# ECONOMIC UPDATE

REGIONS

April 14, 2017



## March Retail Sales: Q1 Retail Sales Data Open To Interpretation . . .

- Retail sales <u>fell</u> by 0.2 percent in March after falling by 0.3 percent in February (originally reported up 0.1 percent).
- Retail sales excluding autos were <u>unchanged</u> after also being flat in February (originally reported up 0.2 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) <u>rose</u> by 0.5 percent in March.

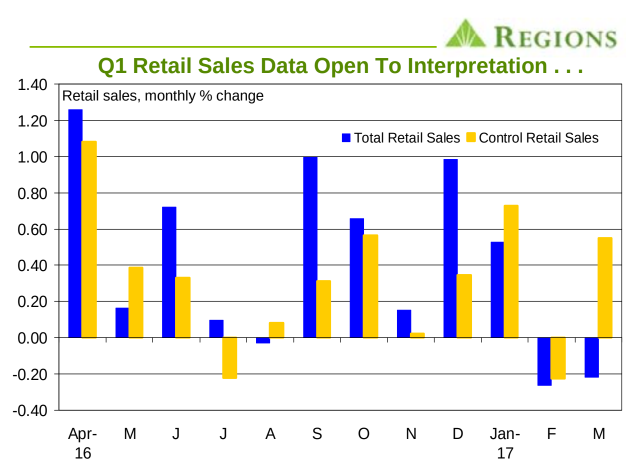
Total retail sales fell 0.2 percent in March, with ex-auto sales flat and control retail sales, a direct input into the GDP data on consumer spending, up 0.5 percent. Headline sales underperformed the consensus forecast for no change and our forecast of a 0.1 percent decline. Prior estimates for sales in January and February were revised lower; while large revisions to the retail sales data are common, the revisions incorporated into today's report are in many cases ridiculously large even by the standards of the retail sales data. As with much of the top-tier economic data, the Q1 data on retail sales are clouded by a high degree of seasonal adjustment noise. In the end, though, growth in real consumer spending in Q1 will fall well short of the rapid growth posted in Q4 2016, with the underlying trend lying between the two.

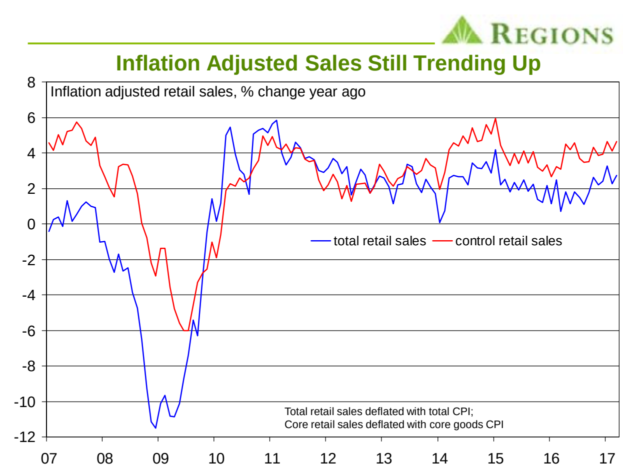
Sales fell in six of the 13 broad categories included in the retail sales report. Sales at motor vehicle dealers fell by 1.5 percent, which is in line with the drop in unit sales and would have been larger were it not for a revenue friendly sales mix which for some time now has been skewed towards higher prices SUVs/light trucks. Revisions were particularly unkind in this category, with what was originally reported as no change in sales at motor vehicle dealers in February now reported as a 1.3 percent decline. Sales at auto parts dealers were up 1.7 percent in March, but this comes on the heels of a 3.6 percent decline in February (that was originally reported as a 2.0 percent decline). Sales at gasoline dealers were down 1.0 percent in March, in line with the decline in retail pump prices.

As we and other analysts have noted, delayed tax refunds/credits held down consumer spending in February. While those effects were not very visible in the original February retail sales data, they are much more so with the revised data. Sales at apparel stores are now reported to have fallen 2.7 percent in February, compared to the prior estimate of a 0.5 percent decline. Sales at general merchandise stores were also revised lower. As we noted at the time, to the extent it was the delayed tax refunds/credits that held down spending in such categories in February, there would be payback in the March data. Apparel store sales rose 1.0 percent in March, with sales at general merchandise stores up 0.3 percent. The other wild card in the March data, however, is this year's late Easter. That Easter falls in mid-April this year likely means some sales that otherwise would have taken place in March were pushed back to April; if so, categories such as apparel and general merchandise will show solid gains in the April data.

Restaurant sales fell 0.6 percent in March; which could be somewhat skewed by the late Easter as well as the mid-March winter storm that hit the Northeast. More fundamentally, however, restaurants are facing increased competition from lower-priced prepared food being sold by most large grocery store chains. One implication is that restaurants are now seeing diminished pricing power, and this is apparent in the CPI data on prices for food consumed away from home showing price inflation has been steadily decelerating. Sales at nonstore retailers rose by 0.6 percent in March, matching the revised gain for February. Still, sales in this broad category, roughly 88 percent of which is accounted for by online sales, posted below-trend growth in Q1. Given that data on online sales are reported with a two-month lag, it is not yet possible to pinpoint the source of the slowdown in growth in the broader category. That said, the last observation we have for online sales – the 1.1 percent increase in January – does not point to weakness in this segment.

It is, in any given month, hard for us to get too worked up, or beaten down for that matter, over the monthly retail sales report. Anyone who follows this series knows how large revisions to initial estimates can change the tone of the narrative woven around the data. Also, the retail sales data are not adjusted for price changes which, as we have often noted, causes considerable misinterpretation of the underlying health of consumers, and in turn retailers. All of that having been said, ongoing improvement in labor market conditions, rising household net worth, and notably higher consumer confidence leave us with a much more constructive view of U.S. consumers than does the Q1 retail sales data.

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