ECONOMIC UPDATE

REGIONS

December 11, 2014

November Retail Sales: Falling Gasoline Prices Fueling Consumer Spending

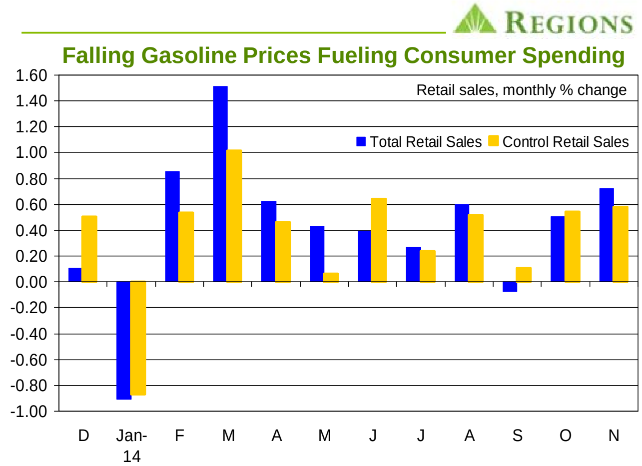
- Retail sales rose 0.7 percent in November after having risen 0.5 percent in October (initially reported up 0.3 percent).
- Retail sales excluding autos rose by 0.5 percent after having risen 0.4 percent in October (initially reported up 0.3 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.6 percent in November.

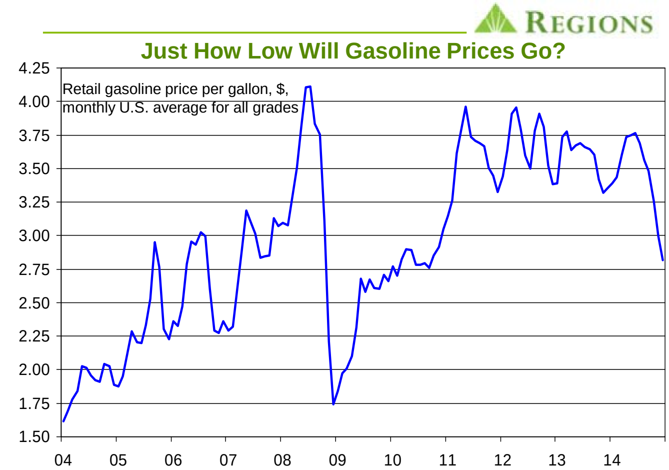
In a solid and stronger than expected report, total retail sales rose by 0.7 percent in November with ex-auto sales up 0.5 percent, far ahead of expectations. Prior estimates for total and ex-auto retail sales for October were revised higher. Most significantly, control retail sales, a direct input into the consumer spending data in the GDP accounts – rose 0.6 percent in November following a 0.5 percent gain in October (matching the initial estimate). We will offer one caveat here – despite an almost 8 percent decline in retail gasoline prices (on a monthly average basis) in November, today's report has sales at gasoline stations falling just 0.8 percent, a far smaller decline than we and other analysts had built into our forecasts. Should that number be revised to show a larger decline, headline retail sales for November could be revised a bit lower as well. All in all, however, the November retail sales report is a solid report with broad-based increases across the different retail segments, and it poses an upside risk to our forecast of Q4 real GDP growth of around 2.5 percent, annualized.

With unit sales jumping to an annual rate of 17.2 million units revenue at motor vehicle dealers rose 1.7 percent in November, while prior estimates the dollar volume of motor vehicle sales for both September and October were revised higher. November's gain, however, will be evened out in December, as the rate of unit sales posted last month will not be repeated but, on a quarterly average basis, motor vehicle sales will make a positive contribution to Q4 real GDP growth. Sales at building materials stores rose 1.4 percent, a bigger than anticipated increase. Sales at apparel stores were up 1.2 percent in November while prior estimates for September and October were revised higher. Also posting large gains in November were furniture stores, electronics stores, department stores, restaurants, and sales at nonstore retailers. This latter category includes but is not limited to on-line sales, data for which are reported with a one-month lag. But, from all accounts, on-line stores were strong in November, even before "cyber Monday" and we will not be surprised to see reported sales for the broader nonstore retailers category revised higher with the release of the December data. As to restaurant sales, over the past several months the pattern has been for the initial print to show a sizeable increase that has been revised higher in subsequent months. This pattern held with today's report, as prior estimates for September and October were revised higher, with better than one percent increases in each month.

To be sure, falling gasoline prices are freeing up cash for consumers to use on discretionary spending, and the impact of lower gasoline prices is likely only beginning to manifest itself in the retail sales data. Retail pump prices have fallen even further thus far in December, and have further to go on the downside, and to the extent household energy prices moderate as well, overall household expenditures on energy over the winter could be considerably lower than was the case last winter, barring of course a repeat of last winter's abnormally harsh weather. Still, we think the contribution from the labor market is being overlooked as a support for consumer spending. True, growth in average hourly earnings remains range bound at around 2 percent (year-over-year). This paltry growth gets a great deal of attention, and rightly so, as a sign of still elevated labor market slack. But, as we frequently point out, growth in aggregate wage and salary earnings (the product of aggregate hours worked and average hourly earnings) have consistently been growing at a rate of 4.5 percent or above – easily outpacing inflation. This is the more relevant metric when assessing growth in consumer spending, and with the labor market continuing to improve, wage and salary earnings will be more supportive of growth in consumer spending, particularly when we do begin to see growth in average hourly earnings start to accelerate.

As we wrote upon the release of last month's report on retail sales, there are at present a number of tailwinds for consumer spending. With energy prices set to fall further and the labor market poised to make further gains those tailwinds will be even stronger as we head into 2015.





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