ECONOMIC UPDATE August 15, 2018

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July Retail Sales: Whatever

- > Retail sales rose by 0.5 percent in July after rising by 0.2 percent in June (initially reported up 0.5 percent)
- > Retail sales excluding autos rose by 0.6 percent after rising by 0.2 percent in June (initially reported up 0.4 percent)
- > Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.5 percent in July

If one month is better than expected but the prior month is now reported to be weaker than we were initially told, does it really matter? Sure, it's maybe not as profound as that whole tree falling in a forest thing, but it's the best way we can describe the July retail sales report. Total retail sales rose by 0.5 percent, bettering the 0.1 percent increase we and the consensus expected. At the same time, however, June retail sales were revised sharply lower, with what was initially reported as a 0.5 percent increase is now reported to be a 0.2 percent increase. This leaves the dollar volume of July retail sales almost exactly where our forecast anticipated it would be, despite the big miss on the month-to-month percentage change. The same patterns hold for ex-auto retail sales and control retail sales – larger than expected increases in July after downward revisions to prior estimate of June sales. Whatever.

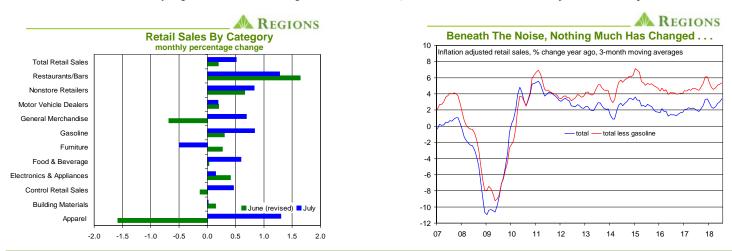
Sales rose in July in nine of the 13 broad categories for which data are reported. Sales were up 1.3 percent at apparel stores and at restaurants in July, while department store sales were up 1.2 percent. The increase in restaurant sales is notable as it comes on the heels of monthly increases of 2.8 percent in May and 1.6 percent in June, both reflecting modest upward revisions from prior estimates. The increase in apparel store sales, however, comes after a 1.6 percent decline in June, though this was initially reported as a 2.5 percent decline, and a 2.9 percent increase in May. Department store sales have also followed this same up and down pattern, and in each case what is notable is not the up and down part but the magnitude of these swings, for which we simply do not have an explanation, at least not a plausible explanation.

Speaking of which, unit motor vehicle sales rose sharply in July and prices for both new and used motor vehicles are reported to have risen. All of which translates into a whopping 0.2 percent increase in sales revenue at motor vehicle dealers in July, at least according to the initial estimate in the July retail sales data. This is one category in which the revisions to the initial estimate for any given month are notably large, and the initial estimate for July figures to be revised higher in the

months to come. Along these lines, we noted in our write-up of the June data that the reported 1.0 percent increase in sales revenue at motor vehicle dealers seemed oddly large to us. Not anymore, as that has now been revised down to an increase of 0.2 percent. Furniture store sales are another category for which the revisions to the initial estimate in any given month have been notably large for some time now. This is again the case, with downward revisions to estimates for both May and June to go along with the initial estimate of a 0.5 percent decline in July.

Sales at nonstore retailers are reported to have risen by 0.8 percent in July, below what our forecast had anticipated. Recall that this category includes online sales, which account for roughly 87 percent of sales in the broader nonstore retailers category. Though online sales are reported with a two-month lag, we nonetheless anticipated that some effects of Amazon Prime Day would turn up in the initial estimate of sales in the nonstore retailers category but the reported 0.8 percent increase is in line with what has been the run rate in this category. To be sure, looking at the data over recent years there seems little direct correlation between online sales as reported in the retail sales data and Amazon Prime Day sales, some years you see it, others you don't. That said, while apparel stores and electronics stores figure to be most vulnerable to consumers shifting where, not what, they buy in response to Amazon Prime Day, both categories show increases in sales in July in the retail sales data. These are yet even more categories to watch over coming months in terms of revisions to the initial July estimates.

When it comes to the retail sales data, "stronger than expected" sales in July have to be put in the context of the downward revision to June sales. Well, okay, apparently they don't have to, as the few accounts we've seen so far have ignored those revisions. The bottom line, however, is that while the month-to-month patterns will look a bit different, not much has changed. Consumer spending was neither as weak as the Q1 data implied nor as strong as the Q2 data implied, and the Q3 data will fall between the two, just as we've expected.



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