ECONOMIC UPDATE
REGIONS
November 15, 2016

October Retail Sales: Consumers Seem To Have Had Few Cares In October

- Retail sales rose by 0.8 percent in October after rising by 1.0 percent in September (originally reported up 0.6 percent).
- Retail sales excluding autos rose by 0.8 percent after rising by 0.7 percent in September (originally reported up 0.5 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose 0.8 percent in October.

In the weeks leading up to the Presidential election a steady stream of CEOs played the "uncertainty over the election" card, as a means of explaining disappointing sales and earnings performances. In the retail space, this was offered as an excuse for disappointing sales of things ranging from doughnuts to dinette sets. We of course scoffed at this "explanation," noting that while convenient it was more than a little lacking in substance. Well, okay, we can admit when we're wrong, and in the wake of the October report on retail sales we feel downright foolish. Wait, what? Total retail sales rose 0.8 percent in October with ex-auto sales and control sales also up 0.8 percent while prior estimates for September were revised higher across the board. Okay, fine, clearly the election impacted consumer behavior, but apparently the fear and uncertainty led consumers to resort to, you know, actually spending as a means of feeling better. And, for those corporate chieftains who no longer have the election to fall back on, don't fret, as winter is upon us, meaning everyone's favorite scapegoat, the weather, stands at the ready.

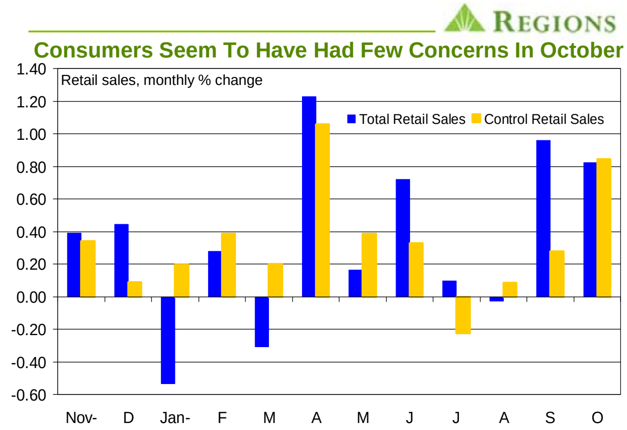
As for consumers, they seem to be feeling just fine. October's gains in retail sales were broad based. Higher unit sales and a more revenue friendly sales mix, i.e., more SUVs/light trucks and fewer autos, led to a 1.1 percent gain in sales at motor vehicle dealers while, as we expected, the initial estimate for September sales was revised higher. Sales at building materials stores were up 1.1 percent after an upwardly revised 1.8 percent increase in September. Sales at gasoline stations were up 2.2 percent in October with September's gain revised up to 3.0 percent. We think there is some seasonal adjustment bias here as retail pump prices have risen the past two months, counter to normal seasonal patterns. This likely accounts for a good portion of the 0.4 percent increase in sales at general merchandise stores despite a decline in department stores – the warehouse/club stores that also sell gasoline roll up into the broader general merchandise category.

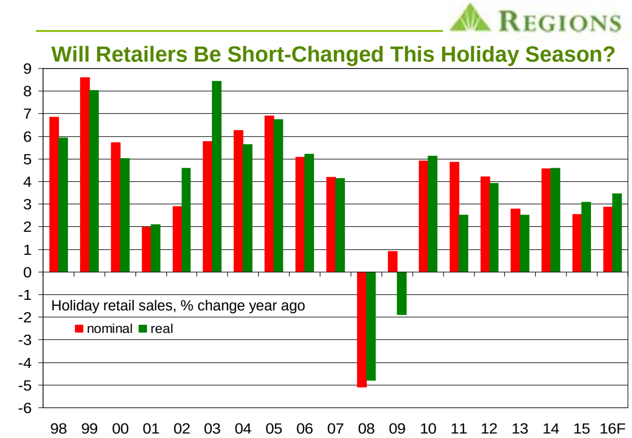
Still, as evidenced by the jump in control retail sales there was more to retail sales in October than the "big three" categories. Sales at apparel stores rose 0.6 percent while September sales were revised higher, which is interesting given the lack of pricing power in this category. The same has been true of grocery stores over recent months, yet sales rose a solid 0.7 percent in October while there was a significant upward revision to the prior estimate for September.

As we have noted in our write-ups of the monthly retail sales data, we have been somewhat puzzled in recent months by the reported weakness in sales by nonstore retailers, a category which includes but is not limited to sales by online retailers. After having been one of the strongest categories in the retail sales data for much of the year, prior estimates for August and September were curiously weak. With today's report, however, that has been resolved as there were large upward revisions to each of these months and October sales are reported to have risen by 1.5 percent. Note that online sales account for roughly 87 percent of all sales by nonstore retailers, but this specific category is reported with a considerable lag, but it's a safe assumption that online sales remain firm heading into the holiday sales season.

Speaking of holiday sales, which we do in our November *Monthly Economic Outlook*, the chart below shows our forecast for modestly stronger sales this year than last. Before price effects are accounted for, that is. While we look for nominal holiday sales to be up 2.9 percent, we'll again note that the retail sales data must be looked at in light of falling consumer goods prices, and we look for a firmer 3.5 percent increase in real holiday sales. On top of a lack of pricing power, brick and mortar retailers will also have to contend with tougher competition from online sales and rising labor costs. As such, we think this holiday season will bring more cheer to consumers than to retailers.

As for consumers, they remain willing and able to spend. While we don't expect gains on the order of the past two months, we nonetheless expect consumers to remain the key driver of overall growth in the U.S. economy. Unless of course the weather gets in the way . . .





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