ECONOMIC UPDATE
REGIONS
February 14, 2018

January Retail Sales: We Won't Get Fooled Again . . . Until Next Month That Is

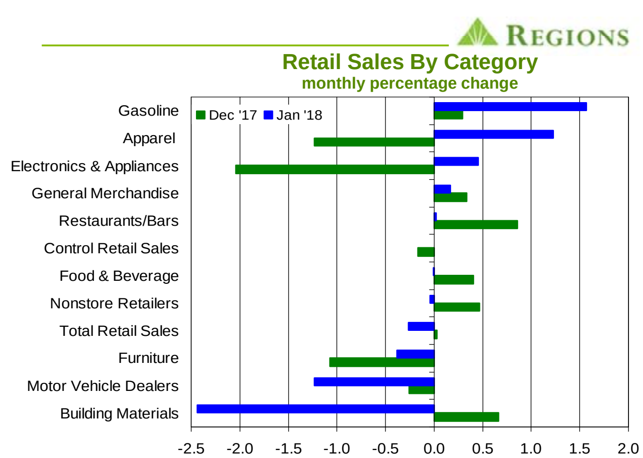
- Retail sales fell by 0.3 percent in January after being unchanged in December (originally reported up 0.4 percent)
- Retail sales excluding autos were unchanged after rising by 0.1 percent in December (originally reported up 0.4 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) were unchanged in January

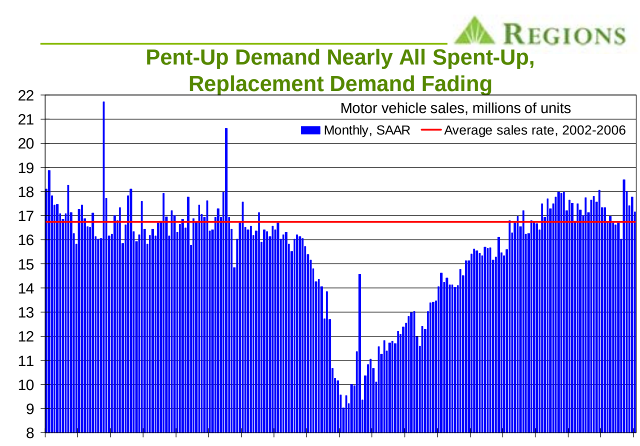
Yes, unlike Pete Townshend, we get fooled over and over again. Fooled by the retail sales, data, that is, and what makes it even worse is that we get fooled even though we know it's coming. Total retail sales are, at least for now, reported to have fallen by 0.3 percent in January, mocking both the consensus forecast of a 0.2 percent increase and our forecast of a 0.3 percent increase. Ex-auto sales and control sales are, at least for now, reported to have been unchanged in January. Our insertion of "at least for now" is a reflection of our disdain for the initial estimate of retail sales in any given month which, as we often point out, is prone to sizeable, and often ridiculously so, revision. The December data are simply the latest instance of this, as what in the initial estimate looked to be a solid report now, upon revision, looks somewhat pedestrian. And, sure, this won't stop us, as in a few weeks we'll be going line by line, concocting our forecast of February retail sales and spinning a narrative of what it means for the state of the U.S. consumer. Which will of course change the second the February data are released.

In any event, save for sales at gasoline stations (up by 1.6 percent), apparel stores (up by 1.2 percent), and department stores (up by 0.8 percent), the January retail sales data are notably weak. Even these pockets of, at least for now, strength are to some extent misleading, as price effects no doubt account for a considerable portion of the reported increases in sales in January, as is apparent from the January CPI report. The increases reported for January also come on the heels of what for apparel stores and department stores were sizeable declines and what for gasoline stations was but a modest increase in December.

As for the rest of the January data, sales at motor vehicle dealers are reported to (we won't throw in an "at least for now" as by now you get our point {you see what we did there, right?}) fallen by 1.2 percent. Unit motor vehicle sales fell by better than three percent in January, but the sales mix was tilted even more heavily towards higher priced SUVs/light trucks than has been the case over recent months, which should have mitigated the decline in sales revenue. For what it's worth, this is a category for which the revisions to the initial estimate in any given month are amongst the largest. Auto parts stores didn't fare much better in January, with sales down by 1.7 percent. Sales at building materials stores fell by 2.4 percent and there were sizeable downward revisions to prior estimates for both November and December. Sales at nonstore retailers were flat in January; online sales account for roughly 87 percent of total sales in this category, but lagged reporting means we don't yet have an estimate for January online sales. Online sales were, however, very strong in November and December (even after what were sizeable downward revisions) so it would not be a surprise if January saw a pause in this category before online sales resume their upward climb over coming months. Sales at furniture stores are reported to have fallen by 0.4 percent in January after a 1.1 percent decline in December – which was originally reported as a 0.6 percent increase. While sales at electronics/appliance stores rose by 0.5 percent in January, that follows a 2.0 percent decline December which, in keeping with the spirit of the retail sales data, was originally reported as a 0.2 percent decline.

To be sure, there was a lot going on in January, or, in this case, not going on. Atypically harsh winter weather and the severe flu outbreak both left their marks on the January employment report, and it follows they would have done the same in the January retail sales data, as our forecast anticipated. Additionally, personal income tax withholding schedules had not yet, at least for a wide swath of workers, been adjusted to incorporate the recently enacted tax bill. As such, that January retail sales came in on the soft side isn't all that surprising, but the frustration comes in trying to make sense of the revisions to the data for prior months. It is also worth keeping in mind that control sales, the component of the retail sales data that feeds directly into the GDP data, accounts for only about one-quarter of all consumer spending as measured in the GDP data. We still believe that ongoing improvement in labor market conditions, what for many will be lower income tax bills, and elevated consumer confidence all point to consumer spending being far stronger than implied by the January retail sales data.





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