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October Retail Sales: Stronger Than Normal Seasonal Bounce

- Retail sales rose by 0.4 percent in October after rising 0.8 percent in September (originally reported up 0.4 percent)
- Retail sales excluding autos rose by 0.1 percent in October after rising 1.0 percent in September (originally reported up 0.5 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.1 percent in October

Total retail sales rose by 0.4 percent in October, with ex-auto sales up 0.1 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, down by 0.1 percent. In each case, the actual increases topped our forecast, as we had anticipated total sales being flat, ex-auto sales falling by 0.1 percent, and control retail sales falling by 0.3 percent. At the same time, there were meaningful upward revisions to prior estimates of September sales which to some extent were blunted by downward revisions to prior estimates of August sales – to that point, the net revision to prior estimates of control retail sales over the two-month period was modestly negative. In any event, in our preview of the report on October retail sales, we noted that in any given month our forecast of retail sales in any given month was the product of two components – not seasonally adjusted sales and the seasonal factors used to convert the raw data into the seasonally adjusted estimates. Of the two, only the first is significant, at least in terms of how we process the data, given that seasonal adjustment can often amount to little more than noise in the data that needlessly alters perceptions of underlying patterns of activity. Our forecast anticipated that, on a not seasonally adjusted basis, total retail sales would be up by 6.7 percent and control retail sales would be up by 7.1 percent; the actual increases were 6.9 percent and 7.2 percent, respectively. Our miss on top-line sales is mostly a function of revenue at motor vehicle dealers, gasoline station sales, and sales at electronics stores being stronger than our forecast anticipated, whereas our miss on our forecast of control retail sales is mostly a function of the October seasonal factors being modestly less punitive than we had anticipated would be the case. In that sense then, the October retail sales data don't really alter our take on U.S. consumers; though not discounting pockets of financial stress amongst lower-to-middle income households, there remains ample support for growth in consumer spending with still-wobbly consumer sentiment and increasingly less pent-up demand, particularly in the services space, acting as offsets.

The seasonally adjusted data show sales advanced in eight of the thirteen broad categories for which data are reported. Sales at electronics and appliance stores rose by 2.3 percent, which is in line with the increase in

unadjusted sales in this category and could reflect increased promotional activity during October in the wake of a substantial September decline in sales in this category. Revenue at motor vehicle dealers rose by 1.9 percent, reflecting higher unit sales of new vehicles and sharply higher prices of used vehicles. Restaurant sales were up 0.7 percent in October while the estimate of September sales was revised up to show an increase of 1.2 percent; we'll note, however, that the October increase was "genuine," in the sense that the unadjusted data show an increase, while the September increase is no more than a gift from seasonal adjustment, as unadjusted restaurant sales fell by six percent in September.

Sales by nonstore retailers rose by 0.3 percent in October on a seasonally adjusted basis. As we noted in our preview of the October data, however, that October has become such an important month for online promotional activity, a means of retailers with an online presence getting a jump on holiday season sales, suggested the not seasonally adjusted data would show a sizable increase in sales by nonstore retailers. While this is what our forecast anticipated, we also anticipated much of this increase would be washed away by harsh seasonal adjustment. The data show just that, with unadjusted sales by nonstore retailers, a category dominated by online sales, up by 11.3 percent, larger than last October's 9.5 percent increase. The November data will give us a better sense of the extent to which October's increase pulled sales forward from the "traditional" holiday shopping season, though we'll caution that the real answer to this question will be found in the not seasonally adjusted data.

To the downside, sales at auto parts/accessory stores fell by 2.0 percent in October, extending a run of weakness in this category; it could be that the increasing technological sophistication in motor vehicles is taking a toll on do-it-yourself repairs aside from those with the most advanced tinkering skills, which of course leaves us out. Furniture store sales were down by 1.3 percent, though this is another instance of less favorable seasonal adjustment in this October's data as unadjusted sales in this category were up modestly. The same is true of apparel store sales, with unadjusted sales up by 7.9 percent but the seasonally adjusted data showing a 0.2 percent decline in this category.

