ECONOMIC UPDATE

REGIONS

February 14, 2025

January Retail Sales: January Data Overstate The Case, But Downside Risks Loom

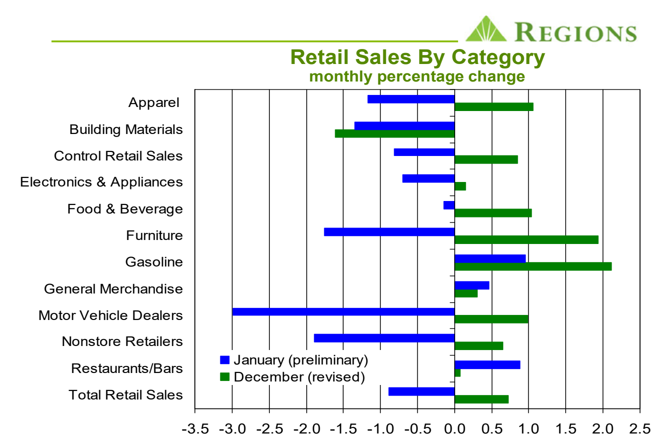
- Retail sales fell by 0.9 percent in January after rising 0.7 percent in December (originally reported up 0.4 percent)
- Retail sales excluding autos fell by 0.4 percent in January after rising 0.7 percent in December (originally reported up 0.4 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.8 percent in January

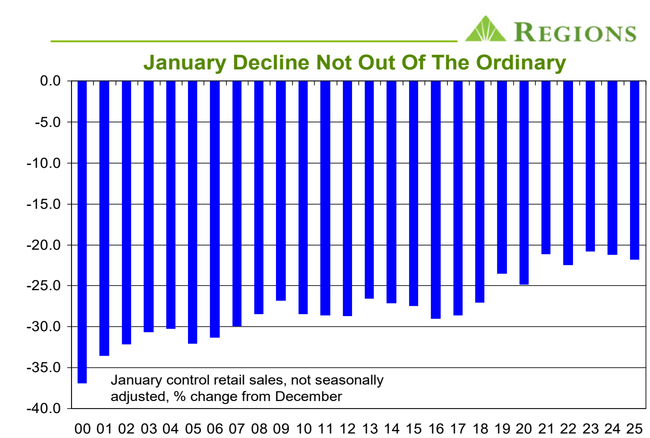
Total retail sales fell by 0.9 percent in January, with ex-auto sales falling by 0.4 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, falling by 0.8 percent. Our forecasts, each below the consensus, had total retail sales falling by 0.5 percent and both ex-auto and control sales falling by 0.2 percent. There were, however, upward revisions across the board to the initial estimate of December sales, with total retail and ex-auto sales now reported to have increased by 0.7 percent and control retail sales now reported to have increased by 0.8 percent. Though it is reasonable to think that the California wildfires and the unusually harsh winter weather that gripped much of the nation, particularly the South, in January would have had an impact on consumer spending, Census makes no mention of these factors, so we are not able to quantify any such effects. Either way, there is more than that to the January data. For instance, spending on consumer durable goods, such as motor vehicles, home furnishings, appliances, and electronics, was notably strong in both November and December, which could in part reflect consumers pulling purchases of such goods forward to avoid any tariff-related price increases in 2025, with the University of Michigan's surveys of consumers suggesting such effects were in play. To the extent that was the case, the strength of spending in these categories in the final two months of 2024 set up larger January declines, which the not seasonally adjusted data show to have been the case.

It does help to keep in mind that January is a notably weak month for retail sales, reflecting the usual post-holiday lull in consumer spending. On a not seasonally adjusted basis, total retail sales fell by 16.5 percent in January, a bit larger than the 15.6 percent decline than our forecast anticipated but easily within the bounds of a "typical" January decline, while control retail sales were down by 21.8 percent, a bit ahead of the 20.8 percent decline our forecast anticipated. Much of our miss on control retail sales was due to a much larger decline in sales by nonstore retailers than we expected. As we noted in this week's *Economic Preview*, we were more than a bit suspicious of the initial December estimate of not seasonally adjusted sales in this category, the bulk of which consists of online sales. Our premise was that, with Cyber Monday having fallen in December this year, the initial estimate of sales by nonstore retailers in December was too low, and we noted that an upward revision to that initial December estimate would throw our forecast of January sales off track. That proved to be the case, with the not seasonally adjusted data now showing sales by nonstore retailers up by 14.3 percent in December, as opposed to the initial estimate of a 10.3 percent increase. This helps account for the larger January decline in sales by nonstore retailers than we anticipated. That this category accounts for over thirty percent of control sales illustrates how a miss in it can easily throw a forecast of control sales off track.

The seasonally adjusted data show sales declined in nine of the thirteen broad categories for which data are reported. As anticipated, revenue at motor vehicle dealers fell sharply, down 3.0 percent, with a steep decline in unit sales swamping higher vehicle prices. Sales at furniture stores were down by 1.7 percent and sales at electronics/appliance stores were down 0.7 percent. The declines in these three categories to go our earlier point about the strength of spending on consumer durables over the final two months of 2024 setting the stage for weak January prints. Also, keep in mind that prices for electronics, appliances, and many components of the furniture category declined in January, sharply in many cases, which will have weighed on retail sales, which are reported on a nominal basis. Sharply lower prices also will have contributed to the 1.2 percent decline in sales at apparel stores. Sales at building materials stores fell sharply, which likely reflects some effects from the atypically harsh winter weather. To the upside, restaurant sales rose by 0.9 percent in January, though this is a gift from seasonal adjustment; spending in this category has been soft over recent months, which set the stage for a smaller than typical January decline which was flattered by seasonal adjustment.

We're not putting to much weight on the January retail sales data, particularly as growth in aggregate labor earnings continues to easily run ahead of inflation. That said, we continue to point to downside risks for growth in consumer spending, including persistent inflation pressures and elevated interest rates, and these come on top of our baseline forecast anticipating a slower pace of growth in real spending in 2025.





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