ECONOMIC UPDATE

REGIONS

November 15, 2018

October Retail Sales: Headline Beats, Details Lag

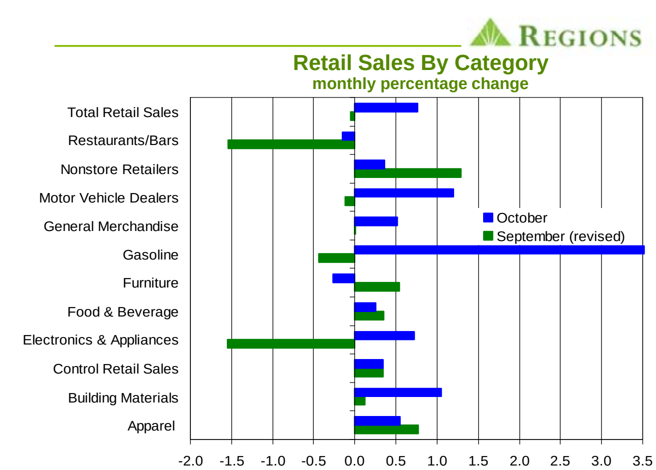
- Retail sales rose by 0.8 percent in October after falling by 0.1 percent in September (initially reported up 0.1 percent)
- Retail sales excluding autos rose by 0.7 percent after falling by 0.1 percent in September (matching the initial estimate)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.3 percent in October

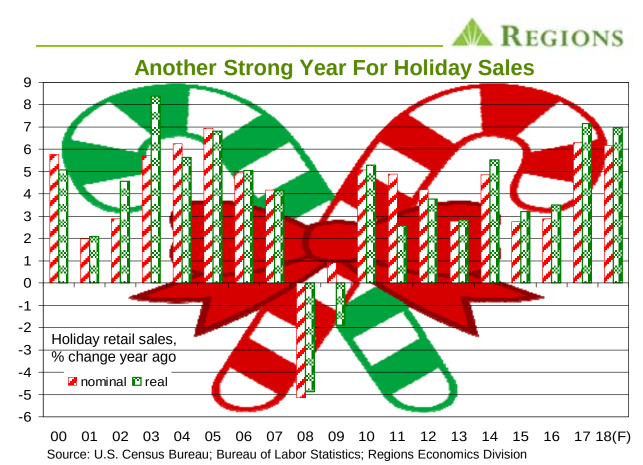
Total retail sales rose by 0.8 percent in October, bettering our above-consensus forecast of a 0.7 percent increase, while ex-auto retail sales were up by 0.7 percent, topping our above-consensus forecast of a 0.6 percent increase. Despite the beats on headline and ex-auto sales, the October data are a bit of a downer as control retail sales, a direct input into the GDP data on consumer spending, rose by 0.3 percent, falling short of our forecast of a 0.5 percent increase. Additionally, initial estimates of total and control retail sales in September were revised lower. As Hurricane Florence impacted the September data, the October retail sales data were impacted by Hurricane Michael, and as with the September data Census offers that, while there is no way to specifically isolate the effects of the hurricane on the October data, some sales categories were adversely impacted and other categories were favorably impacted. So, once again, there's that. Either way, we've long been on record with our view that the initial estimate of retail sales in any given month is virtually useless as an indicator of anything meaningful, particularly the state of the U.S. consumer. While the October retail sales data suggest the quarter got off to a slow start, we expect robust holiday season sales to bring a big finish to Q4 consumer spending.

As is usually the case in any given month, there were some sizeable revisions to the initial estimates of September sales. For instance, while revenue at motor vehicle dealers was initially reported to have risen by 0.8 percent in September, that is now shown as a decline of 0.1 percent. Sales at electronics/appliance stores are now reported to have fallen by 1.5 percent, *just a touch softer* (sarcasm font alert) than the initial estimate of a 0.9 percent increase, while sales at furniture stores are now reported to have risen by 0.5 percent rather than by 1.0 percent. Again, revisions of this magnitude are nothing new here, but this is simply the latest illustration of why we have little use for the initial estimate of retail sales in any given month and why one should not draw sweeping conclusions about the state of the U.S. consumer based on these initial estimates. Which of course doesn't stop some from doing just that.

In any event, the initial estimate of October sales show sales rose in ten of the 13 broad categories for which sales are reported. Gasoline station sales were up by 3.5 percent, though to a large extent this reflects price effects, while sales at building materials stores were up by 1.0 percent, in part reflecting post-hurricane sales in those states impacted by Florence. While there may be similar effects in the November data in the wake of Hurricane Michael, they are not likely to be as large. Sales revenue at motor vehicle dealers is, at least for now, reported to have risen by 1.2 percent in October, easily outperforming unit sales of new motor vehicles (sales of used vehicles purchased from dealers are included in the retail sales data). Sales by nonstore retailers were up by 0.4 percent, matching our forecast, but as we noted in our weekly *Economic Preview*, we looked for a below-trend increase in October to reflect a pre-holiday lull rather than something more ominous. To the downside, sales at furniture stores fell by 0.3 percent while restaurant sales were off by 0.2 percent a 1.5 percent decline in September, though restaurant sales are one category most prone to show the adverse effects of hurricanes and other weather events.

Again, we see trend growth in consumer spending as being stronger than is implied by the initial estimate of October retail sales. And, as the holiday sales season is again upon us (okay, it never actually ends, we just don't pay any attention until November), we expect robust holiday season sales, as we discussed in detail in our November *Monthly Economic Outlook*. We look for a 6.2 percent increase in holiday season sales on a nominal (i.e., not adjusted for price changes) basis, just shy of the 6.3 percent increase seen last year. But, given persistent core goods price deflation, we look for real holiday sales to be up by 7.0 percent, which would mark the sixth consecutive year in which growth in real holiday sales tops growth in nominal holiday sales. Solid growth in labor earnings, consumer confidence at a nearly two-decade high, solid gains in housing equity, and friendly consumer credit conditions will act as a firm foundation for consumers to spend this holiday season, and that's exactly what we expect them to do.





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