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November Retail Sales: Consumers Picking Up The Pace In Q4

- Retail sales rose by 0.7 percent in November after a 0.6 percent increase in October (originally reported as up by 0.4 percent).
- Retail sales excluding autos rose by 0.4 percent, following an increase of 0.5 percent in October (originally reported as up by 0.4 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, and building materials) rose by 0.5 percent in November.

Total retail sales rose by 0.7 percent in November, fueled in part but not solely by stronger motor vehicle sales. Ex-auto retail sales came in higher than expected, with a gain of 0.4 percent – on top of an upward revision to October's sales. Control retail sales, a direct input into the BEA's estimates of consumer spending in the GDP accounts, rose by 0.5 percent, ahead of expectations for a 0.3 percent gain, and the prior estimate for October was revised higher to show an increase of 0.7 percent. The strength of core retail sales raises the outlook for Q4 real GDP growth – nominal core sales are up at an annualized rate of better than five percent which, accounting for what remains tame inflation, will translate into a healthy gain in real consumer spending on goods. Today's data on retail sales puts real consumer spending growth in Q4 ahead of our forecast of 2.2 percent annualized growth, in turn upping the outlook for top-line real GDP growth.

Growth in retail sales was fairly broad based in November. With a sharp increase in unit sales, the dollar volume of sales at motor vehicle dealers rose by 1.8 percent – this is, though, smaller than we had expected which could reflect more aggressive use of incentives as well as "Black Friday" discounting to help clear what had been rising inventories. Also, sales at motor parts stores were up by 2.6 percent following a 1.7 percent increase in October, the strongest back-to-back performance since early 2010 and, one would think, somewhat at odds with the strength of new vehicle sales. Sales at electronics and appliance stores were up by 1.1 percent in November, while September and October sales were revised sharply higher. Many analysts, us included, had been looking for a bigger lift from the release Apple's iPhone5 than had been evident in previous sales estimates, so the revised data are more in line.

Elsewhere, sales at building materials stores were up by 1.8 percent, more than reversing the 1.5 percent decline seen in October. Restaurant sales were up by 1.3 percent after an upwardly revised gain of 1.4 percent in October. Sales at nonstore retailers, which includes but is not

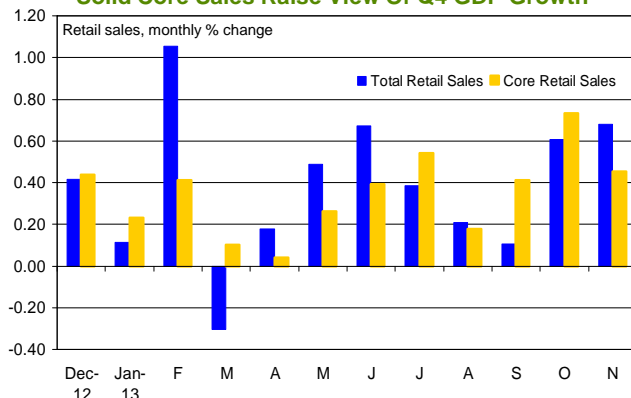
limited to on-line sales, posted a robust 2.2 percent increase in November after an upwardly revised gain of 0.8 percent in October. The strength of November's sales is a bit surprising, given that "Cyber Monday" was pushed into December this year due to Thanksgiving having fallen so late in November. Note that the Census Bureau's published estimates of on-line sales come with a one-month delay, so we won't have an estimate of November's on-line sales until next month. It could be, however, that early and aggressive discounting drew on-line sales well in advance of Cyber Monday this year.

Some laggards in the November sales data are grocery stores, where sales fell by 0.1 percent with October sales revised lower to show a 0.1 percent decline. Some of the weakness in grocery store sales over the past two months is likely due to pricing but could also reflect the impact from cuts in food stamp benefits. Sales at apparel stores were down by 0.2 percent but this follows an upward revision to October sales and likely reflects some pre-holiday discounting. Sales at gasoline stations were down by 1.1 percent in November, reflecting lower pump prices. Retail gasoline prices have been trending lower and consumers are apparently putting the cash being freed up to good use elsewhere.

The magnitude and breadth of revisions to the October retail sales data lead us to wonder if the initial release may have been clouded, at least a bit, by reporting issues tied to the federal government shutdown. But, the strength of sales now reported for the first two months of Q4, particularly control retail sales, suggests consumers are finding their footing as 2013 draws to an end. Reported sales growth could remain choppy over the near term, especially in light of aggressive holiday discounting, but we continue to expect a firmer tone to consumer spending in 2014. Our call has been based on improving fundamentals, including healthier – though still not totally healthy – household balance sheets and what we expect to be improved rates of job and income growth during 2014. Today's data do nothing to alter our outlook.



Solid Core Sales Raise View Of Q4 GDP Growth



Consumers Picking Up The Pace As 2013 Ends

