ECONOMIC UPDATE

REGIONS

June 13, 2013

May Retail Sales: Motor Vehicle Sales Drive Gain In Total Retail Sales

- Retail sales rose by 0.6 percent in May after a 0.1 percent gain in April (matching the initial estimate).
- Retail sales excluding autos rose by 0.3 percent after being flat in April.
- Core retail sales (excluding vehicles, gasoline and building materials) rose by 0.3 percent.

Driven by stepped up motor vehicle sales, total retail sales rose by 0.6 percent in May, ahead of the consensus estimate of a 0.4 percent increase and our expectation of a 0.5 percent increase. Excluding autos, retail sales rose by 0.3 percent, and "control" (or, core) retail sales were up by 0.3 percent. Accounting for what should be small increases in the broad readings on retail prices in May will leave us with a solid gain in real, or, inflation adjusted, consumer spending on goods for the month. As such, while growth in real consumer spending will not match the 3.4 percent (annualized) growth logged in Q1, the May retail sales report suggests growth will not slow as much in Q2 as we had anticipated.

The volume and mix of motor vehicle sales in May had a significant impact on retail sales. While the number of vehicles sold rose, the mix of sales favored light trucks – accounting for roughly 52 percent of motor vehicle sales in May – which tend to be higher priced than passenger cars. Rising demand for light trucks over recent months reflects the improving fortunes of home builders and contractors as the housing market recovery gathers pace. Also, with fleet sales down slightly, more vehicles were sold on the retail level. As such, the increase in unit vehicle sales had an outsized impact on retail sales in May. Overall, motor vehicle sales continue to benefit from a high degree of pent-up demand along with relatively freely flowing credit in the auto loan space.

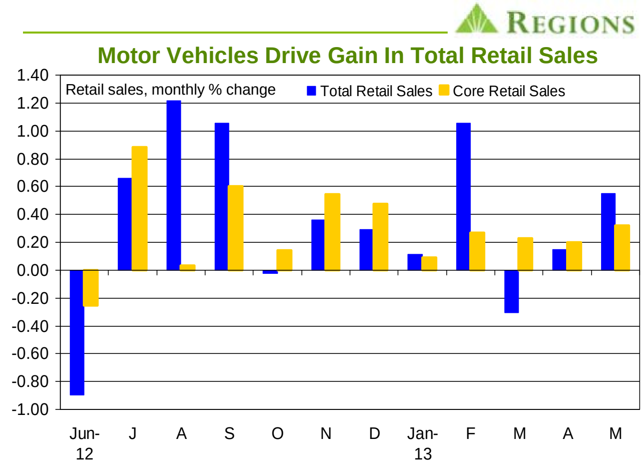
While retail gasoline prices rose slightly in May, total sales at gasoline stations fell by 0.2 percent for the month reflecting weaker demand. Though gyrating over the course of 2013 in a manner not in line with normal intra-year patterns, retail gasoline prices are nonetheless down from their year-ago levels, which has helped free up cash for consumers to use elsewhere.

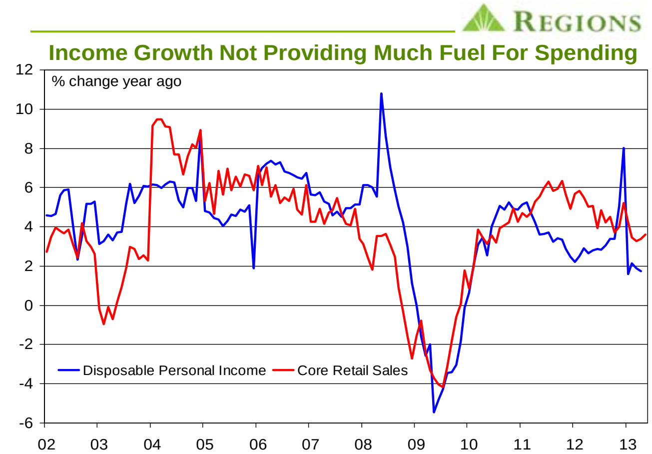
Aside from the strength of motor vehicle sales, building materials stores, general merchandise stores, and grocery stores all posted sizeable gains in sales in May. Sales at nonstore retailers also posted a healthy gain, up by 0.7 percent, during May.

There were some laggards in May, with restaurant sales falling by 0.4 percent, furniture store sales falling by 0.6 percent, and sales at apparel stores falling by 0.2 percent. The decline in sales at apparel stores, however, is likely the reflection of weaker pricing given the recent string of declines in apparel prices as reported in the CPI data. Sales at electronics stores

May's better than expected retail sales data could reflect some catching up from the less than inspiring performance seen in March and April. It may be that harsh weather seen across much of the U.S. in these two months held down sales, particularly some of the normal seasonal sales that otherwise would have taken place. On a quarterly basis, core retail sales, which are a direct input into the BEA's estimate of consumer spending on goods in the GDP accounts, are rising at an annualized rate of 2.4 percent thus far in Q2 after annualized growth of 3.4 percent in Q1. Going forward, we look for growth in consumer spending to settle into a pace more in line with that seen during Q2.

Now that we are putting more distance between the wild swings in personal income between Q4 2012 and Q1 2013 – swings largely driven by changes in personal and payroll tax rates – growth in consumer spending will become more aligned with growth in wage and salary earnings. While the labor market continues to improve, conditions have yet to tighten to a degree sufficient to spark faster growth in aggregate wage and salary earnings on a sustained basis. In addition, earnings growth over coming months will be held down by the impacts of furloughs of government workers due to the sequestration spending cuts (government sector earnings account for roughly 17 percent of all wage and salary earnings). So, while the recent downward drift in initial jobless claims is encouraging, we remain on the watch for signs of broader improvement. This will come, but at an uneven pace over the near term, which will be reflected in the data on consumer spending.





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