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February Retail Sales: February Decline Follows Upward Revision To January Sales

- › Retail sales **fell** by 0.4 percent in February after rising 3.2 percent in January (originally reported up 3.0 percent)
- › Retail sales excluding autos **fell** by 0.1 percent in February after rising 2.9 percent in January (initially reported up 2.3 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) **rose** by 0.5 percent in February

Total retail sales fell by 0.4 percent in February, matching the consensus forecast but larger than the 0.1 percent our forecast anticipated. Ex-auto sales were down by 0.1 percent while control retail sales, a direct input into the GDP data on consumer spending on goods, rose by 0.5 percent, topping our forecast of a 0.3 percent increase and the consensus forecast of a 0.3 percent decline. Though the February data may upon first glance seem on the soft side, they come on the heels of upward revisions to the initial estimate of January sales. Though the upward revision to headline sales is not particularly notable, up 3.2 percent compared to the initial estimate of a 3.0 percent increase, the upward revision to control sales is worth noting, as the initial estimate of a 1.7 percent increase is now shown to be a 2.3 percent increase. Along with the initial estimate of February control sales, the upward revision to the January data poses an upside risk to our forecast of growth in real consumer spending, as nominal sales are up at a 9.0 percent annualized rate through February. That is, at least to us, worth keeping in mind when processing the headline number showing a decline in top-line retail sales in February.

On a not seasonally adjusted basis, total, ex-auto, and control retail sales fell in February, which is in line with typical patterns. Sales fell in each of the main categories for which data are reported, with the exception of apparel store sales, but the increase in unadjusted apparel store sales was smaller than the typical February increase, hence the decline reported for apparel store sales on a seasonally adjusted basis. The seasonally adjusted data show sales declined in nine of the thirteen main categories.

Leading the way, down, that is, were furniture store sales, which fell by 2.5 percent in February, but this comes on top of a sizable upward revision to the initial estimate of January sales. Restaurant sales fell by 2.2 percent in February, which comes on top of a meaningful downward revision to the initial estimate of January sales. While restaurant sales offer the only glimpse of services sector spending in the retail sales data, we don't think the decline in restaurant sales spells doom for overall February services spending, which matters given that services spending accounts for roughly two-thirds of all consumer spending.

On the upside, sales at nonstore retailers, a broad category mostly made up of online sales, rose by 1.6 percent while at the same time the initial estimate of January sales was revised higher. Sales in the broad general merchandise stores category rose by 0.5 percent in February, covering up a 4.0 percent decline in department store sales that follows an 18.1 percent increase in January. Of the sub-categories in the broad general merchandise stores category, department store sales are the only one reported concurrently, while data for warehouse/club stores, the largest sub-category, come with a one-month lag, so all we know at this point is that warehouse/club store sales rose by 2.0 percent in January. Keep in mind that many consumers have shifted purchases of food and gasoline to warehouse/club stores and away from grocery stores and gas stations as a means of contending with elevated inflation, as warehouse/club stores typically offer lower prices.

We'll note that the sizable increase in January retail sales reflects no more than smaller than normal declines in not seasonally adjusted sales, and the upward revision to the initial estimate of January sales simply reflects smaller declines in the raw data than initially reported. While unadjusted control sales fell further in February, that is not unusual, as our chart below shows. It also is worth noting that prices for core consumer goods (non-food, non-energy) excluding used motor vehicles posted larger increases in both January and February than those seen over the prior several months. This could to some extent reflect retailers backing away from the aggressive discounting they were using as a tool to help pare down unwanted inventories. In that sense, the hefty increase in control sales on a nominal basis will be at least somewhat watered down in the inflation-adjusted data. Additionally, as noted above, with the exception of restaurant sales, the retail sales data do not capture services spending. We've noted that our proxy for discretionary services spending weakened over the final months of 2022, and how that holds up in the months ahead will be the more telling indicator of the state of consumers than the retail sales data will be. The BEA will release their data on total consumer spending – goods and services – on March 31.

