ECONOMIC UPDATE

REGIONS

March 14, 2024

February Retail Sales: More Here Than Meets The Eye, You Just Have To Look . . .

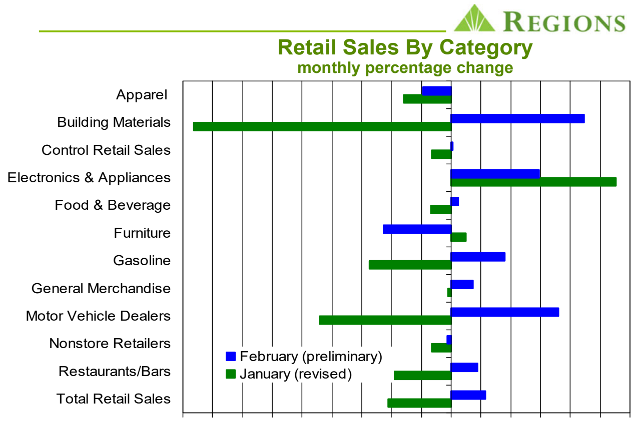
- Retail sales rose by 0.6 percent in February after falling 1.1 percent in January (originally reported down 0.8 percent)
- Retail sales excluding autos rose by 0.3 percent in February after falling 0.8 percent in January (originally reported down 0.6 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) were unchanged in February

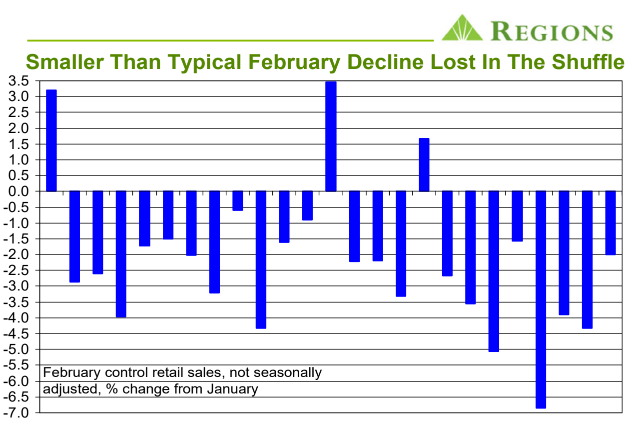
Total retail sales rose by 0.6 percent in February, with ex-auto sales up 0.3 percent and no change in control retail sales, a direct input into the GDP data on consumer spending in goods. At the same time, there were downward revisions to the initial estimate of January retail sales, now reported to have fallen by 1.1 percent rather than the 0.8 percent decline originally reported. Across the board, retail sales were weaker than the consensus forecasts expected – total retail sales up 0.8 percent, control sales up 0.4 percent – but closer to our forecasts – total retail sales up 0.5 percent and control sales down 0.2 percent. We did mark our forecasts down a bit in the wake of the February CPI data, which showed weaker pricing for core consumer goods than we had anticipated, but the bigger reason our forecasts lagged the consensus is that we expected much less support from seasonal adjustment than has been the case for the month of February in past years. That said, the February seasonal factors were a bit more generous than we had anticipated – our forecast of unadjusted control sales was right on the money but that translated into higher sales on a seasonally adjusted basis than we expected. Either way, our forecast had more to do with the mechanics of the estimate of retail sales than it had to do with the underlying fundamentals of household financial conditions, and we remain more constructive on the latter than those taking the past two months of retail sales data as a sweeping, and not all that positive, statement on the state of U.S. consumers.

To our point, not seasonally adjusted total retail sales actually rose by 0.9 percent in February. Our use of the word "actually" highlights how unusual it is for sales to rise in the month of February, this being the first such instance of this since 2016. Additionally, the 2.0 percent decline in not seasonally adjusted control retail sales is considerably smaller than the typical February decline, as seen in our second chart below. This is not, however, an isolated occurrence; it should be noted that Census making changes to the seasonal factors used to arrive at the estimates of seasonally adjusted sales is in response to what have been clear shifts in seasonal shopping patterns over recent years. While initially the thinking may have been that these changes were in response to the pandemic, and the policy response to it for that matter, that they have persisted this long suggests something more fundamental. Either way, had the January and February seasonal factors from last year been applied, control retail sales would have been up by over two percent in February, for the exact same dollar amount of sales on a not seasonally adjusted basis. Our point here is that changes in seasonal factors are not the same as changes in underlying household financial conditions, and no one should be making any inferences about the latter without understanding the former. To that point, we've heard some attribute the apparent softness in the retail sales data over the past two months to the effects of higher interest rates and the increase in unemployment on households who have exhausting their pool of savings. That it may sound like it makes sense doesn't mean it actually makes sense. To be sure, we're mindful of the cumulative effects of higher prices and the financial stress being felt by many lower-income households, but, on the whole, household financial conditions remain healthy. Moreover, as we've pointed out countless times, growth in aggregate labor earnings continues to easily outpace inflation, as has been the case over this entire period of elevated inflation.

As for the February data, the seasonally adjusted data show sales rose in eight of the thirteen broad categories for which sales are reported. Higher unit sales helped push revenue at motor vehicle dealers up sharply, while higher prices led to a jump in gasoline station sales. It is also worth noting that the unadjusted data show higher sales at furniture/appliance stores and apparel stores, but these translated into declines in the seasonally adjusted data, going to our earlier point. Sales at building materials stores rebounded after having been held down in January by unusually harsh winter weather. That was also the case with restaurant sales, the only glimpse of services spending provided in the retail sales data.

While we don't think that the retail sales data from the past two months tell us all that much about consumers or consumer spending than we already knew, one way in which they very much matter is that the data on control retail sales feeds directly into the GDP data. On a nominal basis, control sales are tracking negative for Q1, which will lead to Q1 real GDP growth forecasts, ours included, being marked down.





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