ECONOMIC UPDATE

REGIONS

October 14, 2016

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September Retail Sales: Motor Vehicles, Gasoline Fuel September Retail Sales

- Retail sales <u>rose</u> by 0.6 percent in September after falling by 0.2 percent in August (originally reported down 0.3 percent).
- Retail sales excluding autos <u>rose</u> by 0.5 percent after falling by 0.2 percent in August (originally reported down 0.1 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) <u>rose</u> 0.1 percent in September.

Total retail sales rose 0.6 percent in September, matching expectations, while ex-auto sales were up 0.5 percent. Sales at motor vehicle dealers and gasoline stations were the main drivers of September's growth in sales which, along with our headline, now gives us two bad puns and we're only in the first paragraph. More significantly, the rest of the report was fairly nondescript, with control retail sales, a direct input into the GDP data, up a scant 0.1 percent and that only with the help of some upward rounding. Per usual with the retail sales data, there were significant revisions to prior estimates for August, but in this case the net effect on the headline sales number was very modest.

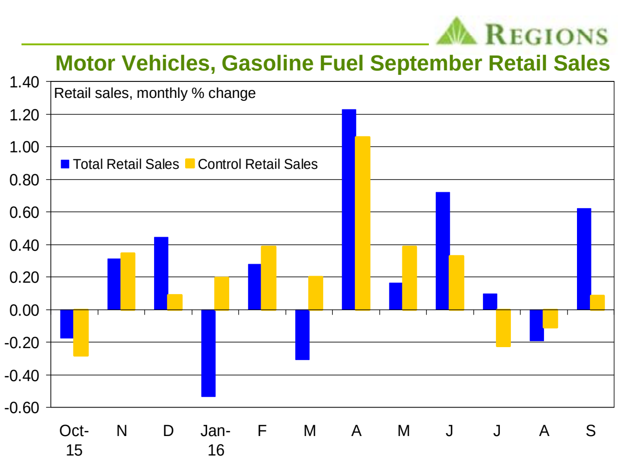
With unit sales jumping by 4.5 percent during the month, revenue at motor vehicle dealers rose by 1.1 percent in September. We suspect, however, this figure will be revised higher in next month's report – this is a category in which the revisions are typically large, as with the prior estimate for August being revised up by six-tenths of a point. It is true sales incentives have been rising over the past few months, but with higher priced SUVs/light trucks accounting for roughly 60 percent of all sales, these more generous incentives don't ding overall revenue as badly as do incentives on lower prices autos. Gasoline station sales are reported to have risen by 2.4 percent in September, but we'll caution there is likely a good deal of seasonal adjustment noise in this number. Contrary to their typical seasonal pattern, retail gasoline prices rose in September and this increase likely confounded seasonal adjustment factors geared towards lower, not higher, pump prices. Sales at building materials stores were up 1.4 percent, regaining the ground lost over the prior two months when sales declined. Again, this is a category prone to large revisions, as illustrated by large upward revisions to prior estimates for July and August sales.

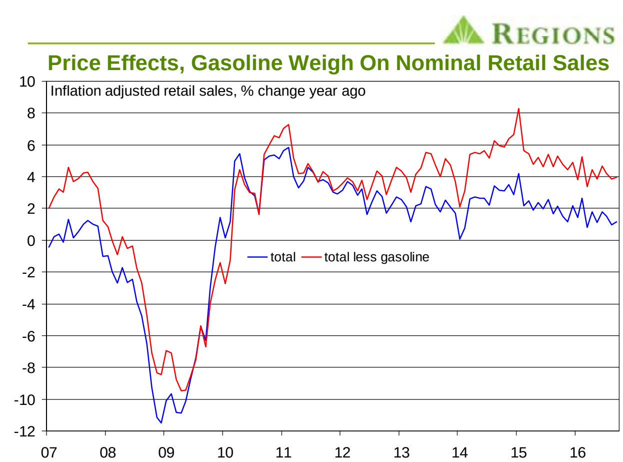
The rest of the September data are decidedly mixed, Restaurant sales were up 0.8 percent following August's 0.7 percent increase, apparently consumers didn't get the memo that uncertainty over the election was causing them to hold off on dining out. Well, at least that's what we've heard by more than one chain as a reason for earnings misses, but, then again, even scared and uncertain consumers eventually have to eat. Sales at furniture stores were up 1.0 percent in September but this follows a 0.5 percent decline in August. At the same time, however, sales at electronics/appliance stores sales were off by 0.9 percent. Sales at apparel stores were flat in September after a 0.5 percent in August.

One of the more notable elements of the retail sales data over the last two months is the reported slowdown in sales at nonstore retailers. This is the broad category that includes, but is not limited to, online sales and after a 0.1 percent decline in August sales in this broad category posted a less than inspired rebound in September with a 0.3 percent increase. One problem with interpreting this category is online sales are reported with a two-month lag, so the 1.2 percent increase in July is the last number we have. With online sales comprising around 87 percent of all online sales, it is hard to imagine online sales having slowed to the extent implied in the nonstore retailers category. Unless of course fear and uncertainty over the election . . . oh never mind..

It is here we'll toss in what for us is a routine caveat that many seem to overlook. Price effects clearly continue to weigh on retail sales, which are reported in nominal terms. As shown in our chart below, once price changes have been properly accounted for, i.e., falling prices for consumer goods almost across the board, growth in retail sales looks much different, i.e., stronger, than implied by the nominal data.

The retail sales data are perhaps the prime example of how the narrative veers so wildly in opposite directions with each report. That narrative based on data prone to large revision and the effects of price changes, is often off the mark. We don't feel any different about the consumer today than we did when we saw the August retail sales report, and still expect consumer spending to be the main driver of overall growth over coming quarters.





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