

ECONOMIC UPDATE



REGIONS

January 14, 2014

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December Retail Sales: All In All, A Solid Q4 For Retail Sales

- Retail sales rose by 0.2 percent in December after a 0.4 percent increase in November (originally reported as up by 0.7 percent).
- Retail sales excluding autos rose by 0.7 percent, following an increase of 0.1 percent in November (originally reported as up by 0.4 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, and building materials) rose by 0.7 percent in December.

Total retail sales rose by 0.2 percent in December, weighed down by a decline in motor vehicle sales which fell back after a solid gain in November. Excluding motor vehicles, retail sales were up by 0.7 percent in December, and control (or, core) retail sales also advanced by 0.7 percent. Revisions to previous estimates for November were not kind, however, with downward revisions to total, ex-auto, and control sales. Still, for Q4 as a whole, retail sales turned in a solid performance, with total sales rising at an annualized rate of 4.2 percent and control sales rising at an annualized rate of 5.2 percent during the quarter. Given tame inflation, these nominal gains will translate into healthy gains in real consumer spending on goods. Recall that spending on household services – not captured in the retail sales data – accounts for about two-thirds of all consumer spending, and accounting for what was faster growth in spending on services during Q4, real total consumer spending will have grown at an annualized rate close to 4.0 percent for the quarter compared to 2.0 percent growth in Q3.

The underlying details of the December retail sales report are a mixed bag. Reflecting the decline in unit vehicle sales, the dollar volume of sales at motor vehicle dealers fell 1.9 percent in December but, pending revision, sales revenue rose by 8.8 percent for 2013 as a whole. With unit sales expected to rise above 16 million in 2014 (from 15.5 million in 2013), motor vehicle dealers should see another solid gain in revenue. December saw sales at building materials, furniture, electronics and appliance, and department stores fall. In contrast, sales at grocery stores, apparel stores, and nonstore retailers posted hefty gains in December. Sales at nonstore retailers, which includes but is not limited to on-line sales, followed up a 1.6 percent increase in November with a 1.4 percent increase in December. Data for on-line sales are lagged by a month so the December figure is not yet available, but today's report contains the first look at on-line sales for November, which rose by 0.7 percent. While this may seem a small gain given the increasing significance of on-line sales during the holiday season, recall

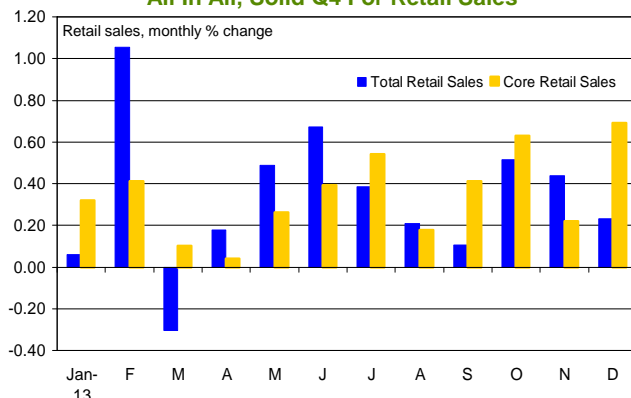
a late Thanksgiving in 2013 pushed "cyber Monday" into December which held down November sales. We do look for on-line sales to have posted a smart increase in December but will not have a first estimate until the January retail sales report is released.

Sales at apparel stores rose by 1.8 percent in December, a gain made more impressive in light of what has for some time been steep discounting in that segment but was steeper still during the holiday sales season. Higher retail pump prices contributed to December's 1.6 percent increase in sales at gasoline stations. Sales at grocery stores rose by 1.9 percent, part of which could be due to well above average amounts of snow fall during the month leading consumers to eat in more than they otherwise would have – sales at restaurants rose by 0.5 percent in December, a decent gain but considerably smaller than those logged in both October and November.

Despite the downward revisions to the November data, Q4 turned out to be a solid quarter for consumer spending, as noted above. While the pace of growth in real consumer spending seen during Q4 is clearly not sustainable, spending growth in 2014 should come in well ahead of that seen in 2013. This call is of course predicated on what we expect to be faster rates of job and income growth in 2014. The surprisingly weak December employment report does nothing to alter our expectations of such, even though it does serve as a reminder that improvement in the labor market will not necessarily come in a straight line. Also, unlike Q1 2013 when consumers had to deal with higher payroll tax rates and upper income households were hit with higher tax rates on investment income as well as an increase in Medicare taxes tied to the Affordable Care Act, 2014 will see none of the tax increases that weighed on growth in disposable personal income in 2013. Also factoring in our call for stronger growth in consumer spending in 2014 are healthier – though still not totally healthy – household balance sheets, including rising housing equity.



All In All, Solid Q4 For Retail Sales



Income Growth Key To Faster Spending Growth In 2014

