ECONOMIC UPDATE

REGIONS

April 14, 2015

March Retail Sales: Spending Springs Back In March But Won't Save Q1

- Retail sales rose by 0.9 percent in March after having fallen 0.5 percent in February (originally reported down 0.6 percent).
- Retail sales excluding autos rose by 0.4 percent after having been unchanged in February (initially reported down 0.1 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.3 percent in March.

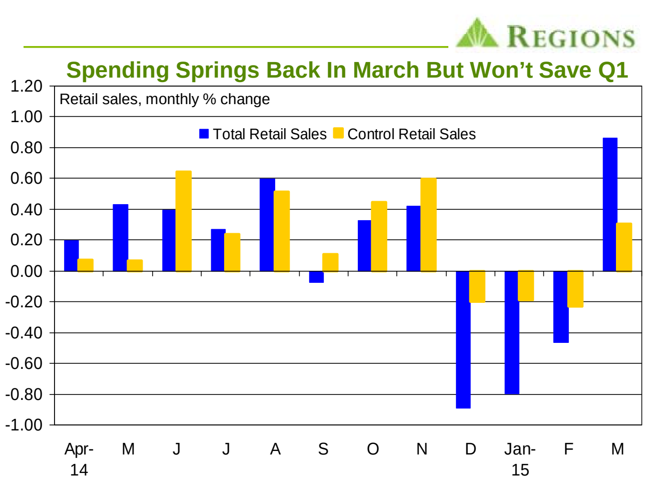
Total retail sales rose by 0.9 percent in March, ending a string of three consecutive monthly declines. Ex-auto retail sales were up 0.4 percent while control retail sales, a direct input into consumer spending as measured in the GDP data, were up 0.3 percent. Revisions to prior estimates for January and February were mixed; of most relevance is the downward revision to control sales in each month, suggesting Q1 real GDP growth may fall short of our watered down estimate of 1.2 percent (annualized). Keep in mind, though, the retail sales data are reported in nominal terms and with headline inflation running negative for Q1 as a whole, while growth in real consumer spending won't be great, neither will it be as soft as the nominal data make it appear. The March retail sales data certainly don't undo the declines posted in the prior months but, looking ahead, they at least put a firmer base under consumer spending and what should be significantly faster Q2 growth.

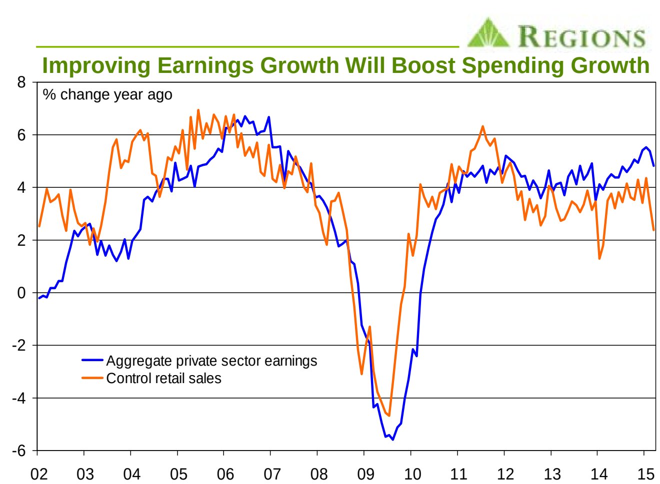
The gains in the three main retail sales metrics – total, ex-auto, and control – fell short of expectations, ours included, despite what was fairly broad based growth among the categories for which sales are reported. The primary culprits were grocery store sales and gasoline sales, both of which posted 0.6 percent declines in March. Retail food prices, for food consumed at home, have been weak over the past few months, so there could be some price effects at play in the reported decline in grocery store sales in March. The reported decline in gasoline sales is harder to put a handle on, given what was a better than 10 percent increase (national average, all grades) in retail gasoline prices in March. While seasonal patterns suggest retail pump prices rise in March, this year's increase was far larger than is normal for the month, meaning seasonal adjustment factors would not have washed away all of the increase seen this March. Additionally, sales at electronics stores fell and sales by nonstore retailers, which includes but is not limited to on-line sales, were reported to have fallen 0.1 percent in March after a hefty gain in February.

Elsewhere in the data, though, there is little to suggest any major weakness lurking in the underlying fundamentals that drive consumer spending. With unit sales jumping to an annual sales rate of 17.1 million units and a revenue-friendly sales mix (i.e., more SUVs/light trucks) revenue at motor vehicle dealers rose 2.8 percent while sales at auto parts stores were up 1.6 percent. Restaurant sales were up 0.7 percent in March, apparel store sales were up 1.2 percent, sales at department stores rose 1.4 percent, sales at furniture stores rose 1.4 percent, and sales at building materials stores were up 2.1 percent. In all, March sales were higher in nine of the thirteen broad categories covered in the retail sales data.

In our weekly *Economic Preview* we noted there would be a number of cross currents driving the March retail sales data. First, there is ample evidence in the data to suggest payback in March from sales lost in February due to harsh winter weather across much of the U.S. This is apparent in categories such as motor vehicles and restaurants. Second, we noted an early Easter likely pulled some spending forward into March, and this is apparent in categories such as apparel stores and general merchandise stores, though any such spending will come at April's expense.

These effects simply add to the impact of the plunge in retail gasoline prices in late 2014/early 2015 and hence make it more of a challenge to ferret out the true underlying trend in consumer spending. We do, however, maintain a sanguine outlook for consumer spending, mainly due to steady improvement in the pace of job and income growth (there is nothing elsewhere in the data to suggest the March employment report was anything but an outlier), rising consumer confidence, improved household cash flows, and healthier household balance sheets. As such, we expect growth in real consumer spending to pick up sharply in Q2 and look for fairly steady growth in subsequent quarters.





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