ECONOMIC UPDATE
REGIONS
May 12, 2017

*This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.*

## April Retail Sales: Consumers Still On Solid Footing

- Retail sales rose by 0.4 percent in April after rising by 0.1 percent in March (originally reported down 0.2 percent).
- Retail sales excluding autos rose by 0.3 percent after rising by 0.3 percent in March (originally reported unchanged).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.2 percent in April.

Total retail sales rose 0.4 percent in April, with ex-auto sales up 0.3 percent and control retail sales, a direct input into the GDP data on consumer spending, up 0.2. April's growth in retail sales was less than expected, our forecast called for 0.6 percent increases in total and ex-auto sales and a 0.5 percent increase in control sales, but this is more a function of what were sizeable upward revisions to prior estimates for March sales. After the initial estimate showed total retail sales fell 0.2 percent in March, revisions now show a 0.3 percent increase; control sales are now reported to have risen 0.7 percent in March rather than the initial estimate of a 0.5 percent increase. So, factoring in these revisions, the level of spending is pretty much right where we expected it to be. At the time of the March report, we stated our view that weak March sales were at odds with the strength of the underlying drivers of consumer spending, and today's report is consistent with our view.

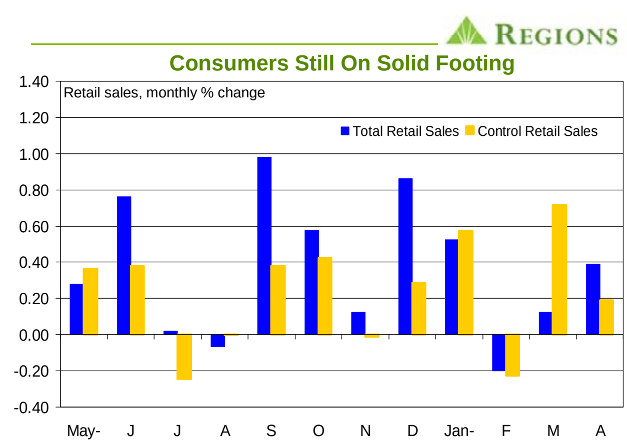
The revisions to the initial March estimates were most pronounced for sales at furniture stores, apparel stores, restaurants, motor vehicle dealers, and nonstore retailers. As for the April data, there were sizeable gains in sales at building supply stores, electronics & appliance stores, and nonstore retailers, with each of these categories posting a better than 1.0 percent increase in sales. To the downside, sales fell at general merchandise stores, apparel stores, furniture stores, and grocery stores.

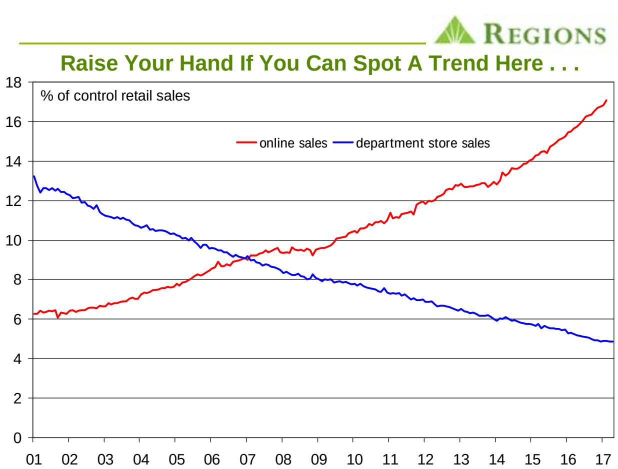
There are a couple of points worth noting here. First as noted above, March sales at apparel stores were revised significantly higher and are now reported to have risen by 1/9 percent, so the reported decline of 0.5 percent in April must be put in the context of what is now an even stronger March number. We have pointed to apparel store sales as one category of the retail sales data most prone to seasonal adjustment noise tied to the shifting timing of the Easter holiday, which came very late this year. As such, the March and April data on apparel store sales should be looked at as a whole, which still leaves a solid gain spread over the two-month period. Also, while sales at furniture stores are reported to have fallen 0.5 percent in April, this is one category that has often seen large upward revisions to the initial print for any given month. The initial estimate had furniture store sales falling by 0.1 percent in March, but that is now reported to be an increase of 1.5 percent and today's initial estimate for April will surely change as well..

Sales at motor vehicle dealers, another category prone to large revision, rose by 0.8 percent in April. Unit motor vehicle sales slightly in April, and the sales mix remains friendly to dealer revenue, as SUVs/light trucks continue to account for over 60 percent of unit sales. At the same time, however, rising inventories of smaller more fuel efficient vehicles and less favorable pricing, particularly given the rising number of leases coming back on to the market as resales, will put pressure on dealer revenues over coming months, particularly if overall sales volumes settle in at a lower run rate as we expect will be the case.

We think it worth noting, in light of what this week have been some pretty unimpressive earnings reports by major retailers, that the issue impacting many brick and mortar retailers isn't how much consumers are spending, it's how consumers are spending. Sales at nonstore retailers, which includes but is not limited to online retailers, posted another solid gain in April. Online sales come with a longer lag but data through February show no signs of any letting up in what has been a long stretch of solid growth. Our chart below illustrates this point. Not only have department store sales accounted for a steadily shrinking sale of control retail sales, but online sales now account for a larger share of control retail sales than department store sales did when online sales were just taking off. Add to this a prolonged period of weak pricing that has further weighed on margins, and it is clear that weakness in consumer spending is not the problem for many traditional retailers.

The drivers of consumer spending remain solid and we expect steady growth in retail sales over coming months, even if at an uneven pace.




**Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203**
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com