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## October Retail Sales: Q4 Consumer Spending Growth Off To Solid Start

- Retail sales rose by 0.2 percent in October after rising by 1.9 percent in September (originally reported up 1.6 percent)
- Retail sales excluding autos rose by 0.1 percent after rising by 1.2 percent in September (originally reported up 1.0 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.3 percent in October

Total retail sales were up 0.2 percent in October with ex-auto sales up 0.1 percent and control retail sales up 0.3 percent. Our forecast was for total sales to be unchanged and for control sales to have risen by 0.5 percent, and accounting for the upward revisions to the initial estimates for September means the October data are even stronger than we had anticipated. Well, at least for now. As we routinely point out, we don't put too much stock in the initial estimate of retail sales in any given month given what are typically sizeable revisions, and the September data are no exception. That said, the upward revision to control retail sales in September suggests the BEA's second estimate of Q3 GDP will show faster growth in real consumer spending than initially estimated given that control retail sales are a direct input into the GDP data.

The impacts of Hurricanes Harvey and Irma stood out in the initial data for September but are now even more pronounced. For instance, sales revenue at motor vehicle dealers is now reported to have risen by 4.7 percent in September, up from the initial estimate of a 3.6 percent gain. Post-hurricane replacement demand pushed unit sales up to an annual pace of 18.6 million units in September, and while unit sales settled back to an annual rate of 18.1 million units in October, sales revenue at motor vehicle dealers is reported to have increased by 0.8 percent. This reflects a further shift in the sales mix, with higher priced SUVs/light trucks accounting for an even higher share of sales, and also reflects some firming in used vehicle prices.

What had been reported as a 5.8 percent increase in gasoline station sales in September is now reported to be a 6.4 percent increase. Retail pump prices spiked after Hurricane Harvey took over 20 percent of the nation's refining capacity offline, so September's increase in gasoline sales reflects these price effects. October saw retail gasoline prices give back roughly half of September's increase, which led to a 1.2 percent decline in gasoline station sales as reported in the retail sales data. The initial estimate for September showed sales at building materials stores

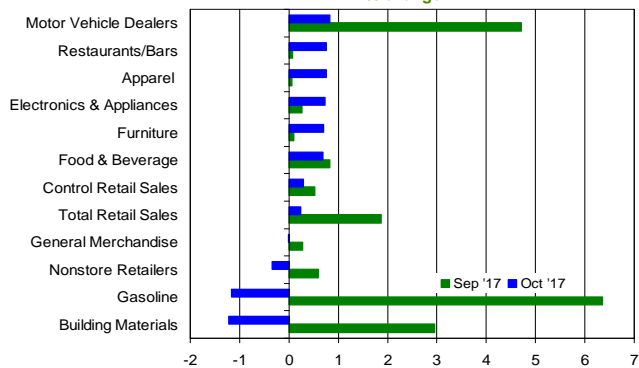
rising by 2.1 percent; the revised data put this increase at 2.9 percent, with sales dropping by 1.2 percent in October. Still, as it is highly unlikely the initial estimates of October sales in these three main categories will survive revisions, there is considerable play in the initial estimate for total retail sales in October.

We'll make the same point for the initial October estimates of restaurant sales and sales by nonstore retailers. Restaurant sales are reported to have risen by 0.8 percent in October. That matches the initial estimate for September, which today is reported to be just a 0.1 percent increase. Sales by nonstore retailers, which includes but is not limited to online sales, are reported to have fallen by 0.3 percent in October, which we simply don't buy. Sales at electronic/appliance stores are reported to have risen by 0.7 percent in October after a 0.3 percent increase in September (originally reported as a 1.1 percent decline).

One should tread carefully in trying to draw any firm conclusions from the September and October retail sales reports, as the former was heavily impacted by the hurricanes and the latter will be revised, perhaps significantly. That said, with the holiday sales season now upon us (really, though, does it ever stop?) we think the combination of ongoing improvement in labor market conditions, still-low interest rates, record-high household net worth, and elevated consumer confidence will result in a strong holiday sales season. Still, as we discussed in detail in our November *Monthly Economic Outlook*, this holiday sales season will feel better for consumers than it will for retailers. Ongoing declines in consumer goods prices will make this the fifth year in a row that growth in real holiday sales, i.e., adjusted for price changes, will top growth in nominal sales. We look for nominal holiday sales to be up 4.9 percent and real holiday sales to rise by 5.7 percent. Lower selling prices, higher labor costs, and having to cover shipping costs will pressure margins, which is why we expect this holiday sales season to bring more cheer to consumers than to retailers.



**Retail Sales By Category**  
% change



**Better Holiday Sales A Cold Comfort For Many Retailers**

