January Retail Sales: Consumers Are Back, Even If They Never Went Anywhere

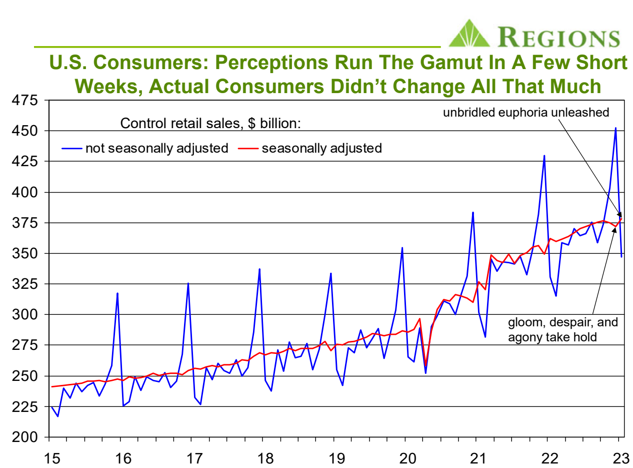
- Retail sales rose by 3.0 percent in January after falling 1.1 percent in December (as originally reported)
- Retail sales excluding autos rose by 2.3 percent in January after falling 0.9 percent in December (initially reported down 1.1 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 1.7 percent in January

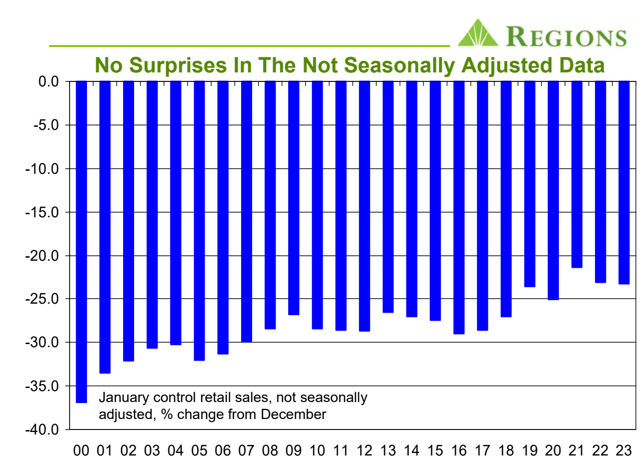
They're back, baby . . . even if they never, you know, actually went anywhere. They in this case being U.S. consumers, and if you had no more to go on than the reactions to the monthly reports on retail sales, you'd think that January saw a miraculous recovery from what was a most untimely demise in December. Neither is the case, of course, which has been evident all along to anyone looking into the details of the monthly retail sales data. Total retail sales rose by 3.0 percent in January, topping our above-consensus forecast of a 2.6 percent increase, with ex-auto sales up by 2.3 percent, also topping our above-consensus forecast. Control retail sales, a direct input into the GDP data on consumer spending on goods, rose by 1.7 percent, just a designer handbag, full price of course, below our forecast of a 1.9 percent increase. January's increase in retail sales comes on the heels of two straight monthly declines, which seems perfectly in line with the "they're back" take we're seeing in the wake of the release of the data. As we noted in our weekly *Economic Preview*, however, the reported increase in retail sales in January tells us exactly as much about the state of consumers as did the reported declines in November and December, which is pretty much nothing at all.

On a not seasonally adjusted basis, total retail sales fell by 16.2 percent in January while control retail sales fell by 23.2 percent, which is not at all surprising as unadjusted retail sales have never increased in the month of January. Neither is it surprising that these declines are smaller than the average January declines (average declines of 17.9 percent and 24.0 percent, respectively, over the past five years), which was the premise of our above-consensus forecasts. One reason we expected a smaller than normal decline in retail sales in January was that the increases in sales (not seasonally adjusted) last November and December were smaller than normal for those months, hence the reported declines in sales on a seasonally adjusted basis. As we've discussed, the combination of retailers looking to clear unwanted inventories starting holiday sales promotions in October, shifting consumer spending patterns, and falling prices for core (non-food, non-energy) consumer goods contributed to the smaller than normal increases in retail sales during the 2022 holiday shopping season. As such, it figured that the decline in sales that comes each January would this year be smaller than normal. Nothing mysterious about any of this, and nothing that tells us much, if anything, about the financial shape of U.S. consumers, though many jumped on the declines in seasonally adjusted sales in November and December as the basis on which to declare U.S. consumers to be in dire financial straits.

The retail sales data over the past few months are further illustrations of a point we've made often, which is the extent to which typical seasonal patterns in economic activity have been so distorted since the onset of the pandemic, which also reflects the policy response to the pandemic. The general reactions to the retail sales data over the past few months are further illustrations of what happens when deviations from typical seasonal patterns of economic activity are not accounted for. In terms of seasonal adjustment, that unadjusted sales fell in January isn't the issue, how that decline compares to a typical January is what matters. While we won't go through each of the broad categories, a couple of examples will illustrate our point. The unadjusted data show apparel store sales fell by 52.5 percent in January, while sales by nonstore retailers, the vast share of which reflects online sales, fell by 22.8 percent. These declines are, however, smaller than the typical January declines in these categories, such that the seasonally adjusted data show apparel store sales up by 2.5 percent and sales by nonstore retailers up by 1.3 percent. The same holds for restaurant sales, the sole glimpse of services spending found in the retail sales data; the 4.4 percent decline in unadjusted restaurant sales was smaller than the normal January decline, contributing to the 7.2 percent increase reported in the seasonally adjusted data.

Again, just as we argued consumers were on much sounder financial footing than suggested by the reported declines in retail sales in November and December, we do not think the January retail sales data imply a meaningful improvement in the financial shape of U.S. consumers. Neither do we think the January retail sales data say anything about what the FOMC might, should, or will do, even though those takes are already making the rounds. The big swings in retail sales over the past few months say very little about underlying economic conditions, and it seems more than a bit odd a point so basic can go so largely overlooked.





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