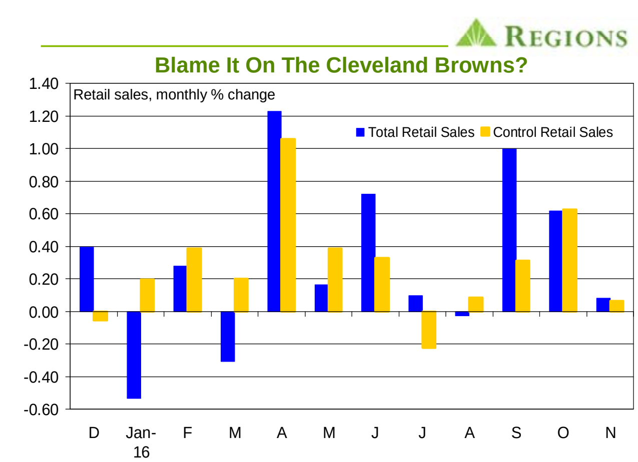
Sales revenue at motor vehicle dealers fell by 0.5 percent in November, reflecting the dip in unit sales and a less revenue-friendly sales mix, as sales of lower priced autos rose and sales of higher priced SUVs/light trucks fell. A sharp downward revision to the initial estimate for October is a main culprit behind the downward revision to total retail sales. Another main driver of the downward revision to October sales is a large downward revision to the initial estimate of sales at building materials stores, while for November sales as such stores rose by just 0.3 percent. On a seasonally adjusted basis, gasoline station sales were up 0.3 percent, much smaller than the prior two months.

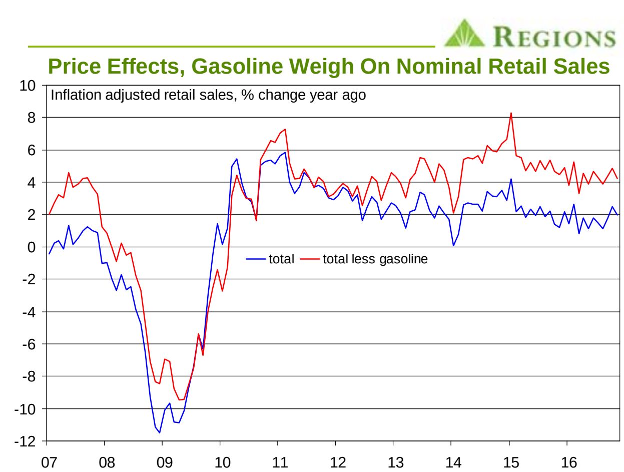
These three categories had supported solid gains in total retail sales in both September and October, and their weak showing in November helps account for the soft headline number. That does not, however, account for the paltry gain in control retail sales (in addition to the above three categories, control sales also exclude restaurant sales, which were up a solid 0.8 percent in November). Sales at apparel stores were flat for a second consecutive month in November, as were sales at general merchandise stores, grocery stores, and electronics/appliance stores. Particularly notable is the 0.1 percent increase in sales by nonstore retailers, notable in its smallness. Sales at furniture stores were up 0.7 percent in November, making them pretty much the lone standout amongst the categories that comprise control sales.

We think there is more to November sales than meets the eye. As we routinely note in our summaries of the retail sales data, retail sales are reported in nominal terms, i.e., they are not adjusted for price changes. Thus, in an environment in which goods prices are falling, as core goods prices have been for over three years now, retail sales reported in nominal terms will look weaker than is actually the case. This is apparent in our second chart below, which shows year-on-year changes in total and ex-gasoline sales after accounting for price changes. While retail pump prices are again rising on an over-the-year basis, they are nonetheless acting as a weight on growth in total retail sales. But, stripping out gasoline sales and adjusting for price changes leaves retail sales consistently growing at a better than four percent clip, which doesn't strike us as a sign of distressed consumers.

Our suspicion is these price effects were amplified in November as retailers resorted to aggressive discounting earlier than normal in the holiday sales season as a means of luring shoppers to their stores. Again, this tells us more about pricing than it does about how much consumers are actually buying. Moreover, the initial estimate of sales at nonstore retailers is unreliable, as it does not capture online sales (which are reported with an additional month lag). Online sales were robust in October, and reports that UPS and FedEx are falling behind in deliveries due to heavy shipping volumes suggests that strength carried into November, but that is not reflected in today's report.

We suspect that when all is said and done, and price effects accounted for, consumer spending will look just fine. So, all in all, the November retail sales report does nothing to alter our view of U.S. consumers.





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