ECONOMIC UPDATE

REGIONS

January 14, 2015

December Retail Sales: Retailers Get A Lump Of Coal In December

- Retail sales fell 0.9 percent in December after having risen 0.4 percent in November (initially reported up 0.7 percent).
- Retail sales excluding autos fell by 1.0 percent after having risen * percent in November (initially reported up 0.5 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.4 percent in December.

Going into the December retail sales report the story was lower retail gasoline prices would fuel gains in discretionary consumer spending. Coming out of the December retail sales report the story is falling wages are leaving consumers unable to spend and falling retail gasoline prices are the only thing keeping households afloat. We even heard someone remark this morning (a U.S. Senator doing double duty as an economic analyst) consumers are not spending because "they don't have any money." Wow. True, the December retail sales report is simply lousy, with sales coming in significantly below expectations. Total retail sales fell 0.9 percent, ex-auto sales fell 1.0 percent, and control retail sales fell 0.4 percent. The latter is of most concern as control sales feed directly into the consumer spending data included in the GDP report. Moreover, prior estimates for October and November were revised lower. What all of this means, however, is less clear but somehow we doubt the consumer spending picture is as dire as those in the "they don't have any money" camp would have us believe.

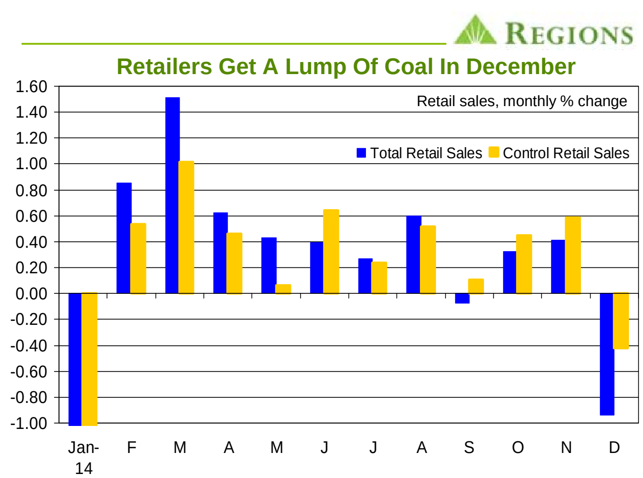
The weakness in retail sales in December was broad based, with sales falling in 9 of the 13 broad categories included in the report. First and foremost, sales at gasoline stations fell 6.5 percent in December, the largest monthly decline since 2008. Additionally, prior estimates for October and November were revised significantly lower, with October sales falling 2.2 percent (originally down 1.3 percent) and November sales falling 3.0 percent (originally down 0.8 percent). Lower gasoline prices are also evident in data on warehouse/club stores, at which gasoline sales have become an increasingly large portion of overall sales in recent years. On a national average basis, retail gasoline prices fell 12.2 percent in December, and through the first two weeks of January are down 13.8 percent from December's average. As such, it is not out of the question that the sharp decline reported for December sales at gasoline stations will be revised even lower, and the January decline figures to be even larger. This of course will weigh on headline retail sales for January.

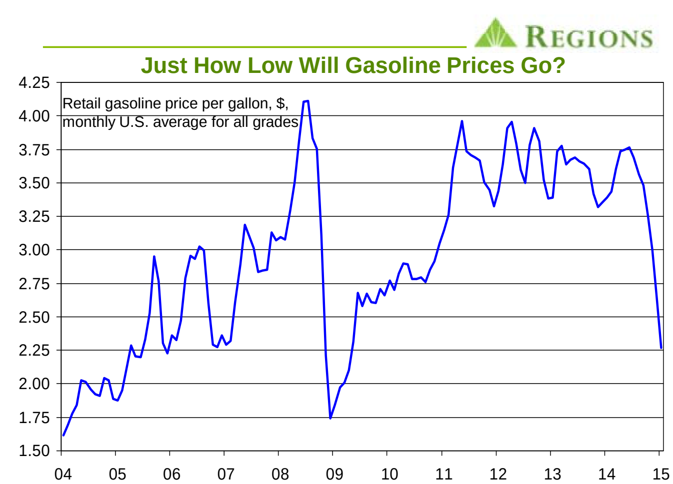
Of course, the question is how lower expenditures on gasoline are impacting other areas of consumer spending and, judging by the December retail sales data, the answer is "not so much." What is likely the case is that the cash freed up from lower gasoline prices doesn't matter much on a day-to-day basis, at least not initially, but over time the effects add up, so there is likely a lag between falling gasoline prices and increases in discretionary spending, so it will be a few months until we can reasonably assess the impact of lower gasoline prices.

Another factor to keep in mind is the retail sales data are in nominal terms. With the headline CPI expected to have fallen 0.4 percent in December, the impact on real consumer spending in December will clearly be mitigated, and it is also worth keeping in mind retailers engaged in significant discounting over the holiday season, also reinforcing negative price effects.

As for consumers having no money to spend, sure, average hourly earnings fell in December and over the past few years have been range bound with year-over-year growth around 2.0 percent. But, what is more significant for growth in consumer spending is aggregate wage and salary earnings, which rose at a 4.7 percent annualized rate in Q4. These gains are being fueled by rising aggregate hours worked rather than growth in average hourly earnings, but nonetheless labor earnings growth has accelerated and with inflation low, and falling, these nominal gains go further in terms of purchasing power. Add in what are the lowest monthly debt service burdens on record and low interest rates, and it's hard to paint a picture of a distressed consumer.

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 still falling and the labor market poised to make further gains those tailwinds will stronger in early 2015. The December retail sales report does not change that outlook.





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