ECONOMIC UPDATE

REGIONS

November 15, 2019

October Retail Sales: Consumers Still On Solid Ground

- Retail sales rose by 0.3 percent in October after declining by 0.3 percent in September (matching the initial estimate)
- Retail sales excluding autos rose by 0.2 percent in October after declining by 0.1 percent in September (matching the initial estimate)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.3 percent in October

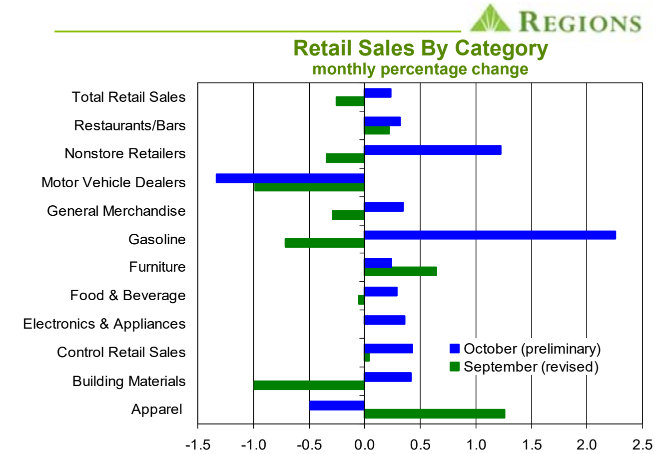
Total retail sales rose by 0.3 percent in October, better than the 0.2 percent increase we and the consensus expected, with ex-auto sales up 0.2 percent and control retail sales up 0.3 percent. One of our main issues with the retail sales data is that the initial estimate of sales in any given month is inherently unreliable and prone to large revision. As if to prove our point, total retail sales fell by 0.3 percent in September, while ex-auto sales fell by 0.1 percent, both matching the initial estimate. Wait, what? While that may seem to put our complaint to rest, it really doesn't. As usual, there were revisions, some sizable, to the underlying details which, as if by magic coincidence, left the headline numbers unchanged. One noteworthy change is that the initial estimate of control retail sales in September was marked down which, given that control retail sales are a direct input into the GDP data on consumer spending, suggests the BEA's initial estimate of Q3 growth in consumer spending will also be marked down a bit in the second estimate of Q3 GDP. Either way, as we noted last month, the reported decline in September retail sales did not alter our view of the state of U.S. consumers, and we'll say the same about what is for now the October data. Solid growth in labor earnings is underpinning consumer spending, and growth in consumer spending is settling into a more sustainable pace after the frenzied, but unsustainable, pace seen in Q2.

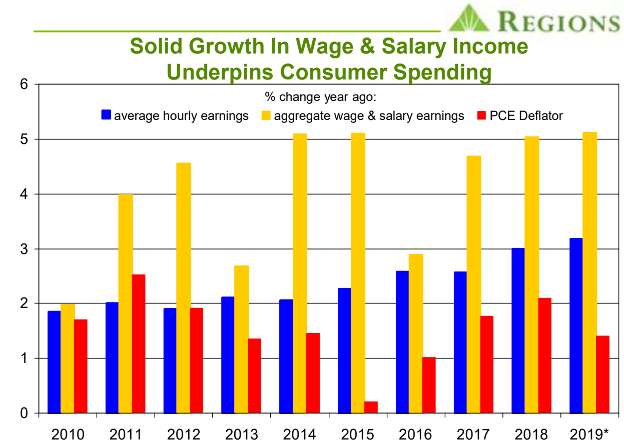
Amongst the most sizable revisions to the initial September estimates, what was originally reported as a 1.0 percent decline in sales at building materials stores is now reported as a 1.8 percent decline, what was originally reported as a 1.3 percent increase in sales at apparel stores is now reported as a 0.3 percent increase, with significant revisions to grocery store sales, restaurant sales, and gasoline station sales as well. One item that stood out to us in the initial September estimates was the reported 0.3 percent decline in sales by nonstore retailers, which we noted seemed less than credible. Though sales by nonstore retailers are now reported to have risen by 0.2 percent, the first estimate of September online sales (which are reported with a one-month lag) are reported to have declined by 0.4 percent. Keep in mind that online sales account for roughly 88 percent of sales in the broader nonstore retailers category, and do the math – something still seems off with these numbers, but they'll be different a month from now, so we'll see.

As for the October data, sales fell in seven of the 13 broad categories for which data are reported. Apparel store sales fell by 1.0 percent, while furniture store sales fell by 0.9 percent, while sales at building materials stores fell by 0.5 percent. Restaurant sales are reported to have fallen by 0.3 percent in October, but, as we've noted before, this is one of the categories in which the revisions to the initial estimate in any given month are the largest. This is also one of the categories in which prices, as reported in the CPI data, are rising much faster than overall inflation, which is in line with the trend in restaurant sales in the retail sales data, putting aside for now the initial estimate for October.

Sales at motor vehicle dealers are reported to have risen by 0.5 percent in October – we and most others expected motor vehicle sales to have been a drag on total retail sales given the sizable decline in unit motor vehicle sales in October. As we noted in our weekly Economic Preview, however, less frequent reporting on sales by the domestic producers makes mapping the retail sales data (reported on a dollar volume basis) to the unit sales data much trickier. For instance, if it were a decline in fleet sales that, well, drove unit sales lower in October, that would have no impact on the retail sales data. Again, though, the caveat is that this is another of the categories in which revisions to the initial estimate of sales in any given month are the largest. Gasoline station sales rose by 1.1 percent in October, a smaller increase than our forecast anticipated based on the sharp increase in gasoline prices last month.

We do not tend to react to the monthly twists and turns in the retail sales data. Growth in aggregate labor earnings continues to trounce inflation, underpinning consumer confidence and, in turn, consumer spending. Unless and until this changes, we will have few concerns about the state of U.S. consumers, even when the retail sales data don't seem to agree.





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