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February Retail Sales: February Stumble Won't Derail Robust Q1 Spending Growth

- › Retail sales **fell** by 3.0 percent in February after **rising** by 7.6 percent in January (initially reported up 5.3 percent)
- › Retail sales excluding autos **fell** by 2.7 percent in February after **rising** by 8.3 percent in January (initially reported up 5.9 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) **fell** by 3.5 percent in February

Total retail sales fell by 3.0 percent in February, with ex-auto retail sales down by 2.7 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, down by 3.5 percent, much worse numbers than had been anticipated. Kind of. February's steep decline must be put into the context of significant upward revisions to already strong January sales numbers. Total retail sales are now reported to have risen by 7.6 percent in January, compared to the initial estimate of a 5.6 percent increase, while control retail sales are now reported to have risen by 8.7 percent in January, up from the initial estimate of a 6.0 percent increase. The not seasonally adjusted data show a more severe decline in sales than is typical for the month of February, which largely reflects the effects of the unusually harsh winter weather that pummeled much of the nation during the month. Still, despite February's decline, with the upward revisions to the January data control retail sales are growing at an annualized rate of 19.1 percent on a nominal basis thus far in Q1, and even allowing for faster inflation during the quarter, that sets the stage for double-digit growth in real consumer spending on goods in Q1 even before the likely rebound in spending in March.

On a not seasonally adjusted basis, total retail sales fell by 5.4 percent in February while control retail sales fell by 6.9 percent, larger declines than is typical for the month of February – over the 2000-2020 period, the average February decline in unadjusted control retail sales was 1.8 percent. As such, despite the February seasonal adjustment factors being very favorable, they were in essence swamped by the magnitude of the decline in unadjusted sales. This has been a material issue in the retail sales data over the past several months; a smaller than normal increase in unadjusted sales in December followed by a smaller than normal decline in January wreaked havoc on the seasonally adjusted data. The high volume of noise in the monthly data can obscure what has been a robust rebound in consumer spending on goods after last spring's sharp declines.

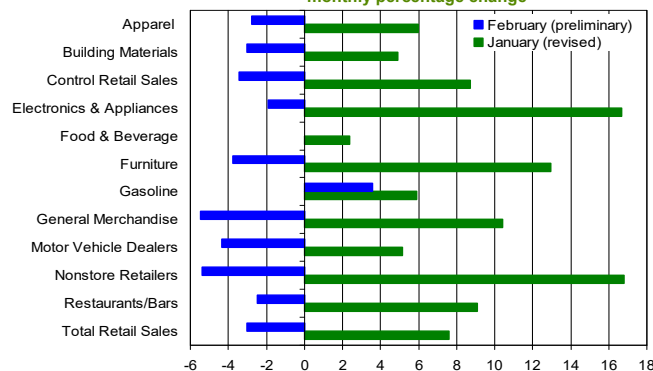
On a seasonally adjusted basis, gasoline station sales rose by 3.6 percent in February, helped along by a significant increase in retail pump prices, while grocery stores were flat. February sales fell in the other eleven main

categories for which data are reported. A significant decline in unit motor vehicle sales and weaker pricing contributed to the 4.3 percent decline in sales at motor vehicle dealers. Sales at general merchandise stores fell by 5.4 percent (the 8.4 percent decline in department store sales rolls up into this broad category), sales at furniture stores fell by 3.8 percent, sales at electronics/appliance stores fell by 1.9 percent, sales at building materials stores fell by 3.0 percent, and restaurant sales fell by 2.5 percent. It isn't hard to see the effects of last month's harsh winter weather on sales at physical stores, but the reported 5.4 percent decline in sales by nonstore retailers is a bit surprising. Online sales account for over 90 percent of sales in the broader nonstore retailers category but are reported with a one-month lag so we do not yet have the February data, but the sizable decline in the broader category ensures online sales fell last month.

In addition to weather effects, delays in federal income tax refunds likely played a part in the weakness in retail sales in February. In a typical year, refunds begin flowing in February, but this year refunds are coming later. Their arrival along with what would be a normal rebound from any weather-related declines in February, this would set the stage for a rebound in consumer spending in March. That rebound, however, will be significantly bolstered by the arrival of the third round of Economic Impact Payments (EIP) – payments of up to \$1,400 per eligible recipient and each eligible dependent. Recall that the personal saving rate jumped to 20.5 percent upon the arrival of the second round of EIP in January, and our estimate pegs the level of “excess” saving in the household sector at around \$1.72 trillion as of January. Clearly there is scope for consumer spending to be significantly stronger in the months ahead, but keep in mind that spending on goods was already well above pre-pandemic levels prior to the third round of EIP, making it more likely that services – not captured in the retail sales data – is the area in which we are likely to see the biggest burst in consumer spending over coming months as the economy more fully reopens. While spending on goods will rebound from February's dip, it is likely to be quite volatile in the months ahead, which will be reflected in the retail sales data.

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Retail Sales By Category
monthly percentage change



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More Than The Normal Seasonal Weakness

