



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.

August Retail Sales: The Honest Answer Is That We Simply Don't Know

- Retail sales fell by 0.2 percent in August after rising by 0.3 percent in July (originally reported up 0.6 percent).
- Retail sales excluding autos rose by 0.2 percent after rising by 0.4 percent in July (originally reported up 0.5 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.2 percent in August.

Our note on the July retail sales report, which showed total retail sales had risen by 0.6 percent, was titled "A Solid Report – At Least For Now." Our note included this passage: "We often note that, in any given month, the initial estimate of retail sales is prone to large, often ridiculously so, revisions. In the interest of being fair and balanced, we point that out whether the initial estimate is good or bad." We take this detour down memory lane only to preface our thoughts on the August retail sales report, which can only be characterized, at least for now, as lousy. Total retail sales are reported to have fallen by 0.2 percent, with ex-auto sales up 0.2 percent and control retail sales down 0.2 percent. And, as to that "solid – at least for now" July report, total retail sales are now reported to have risen 0.3 percent in July, down from 0.6 percent.

Of the 13 broad categories for which sales are reported, five showed declines in sales in August with eight showing higher sales. Those declines, however, were sizeable, thus dragging total sales down. Sales at motor vehicle dealers are reported to have fallen by 1.6 percent, slightly more than we had forecast, while sales at auto parts stores fell by 1.4 percent. It is worth noting that a sharp downward revision to sales revenue at motor vehicle dealers is one source of the downward revision to July sales. Unit motor vehicle sales fell sharply in August, some of which reflected the impact of Hurricane Harvey but, as we noted in our weekly *Economic Preview*, not seasonally adjusted unit sales were up almost five percent in August from July, so there is clearly a good deal of seasonal adjustment noise in the August sales figure. Normally, when such an issue arises in the data for any given month it will be reversed in the following month, but in this case that won't happen, as the September data will be strongly impacted by not only Hurricane Harvey but also by Hurricane Irma.

Another notable element of the August report is the 1.1 percent decline in sales by nonstore retailers, which includes but is not limited to online sales. As we suspected would be the case, the first estimate for July was

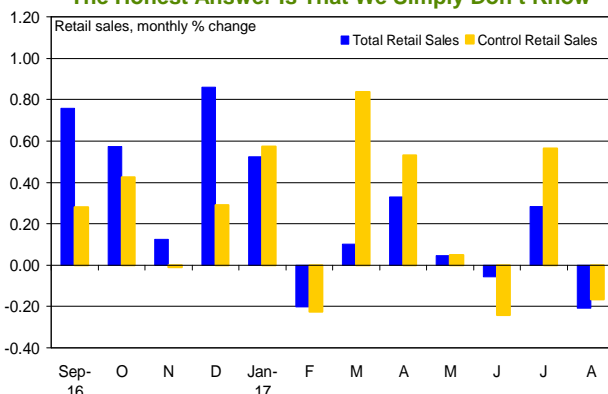
revised higher, from a 1.3 percent increase to a 1.8 percent increase. At the same time, however, what was originally reported as a 1.0 percent increase in June is now reported to be a decline of 0.3 percent. One can assume the June-August numbers reported today more aptly capture the impact of Amazon Prime day, which fell on July 11, but that implies the 1.8 percent increase reported for July satisfies sales for the entire three month period on the part of many consumers. We simply don't buy that but, again, the September report is unlikely to provide much clarity.

Sales at apparel stores, electronics stores, and building materials stores were down sharply in August. To some extent, weakness in the first two of these categories could reflect at least some impact from Hurricane Harvey. August is typically a seasonally weak month for sales at building materials stores, but it would be reasonable to have expected buying in anticipation of the hurricane would have provided at least some support for sales this August. Sales at grocery stores were up 0.3 percent, which in reality is stronger than it looks given that prices of food sold in grocery stores fell 0.2 percent in August. Sales at furniture stores are reported to have risen by 0.4 percent, while restaurant sales were up by 0.3 percent. But, these estimates mean very little given the magnitude of revisions seen to the initial estimates for prior months, which we will also note is the case with sales at electronics stores.

This gets us back to where we started this note. While many have been quick to pin the lousy August retail sales numbers on Hurricane Harvey, our honest answer is that we simply don't know what to make of this report. To be sure, there are segments of the data where it is reasonable to assume Harvey had an effect, but it is impossible to quantify this with any degree of certainty. Moreover, Harvey cannot account for the downward revision to the initial July estimates. The retail sales data are at odds with steadily improving labor market conditions and elevated consumer confidence. Normally we'd say wait a month and assess the revised data, but the September report will bring confusion, not clarity.



The Honest Answer Is That We Simply Don't Know



Inflation Adjusted Control Sales Still Growing Smartly

