ECONOMIC UPDATE

REGIONS

September 15, 2015

August Retail Sales: Yes, U.S. Consumers Are Just Fine

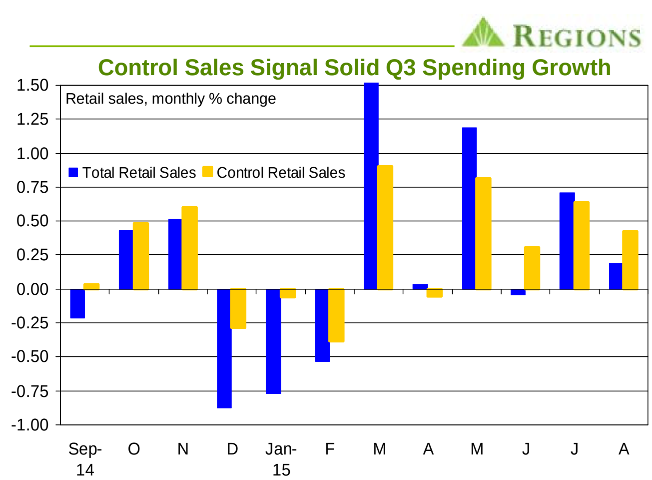
- Retail sales rose by 0.2 percent in August after rising 0.7 percent in July (originally reported up 0.6 percent).
- Retail sales excluding autos rose by 0.1 percent after rising 0.6 percent in July (originally reported up 0.4 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.4 percent in August.

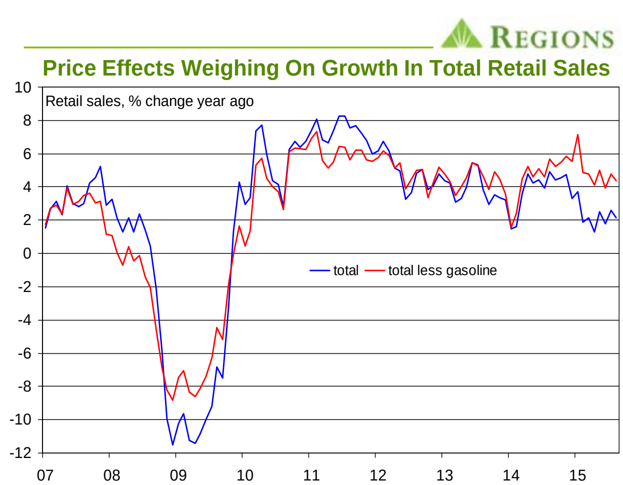
U.S. consumers may not have returned to the Alfred E. Neuman "what, me worry?" mindset that seemingly prevailed in the years leading up to the 2007-09 recession, but nonetheless don't seem all too concerned with what has been a good deal of volatility in the financial markets of late. Sure, a glance at the 0.2 percent increase in total retail sales in August may suggest otherwise, but this simply illustrates the rationale behind our endless nagging about the importance of looking below the headline numbers and putting any single data point into the context of the underlying trend. The reality is the August retail sales data are better than a simple glance at the headline number suggests. First, control retail sales, a direct input into the GDP data on consumer spending, rose 0.4 percent in August following an upwardly revised 0.6 percent gain in July. Second, prior estimates for July total and ex-auto retail sales were also revised higher. Accounting for August's increase on top of a higher July base, Q3 growth in control retail sales is easily outpacing the gain seen in Q2, suggesting faster growth in overall real consumer spending in Q3 than Q2's 3.1 percent annualized growth.

Though modest, August's growth in retail sales was nonetheless broad based, with gains in 10 of the 13 broad categories for which sales data are reported. Restaurants, motor vehicle dealers, grocery stores, and apparel stores posted the largest sales gains in August. Building materials stores, furniture stores, and gasoline stations saw sales decline in August. After a robust 1.7 percent increase in July, driven by sales by on-line retailers (thanks, Amazon.com), nonstore retailers followed up with a 0.2 percent increase in sales in August. Revenue at motor vehicle dealers rose 0.8 percent in August, a larger gain than we had been looking for given the increase in unit sales from 17.5 million units in July to 17.8 million units in August (these are annual sales rates). This larger gain is at least in part a reflection of what was a decidedly revenue friendly sales mix, as light trucks/SUVs accounted for 56.6 percent of unit sales in August – lower gasoline prices are clearly impacting the sales mix in what is a strong overall motor vehicle sales environment. While perhaps not matching the heady sales rate seen in August, motor vehicle sales for September should nonetheless remain solid thanks to a friendly calendar – a late Labor Day holiday means all sales over what is traditionally an aggressive selling weekend will be captured in September, unlike most years.

Lower gasoline prices led to a 1.8 percent decline in sales at gasoline stations in August. The sharp decline in retail pump prices is atypical for the month of August but does help illustrate a point we have been making over the past few months. Retail sales are reported in nominal terms, i.e., they are not adjusted to account for changes in prices. As seen in the chart below, this is clearly having an impact on the reported changes in retail sales, though apparently for some not clear enough. Last month, having the temerity to state "U.S. consumers are just fine" in the wake of the July retail sales report we were taken to task by one "analyst" who pointed to tepid year-on-year growth in total retail sales as a sign of how mightily consumers were struggling. Sure, if you wish to ignore the fact retail gasoline prices are 28 percent below their year-ago level, then by all means, go with that narrative. But, it is also worth noting, at least to us, price effects are not limited to gasoline. One consequence of a weak and unclear global growth outlook and a FOMC that seems ready, even if not this week, to begin the process of normalizing the Fed funds rate has been a stronger U.S. dollar. This in turn is pushing down prices of imported goods and keeping pressure on domestic manufacturers to hold the line on prices, to the point core goods prices have posted 28 consecutive months of declines on a year-over-year basis and prices for many goods are now declining month-to-month. If you don't account for price changes, of course the data tell quite a different story than if you properly account for falling prices.

So, we'll stick to our U.S. consumers are doing just fine narrative. The monthly data may indeed remain volatile, but the underlying trend will still show steady growth in consumer spending in the months ahead.





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