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September Retail Sales: Yes, (Falling) Prices Do Matter

- Retail sales rose by 0.1 percent in September after being unchanged in August (originally reported up 0.2 percent).
- Retail sales excluding autos fell by 0.3 percent after falling 0.1 percent in August (originally reported up 0.1 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.1 percent in September.

In the wake of the September retail sales report the headline on the financial news wire read "Retail Sales Rise Less Than Forecast" and the very next headline that came across read "Wholesale Prices In U.S. Decline by the Most Since Start of Year." Now, we're not relaying this as a means of distributing pirated content but instead because, though it has apparently escaped the notice of many analysts, the two are actually related. Yes, total retail sales rose by just 0.1 percent in September, a bit shy of the expected gain, and ex-auto retail sales actually fell by 0.3 percent compared to the expected 0.1 percent decline. Control retail sales, a direct input into the GDP data, fell by 0.1 percent in contrast to the expected 0.3 percent gain. Additionally, prior estimates for August retail sales were marked down for total, ex-auto, and control sales.

Seven of the 13 broad categories for which sales are reported logged declines in September, led by a 3.2 percent decline in sales at gasoline stations. This comes as no surprise given the 9.7 percent decline in retail gasoline prices (EIA data) during the month which left pump prices 26 percent below their year-ago level. Sales at building material sales were down 0.3 percent in September on the heels of a 1.3 percent decline in August, though these declines come after an outsized 3.7 percent increase in July. Sales at nonstore retailers were down 0.2 percent in September after falling 0.3 percent in August. Sales at food & beverage stores fell 0.3 percent in September, erasing much of August's 0.4 percent increase. As for the downward revision to August, the largest markdowns came in the categories of motor vehicle parts, gasoline stations, and food & beverage stores.

There were some pockets of strength in the September report, with sales at motor vehicle dealers up 1.8 percent. Recall unit motor vehicle sales jumped to an annual rate of 18.1 million units in September as a late Labor Day holiday shifted some sales from August, but despite this calendar effect 2015 is on pace to easily be the strongest year for motor vehicle sales since 2001. Additionally, restaurants posted another solid

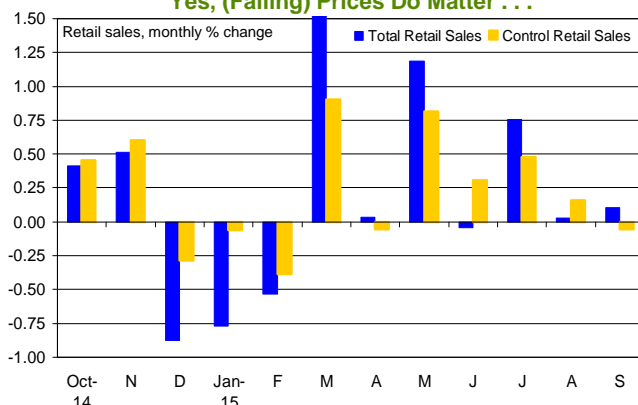
month with a second consecutive 0.7 percent gain, sales at furniture stores were up 0.6 percent and sales at apparel rose 0.9 percent.

Thus far, we've heard a few different explanations for what looks to be a soft September retail sales report. These include the loss of confidence in the wake of several weeks of heightened volatility in the financial markets, the desire to save more of the cash freed up by lower gasoline prices, and the lack of wage growth. One thing we haven't heard discussed much is the impact of falling prices, and today's larger than anticipated decline in wholesale prices lends some downside risk to the September CPI (released Thursday) which had been expected to decline by 0.3 percent. While gasoline is the prime instance of how falling prices are impacting the nominal retail sales data (see the chart below) they are by no means the only instance. For some time now prices of non-energy goods have been falling on an over-the-year basis, but in recent months core goods prices have been declining on a month-to-month basis. In today's PPI data food prices are shown to have declined 0.8 percent in September, so it is likely lower prices played a hand in the decline in sales at food & beverage stores seen in today's retail sales report. The point is that price changes matter which, for whatever reason, seems more intuitive when prices are rising at a rapid pace than it does when prices are falling. Retail sales are reported in nominal terms but once prices have been properly accounted for, real growth in consumer spending will be better than the nominal data let on.

As it is, on a nominal basis control retail sales rose at an annualized rate of 4.2 percent in Q3, just slightly below the 4.3 percent annualized gain logged in Q2. Recall real total consumer spending (goods and services, the latter not included in the retail sales data) rose at an annual rate of 3.6 percent in Q2 and we look for a similar increase to be reported in the Q3 GDP data later this month. So, this would suggest consumer spending is on more solid ground than implied by the headline print on the September retail sales report.



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Improving Labor Market Will Support Income Growth

