

# ECONOMIC UPDATE



REGIONS

February 13, 2013

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## January Retail Sales: Paychecks Shrink In January But Retail Sales Don't

- Retail sales rose by 0.1 percent in January after a 0.5 percent increase in December, matching the initial estimate.
- Retail sales excluding autos rose by 0.2 percent after rising by 0.3 percent in December.
- Core retail sales (excluding vehicles, gasoline and building materials) rose by 0.2 percent.

It almost feels like a letdown – the January retail sales report had been anticipated with what can best be described as a mix of hope, fear, and uncertainty, and was touted as the most important piece of data since, well, since the last most important piece of data. And, after all of that, it came in right in line with expectations, with total retail sales rising by 0.1 percent, ex-auto sales rising by 0.2 percent, and core retail sales rising by 0.2 percent. So, while paychecks shrank in January thanks to the increase in payroll tax rates, retail sales did not, nor did we anticipate they would. We did, however, expect a bit more on the headline number – a 0.3 percent increase – but core retail sales came in as we expected they would.

January's retail sales report paints a mixed bag, with nonstore retailers, grocers, general merchandise stores, building materials stores, and gasoline stations posting higher sales. It is likely that the gains reported at general merchandise and department stores to some extent reflect the redemption of gift cards given over the holiday season – gift card sales are not booked until the cards are redeemed as opposed to when the cards were actually purchased. Gains in these categories were offset by falling sales at apparel stores, furniture stores, and motor vehicle dealers, the latter reflecting a slight decline in unit vehicle sales during the month along with fairly flat pricing. Restaurant sales were down trivially during the month – and we mean trivially in the sense that a 0.007 percent decline doesn't have much meaning. Still, restaurant sales were one category closely watched as a harbinger of how discretionary spending would be impacted by higher payroll taxes.

Sales at building materials stores were up by 0.3 percent. We had expected a larger gain due to rebuilding from Hurricane Sandy, which figures to turn up either in the form of revisions to the January data or larger gains over coming months. The dollar volume of retail gasoline sales rose by 0.2 percent in January, a bit higher than we had expected. It is true that retail gasoline prices rose during January, but the largest increases did not come until the last week of the month so we did not

expect the change in prices to have much of an impact on the monthly sales total. Still, with the national average price per gallon beginning January at \$3.37 and topping \$3.60 in early February, the impact of higher pump prices will be more visible in the February retail sales data.

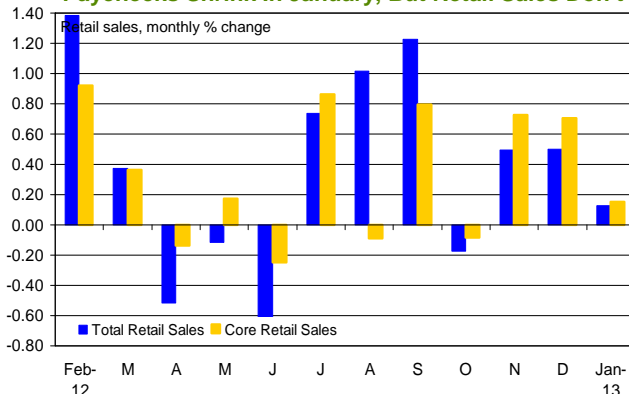
Now that the November and December 2012 data have gone through the revision process, we thought it worth taking a look at sales for 2012 as a whole, with the results shown in the second chart below. Sales at on-line retailers posted a 13.8 percent increase for 2012 as a whole, while the dollar volume of motor vehicle sales rose by 8.4 percent (compared to a 13.3 percent increase in unit sales). Furniture stores and restaurants posted healthy gains during 2012, with the former reflecting the improving fortunes of the housing market and the latter reflecting improving, albeit still tentative, consumer confidence and income growth. Sales gains at gasoline stations and grocery stores mostly reflect price effects. On the flip side, sales at electronics stores fell for 2012 as a whole, reflecting weaker pricing and intense competition from on-line retailers, a set of circumstances that doesn't figure to change much in 2013. On the whole, total retail sales logged a 5.0 percent increase in 2012, with core sales up by 4.5 percent.

Looking ahead to 2013, however, we expect to see consumers respond to what is now lower disposable income by reining in discretionary spending – from the start we had expected any such adjustments to be gradual rather than all at once, and the January retail sales data suggest that is the case. As noted above, higher gasoline prices will act as an added drag on discretionary spending in February. Still, given our expectations that the economy won't be totally knocked off course by the fiscal follies (still) playing out in DC, our anticipated improvement in the pace of job and income growth over the course of 2013 along with rising household net worth – significantly, rising house prices are now contributing to rising net worth – will be supportive of consumer spending going forward. After a slow start in Q1, the pace of growth of consumer spending should gradually rise over the remainder of 2013.



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### Retail Sales By Category, 2012 % change

