ECONOMIC UPDATE

REGIONS

February 14, 2020

January Retail Sales: Decent Increase In January, But Q4 Looks Weaker

- Retail sales rose by 0.3 percent in January after rising by 0.2 percent in December (initially reported up 0.3 percent)
- Retail sales excluding autos rose by 0.3 percent in January after rising by 0.6 percent in December (initially reported up 0.7 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) were unchanged in January

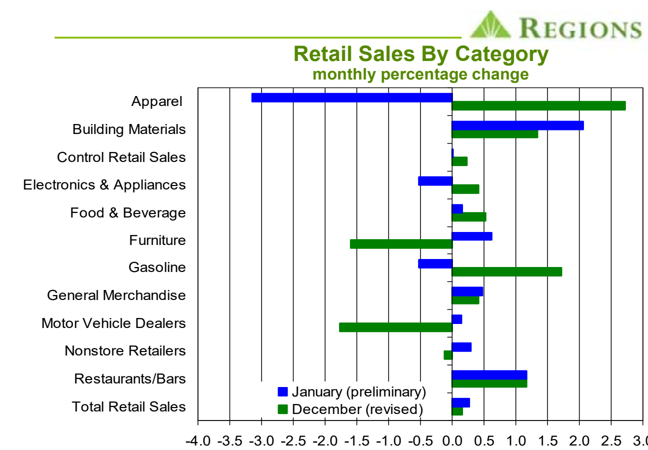
Total retail sales rose by 0.3 percent in January, with ex-auto sales also up by 0.3 percent and control retail sales unchanged. The increases in total and ex-auto sales matched what we and the consensus expected, but control retail sales fell far short of expectations – our forecast anticipated a 0.4 percent increase. Perhaps more significantly, prior estimates of retail sales in November and December were marked down, including estimates of control retail sales. Why this matters is that control retail sales are a direct input into the GDP data on consumer spending. As such, what in the BEA's first estimate of Q4 GDP was already tepid growth in real consumer spending will look even more so in the BEA's second estimate of Q4 GDP (to be released February 27). That we see the Census Bureau's retail sales data to be highly unreliable is beside the point, as these are the data incorporated into the GDP data. And it isn't only the Q4 GDP data that will be impacted by the January retail sales data – that control retail sales are reported to have been flat in January gets Q1 growth in real consumer spending off to a very slow start, only adding to existing stress on Q1 GDP growth from factors such as Boeing's production issues and the coronavirus.

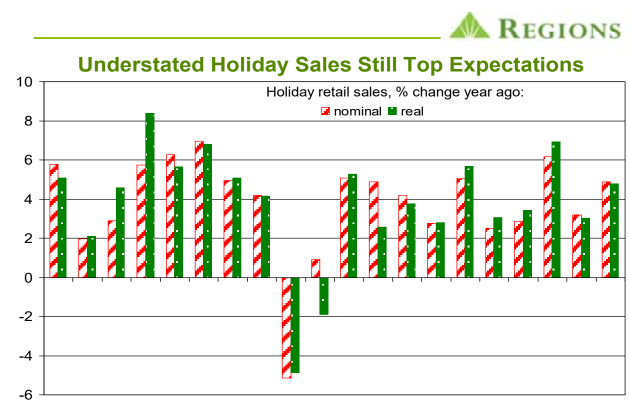
Sales rose in nine of the 13 broad categories for which data are reported, topped off by a 2.1 percent increase in sales at building materials stores. Restaurant sales were up by 1.2 percent, matching the upwardly revised December increase. Sales at furniture stores were up by 0.6 percent while sales at general merchandise stores were up by 0.5 percent. Sales by nonstore retailers rose by 0.3 percent, which is the first increase in this category since August. Keep in mind that the nonstore retailers category includes online sales, which account for roughly 88 percent of sales in the broader nonstore retailers category. Now, ask yourself if it seems even remotely plausible that sales in the nonstore retailers category fell in each of the final four months of 2019 as Census reports. Online sales are reported with a one-month lag so we do not have the initial estimate for January, but the weakness in this category over the final four months of 2019 – the Census data show online sales ended 2019 below where they were in August – is simply not believable.

Okay, perhaps that's too harsh on our part, after all, it could be that every other report on/indicator of online sales, all of which tell a vastly different story, is wrong. It could be that the annual benchmark revisions to the retail sales data will put the Census data more in line with the patterns seen in other indicators of online sales, but we won't know that for several more months and, until then, these are the numbers we have to go on.

The other main issue with the initial estimate of retail sales in any given month is that the revisions can be large, often ridiculously so. For instance, furniture store sales were originally reported to have risen by 0.1 percent in December, but now that is shown to have been a decline of 1.6 percent; what was originally reported as a 1.7 percent increase in apparel store sales in December is now reported to have been a 2.7 percent increase, and what was originally reported as a 2.8 percent increase in gasoline station sales in December is now reported as a 1.7 percent increase. We can, and often do, go through a similar list each month, the point being that one should avoid drawing any conclusions on consumer spending based on the initial estimate of retail sales in any given month. As a side point, the large upward revision to the initial estimate of December apparel store sales helped set up the reported 3.1 percent decline in January. It is likely that atypically warm weather also played a role, as retailers may have resorted to discounting to clear winter clothing ahead of the arrival of spring lines.

Under the heading of for what it's worth which isn't a lot, we now have complete data on 2019 holiday season sales. Each November, in our *Monthly Economic Outlook*, we present our holiday sales forecast, and for 2019 our forecast called for a 3.9 percent increase. This proved too low, as holiday season sales rose by 4.9 percent. And, given how badly we think online sales are underreported in the Census data, the actual increase was likely much stronger than the Census data suggest. Sure, we get that the numbers are what the numbers are, but our sense is that these numbers are understating the underlying strength of consumer spending based on pretty much every other indicator we have.





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