ECONOMIC UPDATE

REGIONS

April 1, 2019

February Retail Sales: One Step Forward One Step Back Leaves You . . . Confused?

- Retail sales fell by 0.2 percent in February after rising by 0.7 percent in January (initially reported up 0.2 percent)
- Retail sales excluding autos fell by 0.4 percent after rising by 1.4 percent in January (initially reported up 0.9 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.2 percent in February

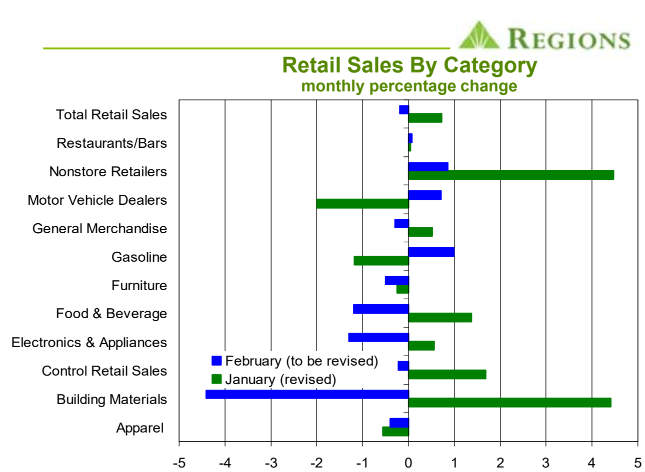
Forget about that whole tree falling in a forest making a sound thing, here's the real question – if retail sales fall when virtually everyone thought they would rise but this comes after the increase in retail sales in the prior month was much larger than you were originally told was the case, does this leave retail sales up or down? We're going with "yes, it makes a sound." Oh, the retail sales question – whatever. In any event, total retail sales fell by 0.2 percent in February, in contrast to the 0.3 percent increase we and the consensus expected. Ex-auto sales were down by 0.4 percent and control retail sales, a direct input into the GDP data on consumer spending, fell by 0.2 percent. Not exactly fodder for the next volume of "Great Moments In Economic Forecasting," right?

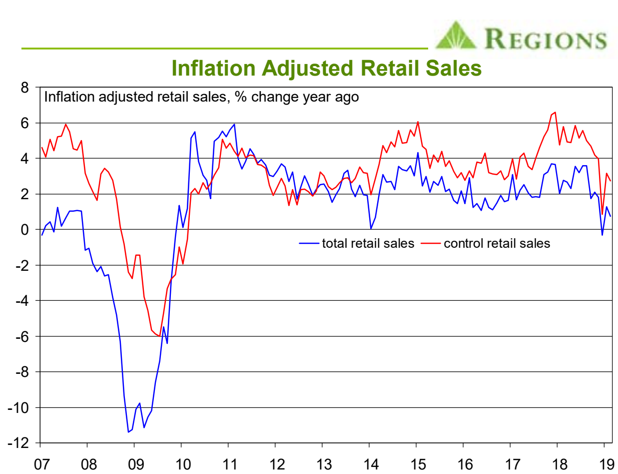
Okay, sure, we're still waiting for the first volume of that series, but, the declines reported for February follow sizable upward revisions to the first estimate of January retail sales. We're now told total retail sales rose by 0.7 percent in January, ex-auto sales rose by 1.4 percent, and control retail sales rose by 1.7 percent; the initial estimates showed increases of 0.2 percent, 0.9 percent, and 1.1 percent, respectively. For anyone so inclined, fell free to insert you own April Fool's Day joke here. Instead, we'll just repeat a point we've made countless times over the years, which is that the initial estimate of retail sales in any given month is useless, and the question at this point is whether the revisions to the initial estimate for February will be upward or downward.

The initial estimate shows sales were down in February in 7 of the 13 broad categories for which data are reported. Sales at building materials & garden supply stores fell by 4.4 percent, though this follows a 4.4 percent increase in January which was initially reported as a 3.3 percent increase. Sales at electronics & appliance stores were down by 1.3 percent, after having risen by 0.6 percent in January (originally reported to be a 0.3 percent decline). Grocery store sales are reported to have fallen by 1.2 percent in February, which follows an upwardly revised increase of 1.4 percent in January. Sales at furniture stores were down by 0.5 percent in February and are now reported to have fallen by 0.3 percent in January, originally reported as a 1.2 percent decline.

Sales at gasoline stations rose by 1.0 percent in February, which makes sense directionally given the increase in retail gasoline prices, but we'll wait a month to get a better sense of the actual magnitude by which gasoline station sales rose in light of sales in January being revised upward, and significantly so. Sales at motor vehicle dealers were up by 0.7 percent in February, which again makes sense directionally given the revenue friendly mix of sales amongst automobiles and SUVs/light trucks. Sales by nonstore retailers are reported to have risen by 0.9 percent in February after a 4.5 percent increase in January. Sales in this category, which includes but is not limited to online sales, fell by 4.5 percent in December, but today's release shows sharp upward revisions to prior estimates of sales in December and January.

As with any given data series, there is a lot going on "under the hood" in any given report on retail sales. Given that the data are reported on a nominal basis, i.e., not adjusted for price changes, reported changes in sales in a given category in a given month, such as apparel or gasoline sales, can reflect price changes far more so than changes in consumer preferences or buying patterns. And, to be sure, retail sales did soften in December, but the reported declines reflect how what were smaller than normal increases in not seasonally adjusted sales were punished by seasonal adjustment factors geared for larger, i.e., more normal, increases in December. While we've long been on record as having no use for the initial estimate of retail sales in any given month, that the estimates of control retail sales feed directly into the GDP data means we, and others, have to pay attention to them. To put the February data in proper context, however, we'll point out that with the sizable upward revisions to the initial estimate of January sales, growth in Q1 consumer spending on goods is running ahead of where our forecast would have put it, even with the big "miss" on the forecast of February sales. Our bottom line is that U.S. consumers remain on firm footing, though rising gasoline prices could curb growth in spending in other categories.





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