ECONOMIC UPDATE
REGIONS
October 16, 2019

September Retail Sales: Consumers Suddenly On Shaky Ground? We Think Not.

- Retail sales fell by 0.3 percent in September after rising by 0.6 percent in August (initially reported up 0.4 percent)
- Retail sales excluding autos fell by 0.1 percent in September after rising by 0.2 percent in August (initially reported 0.0 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) were unchanged in September

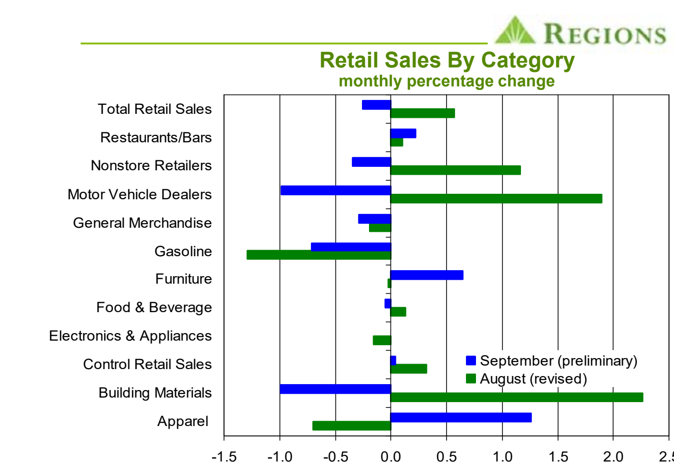
Total retail sales fell by 0.3 percent in September, quite contrary to the 0.3 percent increase we and the consensus expected, with ex-auto sales down by 0.1 percent and control retail sales unchanged. Prior estimates of August retail sales were revised higher, with total retail sales now reported to have risen by 0.6 percent rather than the 0.4 percent increase originally reported. As the data now stand, nominal control sales rose at an annualized rate of 6.8 percent in Q3, below what our forecast anticipated but nonetheless the second fastest quarterly growth rate over the past five years. The concern raised by the weak September data, however, is that U.S. consumers are losing steam, and fast. Given that consumer spending has been the main driver of GDP growth in recent quarters, that would be an ominous sign for the broader economy. That may be the case, but it will take more than one weak retail sales report to convince us, particularly given that the initial estimates of retail sales in any given month have less than a stellar track record of reliability. And, yes, we've made the exact same point in months in which our forecast was much closer to the mark than was the case this time.

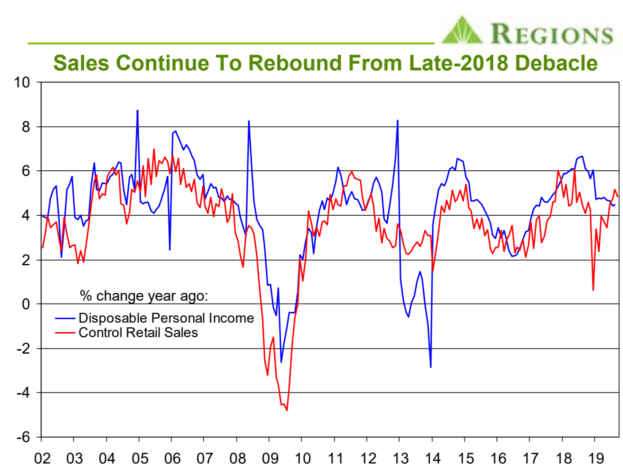
September saw sales fall in seven of the 13 broad categories for which data are reported. Though not the largest decline reported, the 0.3 percent decline in sales by nonstore retailers nonetheless stands out the most to us, given that nonstore retailers, which includes but is not limited to online sales, has long been the most consistently strong category in the retail sales data. Note that online sales are reported with a one-month lag and that online sales account for roughly 88 percent of sales in the broader nonstore retailers category. As such, the reported decline in the broader category implies online sales fell in September. Let's see what the revisions have to say a month from now.

Sales at gasoline stations were down by 0.7 percent in September after having fallen by 1.3 percent in August, though these decline reflect sharply lower retail gasoline prices. Sales at department stores were down by 1.4 percent in September after having fallen by 1.2 percent in August, and the reported decline in September is somewhat curious given the weakness in the nonstore retailers category. Sales revenue at motor vehicles dealers fell by 0.9 percent in September after having risen by 1.9 percent in August. Even allowing for price effects, the reported decline in September is at odds with the increase in unit motor vehicle sales during the month. We've noted before that this is the category in which the initial estimate of sales in any given month is typically the largest, so, again, we'll see what the revisions have to say a month from now. Sales at building materials stores fell by 1.0 percent in September, following August's 2.3 percent increase, which was initially reported to have been a 1.4 percent increase. Sales at grocery stores fell by 0.1 percent in September after an increase of just 0.1 percent in August, but this is another category in which price effects are weighing on the nominal (i.e., not adjusted for price changes) data.

The 1.3 percent increase in apparel store sales and the 0.6 percent increase in furniture store sales offer signs of life in the September data. The increase in restaurant sales in September was twice that of August, which sounds way more impressive if you don't then note that August's increase was just 0.1 percent, putting September's increase at 0.2 percent. At least for now – the initial estimate for August showed a 1.3 percent decline, with this being another category in which the revisions to the initial estimate of sales in any given month tend to be large.

Judging by the early reactions, there is no shortage of convenient explanations for the lousy report on September retail sales – concerns over trade, wage growth "has flipped," rising political tensions, the cumulative effects of increased talk of recession. Convenient, sure, but accurate? Aggregate labor earnings are rising at a better than 5.0 percent pace, consumer confidence remains elevated, and those retailers who understand online sales continue to thrive. We'd say the September retail sales report is the outlier here. We've noted the pace of growth in consumer spending in Q2 was not a sustainable pace, but that means slower growth in consumer spending going forward as opposed to consumers suddenly engaging in an all-out retreat.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com