ECONOMIC UPDATE

REGIONS

March 17, 2025

February Retail Sales: A Sigh Of Relief Doesn't Alter The Reality . . .

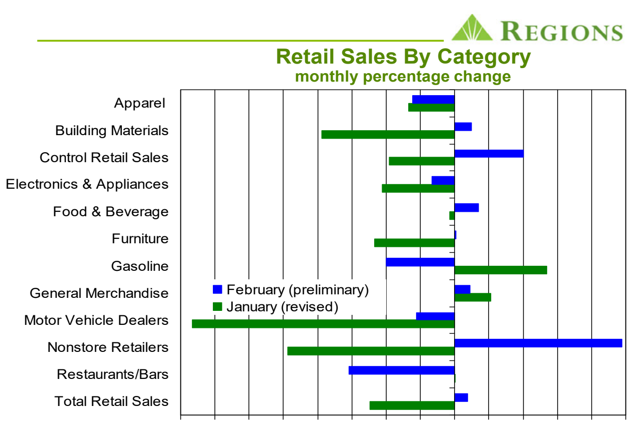
- Retail sales rose by 0.2 percent in February after falling 1.2 percent in January (originally reported down 0.9 percent)
- Retail sales excluding autos rose by 0.3 percent in February after falling 0.6 percent in January (originally reported down 0.4 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 1.0 percent in February

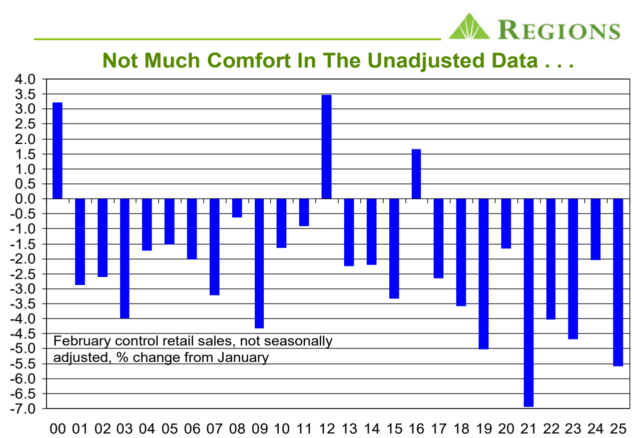
Total retail sales rose by 0.2 percent in February, with ex-auto sales rising 0.3 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, rising by 1.0 percent. Though the gain in total retail sales fell short of the consensus forecast of a 0.6 percent gain, the jump in control sales was far better than the consensus forecast of a 0.3 percent increase. As for our forecasts, well, to say we missed badly would be putting it politely; we expected total retail sales to be down by 0.2 percent, ex-auto sales to be down by 0.5 percent, and control sales to be down by 0.2 percent. Sure, we own those forecasts and have since we published them, but we'll nonetheless make the following points. First, the decline in January sales was more severe than initially reported, with total retail sales now reported to have fallen by 1.2 percent rather than by 0.9 percent as initially reported, and control retail sales now reported to have fallen by 1.0 percent rather than by 0.8 percent as first reported. In that sense, on a not seasonally adjusted basis, neither total nor control sales were too different in February than our forecast anticipated, they just got there by a different route. For instance, our forecast had not seasonally adjusted control sales falling by 6.6 percent in February, and while the actual decline was "only" 5.6 percent, the revised data show unadjusted control sales fell by 22.1 percent in January, more harsh than first reported. Again, though, the net result is that the level of unadjusted control sales as of February is not out of line with our forecast.

Our second chart below can help put the February data in proper context much more effectively than anything we could say. Barring 2021, when spending was still being buffeted by sizable pandemic-related transfers, the 5.6 percent decline in unadjusted control sales is the largest February decline in the life of the current data series, which dates back to 1992. As such, anyone pointing to the 1.0 percent increase in seasonally adjusted control retail sales as evidence that analysts had been overstating the degree of stress, financial and otherwise, in the household sector should rethink that argument. Moreover, that 1.0 percent increase is largely a gift from notably generous seasonal adjustment in the nonstore retailers category. On a not seasonally adjusted basis, sales by nonstore retailers, the bulk of which consists of online sales, fell by 7.0 percent in February, the largest February decline since 2018, but the seasonally adjusted data show sales by nonstore retailers to have risen by 2.4 percent, an increase which accounts for right at seven-tenths of a point of the 1.0 percent increase in control retail sales. Did we get our estimate of the February seasonal factor to be applied to the raw data in this category wrong – absolutely. Our bad. But, it is also fair to ask whether we were wrong in our interpretation of consumer spending in February as portrayed in the not seasonally adjusted data which, as our regular readers know, is the basis on which we make such calls. We know how we'd answer that question, we'll leave it for others to arrive at their own answers.

As for the seasonally adjusted data, given that the numbers are what they are, sales were up in seven of the thirteen broad categories for which data are reported, with the outsized increase in sales by nonstore retailers leading the way. Sales at auto parts stores were up by 1.6 percent, sales at grocery stores were up 0.4 percent despite flat pricing, and building materials stores and general merchandise stores each notched 0.2 percent gains. To the downside, gasoline station sales fell by 1.0 percent, revenue at motor vehicle dealers fell by 0.6 percent, sales at apparel stores fell by 0.6 percent, and sales at electronics/appliance stores fell. Department store sales, which roll up into the general merchandise stores category plummeted by 1.7 percent, while restaurant sales tumbled by 1.5 percent.

More broadly, it is worth considering the following points. First, as in January, atypically harsh winter weather clearly impacted spending patterns in February, which was visible in the various spending trackers. Sales did firm up in the final week of February into early-March, though that came from a somewhat flimsy base. Second, as we've repeatedly pointed out, spending, particularly on consumer durable goods, was notably strong over the final two months of 2024 and we always expected payback in the early months of 2025. Third, growing unease on the part of consumers is likely weighing on discretionary sales, and to the point falling equity prices add to that stress, that will be more visible in services spending. So, sure, our forecast of February retail sales didn't turn out all that well, but our take on U.S. consumers has not changed in the slightest, and we see plenty of downside risk for spending going forward.





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