ECONOMIC UPDATE

REGIONS

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December Retail Sales: Consumers Close Out 2017 On A Strong Note

- Retail sales <u>rose</u> by 0.4 percent in December after rising by 0.9 percent in November (originally reported up 0.8 percent)
- Retail sales excluding autos <u>rose</u> by 0.4 percent after rising by 1.3 percent in November (originally reported up 1.0 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.3 percent in December

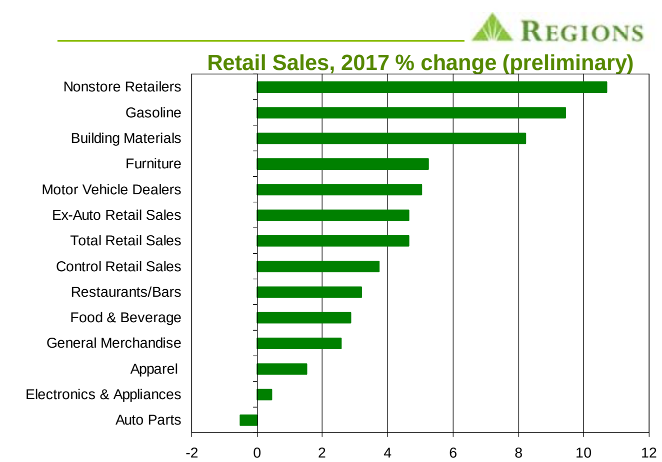
Total sales rose by 0.4 percent in December, below the 0.5 percent consensus forecast and our forecast of a 0.6 percent gain. Ex-auto retail sales were also up 0.4 percent and control retail sales were up by 0.3 percent. The latter is well below our forecast of a 0.7 percent gain. But, as is typically the case with the data on retail sales, the December data must be viewed in the context of the revisions to the initial estimate of November sales. Headline retail sales for November were revised up slightly, now reported to be up 0.9 percent rather than 0.8 percent, but there were sizeable revisions to the initial estimates of ex-auto and control sales, the former now reported to have risen by 1.3 percent and the latter now reported to have risen by 1.4 percent. So, while our forecast of the sequential increase in control retail sales – a direct input into the GDP data on consumer spending – missed the mark by a wide margin, the level of control sales as of December (which of course is subject to revision) is even stronger than what our forecast anticipated. The bottom line is that a holiday shopping season underpinned solid growth in real consumer spending in Q4.

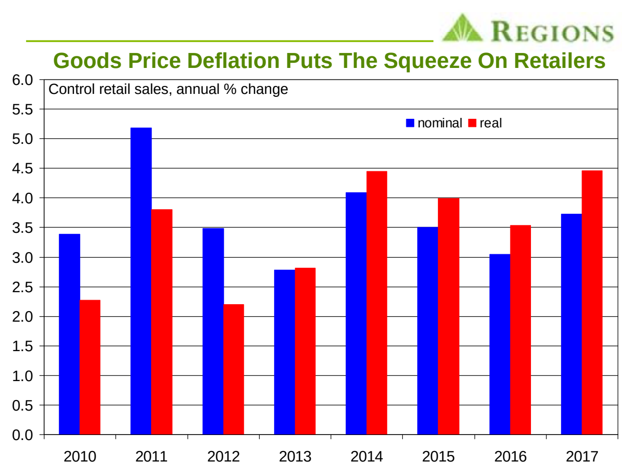
The most notable revision to the initial estimate of November retail sales comes in the nonstore retailers category, in which sales were first reported to have risen by 2.5 percent. The revised data put that increase at 4.2 percent, the largest monthly increase since February 2007. This broad category includes online sales, but the data in this component are reported with a two-month lag. We do know, however, that online sales account for roughly 88 percent of sales in the nonstore retailer category, so it is safe to assume online sales were up substantially in November. Nonstore retailers followed up a strong November with a 1.2 percent increase in December, and if we had to guess (and given the lag in the data we pretty much do have to guess) we'd venture that online sales will prove to have been robust in December. Our holiday sales forecast anticipated a 14.7 percent increase in online sales, but at this point is looks as though our forecast wasn't quite ambitious enough. As seen in our chart below, the 10.7 percent increase in sales by nonstore retailers in 2017 was the largest of any category, as was also the case in 2016.

As for the rest of the December data, sales at motor vehicle dealers are reported to have risen by 0.2 percent, which is almost certain to be revised higher given the increase in unit sales in December, the share of those sales accounted for by higher priced SUVs/light trucks, and the share of sales accounted for by consumers (as opposed to fleet sales). Building materials stores posted another solid gain (up 1.2 percent) which likely reflects some post-hurricane rebuilding. Sales at grocery stores were up 0.7 percent, as were restaurant sales, and sales at gasoline stations were flat, which stands out given that December's decline in retail pump prices was larger than the typical seasonal decline. To the downside, department store sales fell by 1.1 percent in December, while clothing store sales fell by 0.3 percent.

On a nominal basis, control sales were up at an annualized rate of 8.9 percent in Q4, which will map into an even larger increase once accounting for price changes. As we have been noting for some time, persistent goods price deflation has been a thorn in the side of retailers. Our second chart below shows the annual percentage change in control retails before (nominal) and after (real) accounting for price changes. As seen in the chart, 2017 was the fourth consecutive year in which falling core goods prices have resulted in the gain in real sales being larger than the gain in nominal sales. This is, however, a point that is typically overlooked in the assessments of the monthly retail sales reports, as retail sales are reported in nominal terms. One immediate implication is that, for as strong as the 2017 holiday sales season looks to have been, it would have been even stronger had it not been for ongoing declines in goods prices. Whether, or to what extent, this persists in 2018 will be a key determinant of the path of core inflation.

For now, the bigger story is the strength of consumer spending in Q4 2017. With ongoing improvement in labor market conditions, rising household net worth, elevated consumer confidence, and the recent tax bill likely to prop up disposable income, there is every reason to suspect the momentum in consumer spending carried into 2018.





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