ECONOMIC UPDATE

REGIONS

February 15, 2017

January Retail Sales: No Post-Holiday Blues Here . . .

- Retail sales <u>up</u> by 0.4 percent in January after rising by 1.0 percent in December (originally reported up 0.6percent).
- Retail sales excluding autos <u>rose</u> by 8 percent after rising by 0.4 percent in December (originally reported up 0.2 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) <u>rose</u> 0.4 percent in January.

Total retail sales rose by 0.4 percent in January, easily topping the consensus forecast of a 0.1 percent increase, with ex-auto sales up 0.8 percent and control retail sales, a direct input into the GDP accounts, up 0.4 percent. Not only did January retail sales top expectations, but prior estimates of December sales were revised up to show an increase of 1.0 percent compared to the initial estimate of a 0.6 percent increase. January's increase in retail sales was broad based, with 10 of the 13 major categories for which sales are reported logging gains.

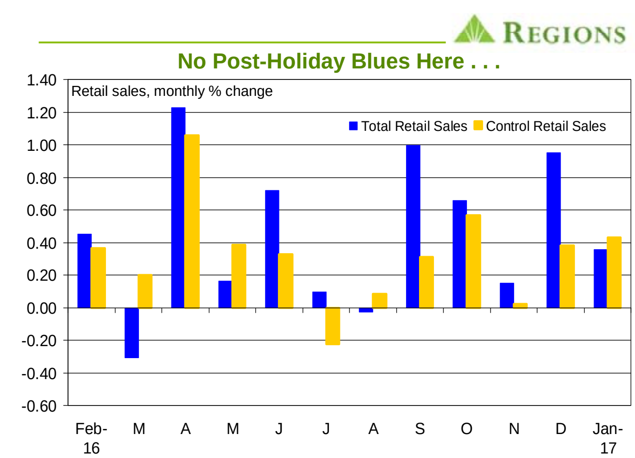
Thanks to an increase in retail pump prices, which defies typical seasonal patterns, sales at gasoline stations rose 2.3 percent in January. Sales at apparel stores were up 1.0 percent, sales at electronics & appliance stores were up 1.6 percent, and restaurant sales were up 1.4 percent. General merchandise store sales were up 0.9 percent, this category includes department store sales, which were up 1.2 percent. Sales at building materials/garden equipment & supply stores were up 0.3 percent, and grocery store sales rose by 0.2 percent.

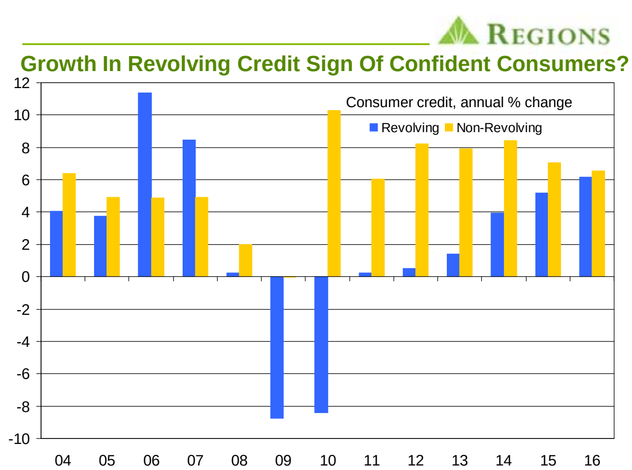
Sales at motor vehicle dealers were down 1.3 percent in January. Unit motor vehicle sales were down 4.4 percent in January, but a shift in the sales mix, with higher-priced SUVs/light trucks accounting for 62.6 percent of unit sales, helped cushion the blow to the dollar volume of sales. Without even pretending to understand these swings, the reported 3.8 percent decline in sales at auto parts stores in January follows a reported 6.4 percent increase in December. Once again, not even going to pretend to understand it, just reporting it.

Another soft spot in the January retail sales report is the nonstore retailers category, for which sales were unchanged in January. This category includes, but is not limited to, online sales, which account for roughly 88 percent of sales in the broader nonstore retailer category but for which data are reported with a two-month lag. January is a tricky month for the nonstore retailer category, as there can be a post-holiday letdown after strong holiday season sales. Sales at nonstore retailers were up 1.9 percent in December, a solid gain but not out of line with growth seen over the course of 2016. That online shopping has become more prominent year-round suggests there would be less of a post-holiday letdown in the nonstore retailer category. Additionally, we do know the nonstore retailer category is prone to large revision, as more complete data for the online sales category filter in, so we don't put too much stock in the initial estimate for January.

While we have had no worries about U.S. consumers for some time now, even amidst what at times has been an almost deafening chorus of "what's wrong with U.S. consumers?" stories, we're nonetheless a bit skeptical of the reported strength in January retail sales. As we noted in our weekly *Economic Preview*, properly seasonally adjusting the economic data for the month of January is an inherently difficult task. For instance, we see ample evidence of seasonal adjustment noise in the January employment report and the January CPI report, and there is some evidence of the same in the January retail sales report. As a general rule, on a not seasonally adjusted basis retail sales fall in the month of January, and sharply so. But, should the decline in unadjusted sales be smaller than is typically the case for the month, which is true in a number of categories this year, then the seasonally adjusted data will look stronger than is actually the case.

We make this point not to imply the January retail sales report doesn't merit attention but instead to make, yet again, the point that the underlying trends help filter out any such noise in the monthly data. Continued job and income growth have laid a firm foundation for growth in consumer spending. Moreover, accelerating growth in revolving consumer credit, which is mainly credit card debt, suggests consumers are feeling more confident – though some will insist this reflects cash-strapped, not confident – consumers, an assessment with which we sternly disagree. Even if we find the reported strength of January retail sales a bit overstated, we nonetheless look for consumers to remain the key driver of growth in the broader economy.





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