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February Retail Sales: Same Headline, Different Story

- › Retail sales fell by 0.6 percent in February after having fallen 0.8 percent in January (matching the initial estimate).
- › Retail sales excluding autos fell by 0.1 percent after having fallen 1.1 percent in January (initially reported down 0.9 percent).
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) were unchanged in February.

The top line of the February retail sales report is the same as it was in January and December – retail sales fell. The underlying story, however, is not the same as sharply lower retail gasoline prices were the main drag on sales in January and December. So, while we know that wasn't the story was in February, it is not readily apparent exactly what the story was. Total retail sales fell 0.6 percent in February, with ex-auto sales down 0.1 percent and control retail sales were flat. All of these numbers were well below expectations, with the consensus calling for a 0.3 percent increase in top-line sales.

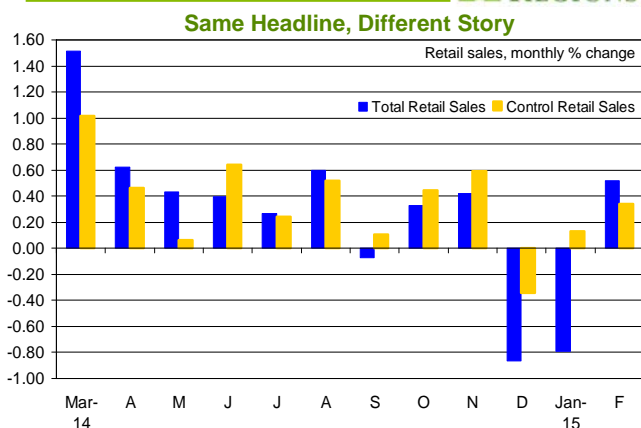
There is reason to suspect what was the coldest February on record in portions of the Midwest and Northeast had an adverse impact on retail sales, particularly late in the month. At mid-month February motor vehicle sales were tracking at an annual sales rate of around 16.7 million units but sales slowed sharply over the final week of the month to the point the annual sales rate for the month as a whole was 16.2 million units. This is reflected in today's retail sales report which shows a 2.6 percent decline in sales revenue at motor vehicle dealers. Sales at auto parts dealers, which have behaved rather erratically over recent months, fell 1.4 percent in February. We are surprised at the magnitude of the decline in revenue at motor vehicle dealers, even with lower unit sales. The mix of vehicle sales was very revenue friendly as sales of higher priced SUVs and light trucks accounted for 55.4 percent of all vehicle sales, the highest share since December 2005. Note, however, the initial estimate for January revenue at motor vehicle dealers was a 1.0 percent decline but revisions now show a 0.3 percent gain (January also had a favorable sales mix). As such, it will be worth watching if the initial February print is not also revised higher in next month's release. In the "oh by the way" category, sales at gasoline stations rose 1.5 percent in February, as was expected given the better than four percent increase in retail pump prices which, even with the increase in February, were down 33 percent from a year ago.

Outside of autos, sales at building materials tumbled in February, declining by 2.6 percent after an upwardly revised 0.7 percent gain in January. Sales at furniture stores were down 0.6 percent, sales at electronics/appliance stores fell 1.2 percent, and department store sales fell 1.4 percent. Additionally, restaurant sales are reported to have fallen 0.6 percent in February while the initial estimate for January underwent a severe downward revision, from up 0.8 percent to down 0.2 percent. The large revision in this category is not unusual, what is unusual though is that over the past several months the revisions have all been to the upside, not the downside. But, one thing all of these sales segments have in common, other than the declines in sales in February, is they all entail consumers getting out and to the store. Meanwhile, sales at nonstore retailers jumped 2.2 percent in February – note this category includes but is not limited to on-line sales, the data for which come with a one-month lag so we do not have a February number. What we do know, however, is on-line sales account for about 84 percent of all sales in the "nonstore retailer" category, so it figures on-line sales rose sharply in February. The other thing we know is on-line sales mean the consumer doesn't have to venture out in whatever the weather of the day is. So, from all of this it is not unreasonable to assume harsh weather played a hand in the February retail sales data.

There is no getting around the headlines on the past three retail sales reports have been lousy. At the risk of being accused of having our heads buried in the sand (or, the snow?), however, we don't find the underlying stories to be as dismal as the headline numbers. The pace of both job and income growth (particularly inflation adjusted income growth) has picked up over the past several months and there is simply nothing in other data series to suggest consumers have gone into an all-out retreat. That said, should March show a further decline in retail sales, then we'll start to worry something more fundamental than swings in gasoline prices and harsh winter weather is in play.



Same Headline, Different Story




Improving Earnings Growth Will Boost Spending Growth

