ECONOMIC UPDATE

REGIONS

April 14, 2014

March Retail Sales: Less Than Meets The Eye?

- Retail sales rose by 1.1 percent in March after a 0.7 percent increase in February (originally reported as up 0.3 percent).
- Retail sales excluding autos rose by 0.7 percent after rising 0.3 percent in February (originally reported as up 0.3 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, and building materials) rose by 0.8 percent in March.

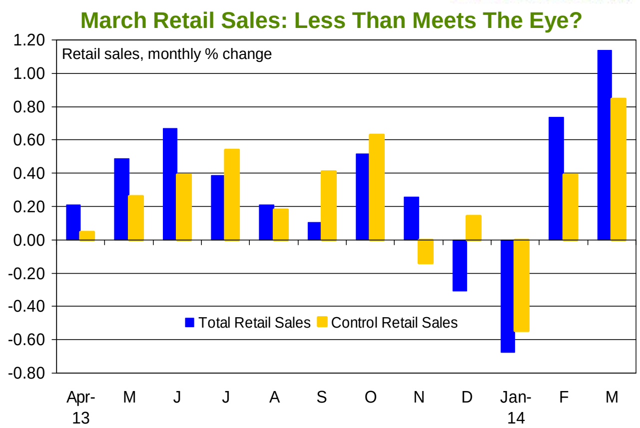
Total retail sales rose by 1.1 percent in March with ex-auto sales rising 0.7 percent and control retail sales, a direct input into the GDP accounts, up by 0.8 percent. In addition, data for February were revised higher, with total sales now reported to have risen 0.7 percent and control retail sales also marked up.

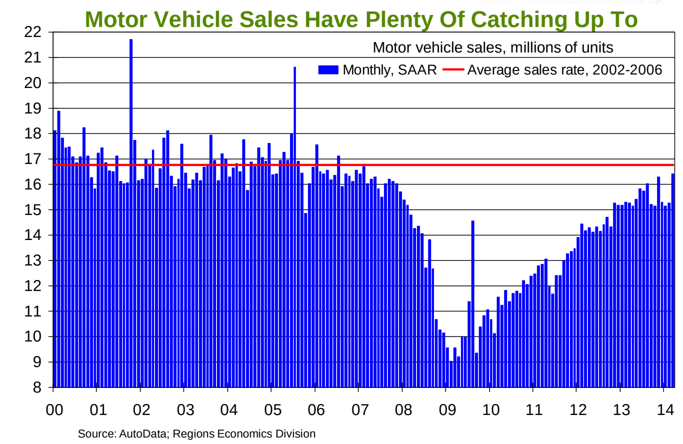
As our faithful, and attentive, readers by now know well, at first glance the March retail sales report would seem to fit our "just wait for the March data" premise like a glove, with our having argued from the start the early-year data had been materially distorted by unusually harsh winter weather. At the risk of looking a seeming gift horse in the mouth, however, we will interject a note of caution into the interpretation of today's report. Easter falling in April this year rather than March as was the case last year complicates the seasonal adjustment process, and we suspect the March retail sales data are biased to the upside as a result. Given the manner in which Easter falls on different dates each year our rule is to take the March and April reports as a whole and see where that leaves us in terms of shaping our view on consumer spending. That said, the upward revision to the February data is independent of these seasonal swings and is clearly a favorable development.

As for the March data as it stands today, sales at motor vehicle dealers rose by 3.4 percent, while February's gain was revised up to 2.7 percent from the 0.27 percent initially reported. While unit vehicle sales jumped in March, we are nonetheless a bit taken by the size of the reported gain in the dollar volume of sales, given what was active discounting by dealers looking to move inventory and a slight shift in the mix of sales away from higher priced light trucks towards lower priced autos. Also supporting growth in total retail sales in March were building materials stores (up 1.8 percent), general merchandise stores (up 1.9 percent), furniture stores (up 1.0 percent) clothing stores (up 1.0 percent), and sales at nonstore retailers (up 1.7 percent). Restaurant sales posted a 1.1 percent increase, following up an upwardly revised 0.8 percent increase in February. Here we will note food prices, for both food consumed at home and food consumed away from home, have risen sharply over the past two months, so it is unclear to what extent price effects were behind the reported gains in restaurant sales. Though retail pump prices rose, the total dollar volume of sales at gasoline stations fell 1.3 percent in March, while sales at electronics stores fell 1.6 percent.

As for motor vehicle sales, whether March's reported increase in the dollar sales volume will be revised lower remains to be seen. To us, the focus should be more on unit sales – March's annualized sales rate of 16.4 million units is the highest monthly sales rate since February 2007. To some extent this reflects payback for January and February, when harsh winter weather held down sales. But, we look for the pace of sales to advance further over coming months and that steady growth in motor vehicle sales will support growth in overall consumer spending. There has been much talk about pent-up demand for motor vehicles, and we do believe such demand exists. Data from the Department of Transportation show the age of the existing fleet has risen sharply over the past few years to an average of over 11 years – this after the average age was fairly steady over the 2002-07 period. As seen in the chart below, sales have yet to reclaim the pre-recession average, though we expect that they will over coming months. One facilitating factor is readily available credit in the auto space, in contrast to some other segments of consumer lending.

Admittedly, it may seem as there is just no pleasing us – after having spent the better part of two months explaining away bad data, here we are tossing around caveats in the face of good data. But, while we will wait for the April data to put today's report into context, our underlying premise has not changed – we continue to expect a better pace of job and income growth to support growth in discretionary consumer spending over coming months. Should that turn out to be the case, we pledge to happily take the data and not try to explain it away.





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