ECONOMIC UPDATE

REGIONS

October 15, 2014

September Retail Sales: Not Many Bright Spots In September Retail Sales Data

- Retail sales fell 0.3 percent in September following a 0.6 percent increase in August (matching the initial estimate).
- Retail sales excluding autos fell by 0.3 percent after rising 0.3 percent in August (matching the initial estimate).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.2 percent in September.

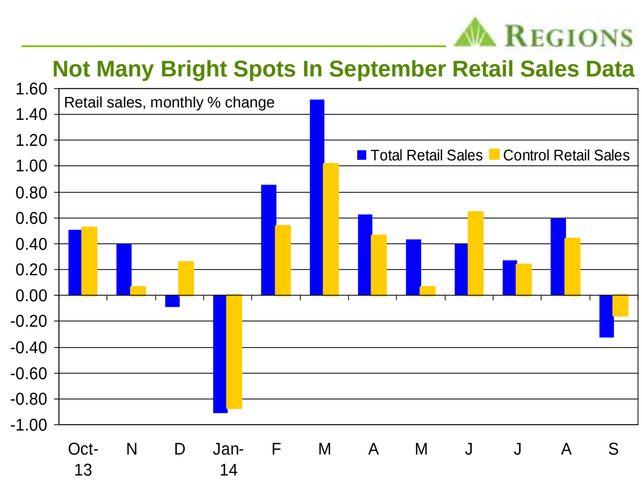
Total retail sales fell 0.3 percent in September, which was to be expected as motor vehicle sales settled back after surging in August and retail gasoline prices fell sharply. Still, September's decline was slightly more than the 0.2 percent decline that had been anticipated. What was not anticipated, however, was the weak tone of the September data autos and gasoline aside. Ex-auto retail sales fell 0.3 percent and control retail sales, a direct input into the GDP data, fell 0.2 percent.

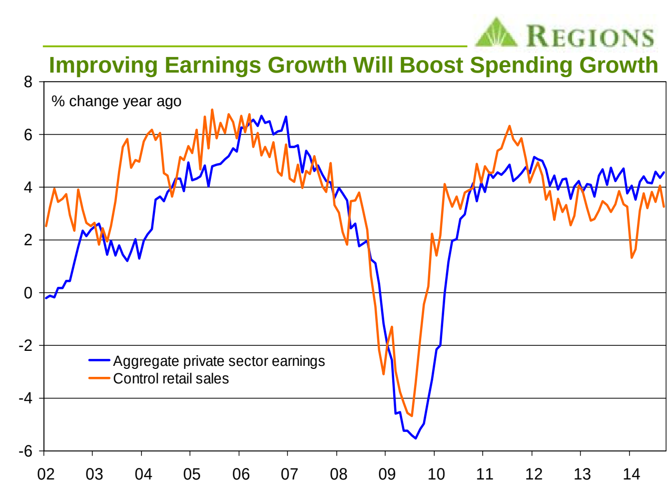
With unit motor vehicle sales falling to an annual sales rate of 16.4 million units from August's sales rate of 17.5 million units, revenue at motor vehicle dealers fell by 0.8 percent in September, though August's increase was revised higher to show a 1.9 percent gain (originally reported as up 1.5 percent). Sales at auto parts dealers fell 0.7 percent in September. Retail gasoline prices slid further in September, finishing the month more than 9 percent below the summer peak seen in June, and the decline in prices contributed to sales at gasoline stations falling 0.8 percent in September on the heels of a 1.1 percent decline in August. Another area in which pricing may have pulled down retail sales in September is grocery store sales, which fell 0.1 percent. While the CPI data for September do not come out until next week, we do have the Producer Price Index report which show a second consecutive monthly drop in wholesale food prices in September. Recall earlier in the year sharp increases in food prices were contributing to the gains posted by the CPI.

To the extent lower prices are pulling down reported nominal sales in certain categories the impact on real, i.e., inflation adjusted, spending will not be as severe as implied by the retail sales data. That said, the weak tone of the September retail sales report goes beyond price effects. Eight of the 13 broad categories on which data are reported showed declines in September. The largest declines were seen at building materials stores (down 1.1 percent), apparel stores (down 1.2 percent), nonstore retailers (down 1.1 percent), and furniture stores (down 0.8 percent). The decline in sales at nonstore retailers, which includes but is not limited to online sales, is somewhat curious, as it marks the first decline since January (August's gain was revised higher). Sales for the online retailers category come with a one-month lag so it is not yet clear the extent to which weaker online sales contributed to the decline in the broader category.

Far and away the largest increase in September came at electronics and appliance stores, which posted a 3.4 percent gain. This of course reflects the impact of Apple's iPhone6 but does not reflect the full impact – while Apple booked orders for over 10 million units the latest iPhone, these orders are not booked in the retail sales data until the units are actually delivered. As such, further Apple driven gains can be expected in sales at electronics stores over coming months, and some of the sales of the latest version of the device we simply cannot live without will turn up in sales at nonstore retailers. Sales at eating & drinking establishments rose 0.6 percent in September, matching the increase seen in August and extending a string of solid gains in this category.

The weakness in the September retail sales data is surprising, particularly the sharp declines seen in many of the broad categories in the absence of correspondingly large gains in the preceding month. There are some arguing sales of the new iPhone ate into sales in other categories, but this is a reach, particularly given the ongoing declines in energy prices. One constraint on the growth of consumer spending has been middling growth in wage and salary earnings despite what has been an accelerated pace of job growth. As seen in the chart below, however, the pace of earnings growth has picked up which, if sustained, will support firmer growth in consumer spending in the months ahead. Consumers have been subject to conflicting signals of late, and as confidence sapping headlines at home and abroad compete with falling energy prices it becomes harder to get a clear outlook on spending, but we will look to the labor market for the most meaningful clues.





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