ECONOMIC UPDATE
REGIONS
February 15, 2024

January Retail Sales: No, The Sky Isn't Falling, And Neither Are Consumers. Good Grief.

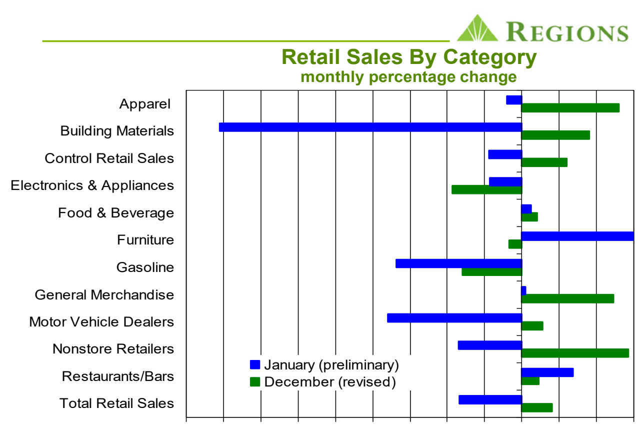
- Retail sales <u>fell</u> by 0.8 percent in January after rising 0.4 percent in December (originally reported up 0.6 percent)
- Retail sales excluding autos <u>fell</u> by 0.6 percent in January after rising 0.4 percent in December (as originally reported)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) <u>fell</u> by 0.4 percent in January

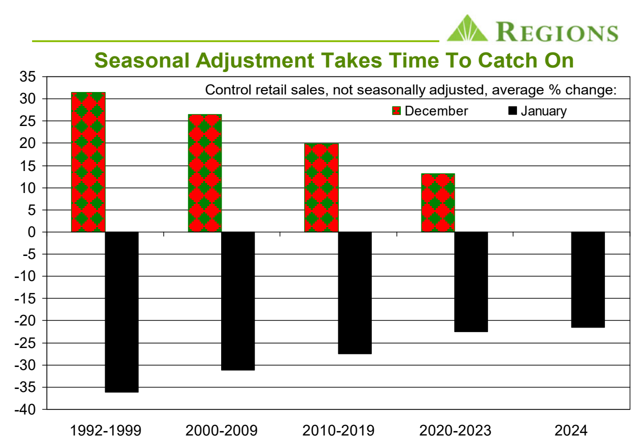
Total retail sales fell by 0.8 percent in January, with ex-auto sales down by 0.6 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, down by 0.4 percent. The January prints are, across the board, significantly weaker than the consensus forecasts, which had ex-auto and control sales rising, but are more in line with our forecasts, which had total retail sales down by 0.7 percent and control sales down by 0.3 percent. At the same time, there were downward revisions to prior estimates of sales in both November and December, and that control sales were revised down in each month means that Q4 growth in real consumer spending was likely not as rapid as the BEA estimated in their first pass at Q4 GDP. The response to the January data has been all too predictable, and anyone looking for us to jump on the "downtrodden consumers raise recession odds" bandwagon can stop reading at this point and look elsewhere. There is little surprising in the report on January retail sales, and while there are some curious prints amongst the individual categories, that's more the rule than the exception for the retail sales data. As such, there is nothing in this report that leads us to question our underlying assumptions of the state of U.S. consumers.

On a not seasonally adjusted basis, total retail sales fell by 16.6 percent and control retail sales fell by 21.5 percent in January, a bit larger than the 15.8 percent and 21.0 percent declines, respectively, our forecast anticipated. That unadjusted sales fell is not news, as unadjusted retail sales always fall in the month of January. The two things that stand out with this January's data are that the declines in unadjusted sales are smaller than has typically been the case in the month of January, and that the seasonal adjustment factors used by Census to produce the estimates of seasonally adjusted sales are not as forgiving as has been the case in the past. As we discussed in this week's *Economic Preview*, Census has attempted to address the residual seasonality that has plagued the retail sales data for the months of December and January over recent years, which has made December sales look weaker and January sales look stronger than has actually been the case. Shifts in holiday season shopping patterns have been a primary source of this residual seasonality. That December has accounted for smaller shares of total holiday season sales means the increases in unadjusted December sales have gotten progressively smaller, and these smaller December increases have given way to smaller and smaller January declines, which we illustrate in the chart below. As is always the case, it is taking time for seasonal adjustment to catch up to these changes, but Census is at least moving on the right track. These changes in seasonal adjustment factors can have profound impacts, not on actual spending but on our perceptions of spending. To that point, had the seasonal adjustment factor from last January been applied to this January's not seasonally adjusted sales, seasonally adjusted sales would have been reported to have risen by 0.5 percent. While that may have helped some feel better about retail sales, it would not have changed a single thing about U.S. consumers.

It was reasonable to wonder whether January retail sales would have been impacted by the unusually harsh winter weather that gripped much of the nation in January. That could have taken the form of fewer dollars having been spent, it could have taken the form of shifts in the composition of spending, or it could have been a mix of the two. We do think that weather was one factor in unit motor vehicle sales having been so weak, with this January's decline in unadjusted vehicle sales much larger than the typical January decline. Aside from motor vehicles, however, weather effects don't seem to have been all that significant; the decline in unadjusted control retail sales is the second smallest January decline in the life of the current series – had weather been a major factor in January spending, you'd expect to see a larger, not a smaller, than normal decline.

We have consistently pointed to two factors that we think have led many to underestimate the staying power of U.S. consumers. First, the vast majority of debt on household balance sheets is fixed-rate debt, thus insulating consumers against the effects of higher interest rates, with credit card debt the obvious outlier. Second, growth in aggregate labor earnings has outpaced inflation throughout this entire period of elevated inflation. To be sure, there are pockets of stress in the household sector but, in the aggregate, household financial conditions remain strong. As long as the labor market holds up, we expect this will remain the case.





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