



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 383-5635
Tim Quinlan, Economist
tim.quinlan@wellsfargo.com • (704) 374-4407

Retail Sales Bounce Back Less Than Expected In January

Retail sales once again came in below expectations, with overall sales rising just 0.4 percent. Motor vehicle dealers saw sales fall 1.1 percent, and spending at gas stations jumped 1.4 percent. Core sales rose 0.7 percent.

Spending Remains Constrained

Retail sales rose just 0.4 percent in January, as motor vehicle sales plummeted 1.1 percent and spending at electronics stores rebounded less than expected. Online and catalog sales also declined sharply in January, falling 1.1 percent. That drop likely reflects some difficulty seasonally adjusting the structural shift we are witnessing toward online shopping. Spending was also likely helped out by gift card redemptions, which have become a much more important part of holiday retail expenditures. Spending at general merchandise stores rose 2.0 percent in January, while spending at department stores rose 1.0 percent. Sales at restaurants and bars posted a solid 0.6 percent increase.

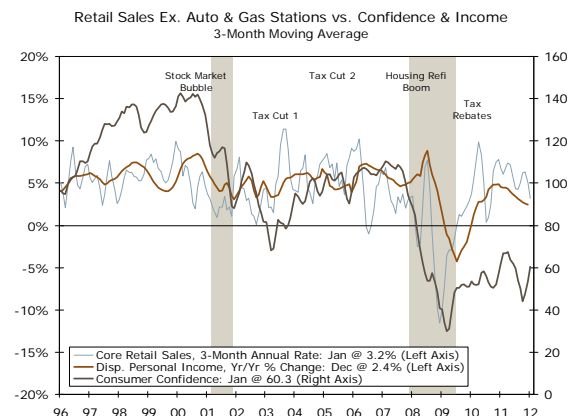
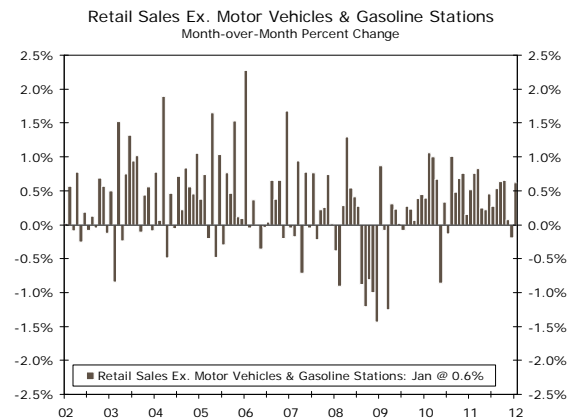
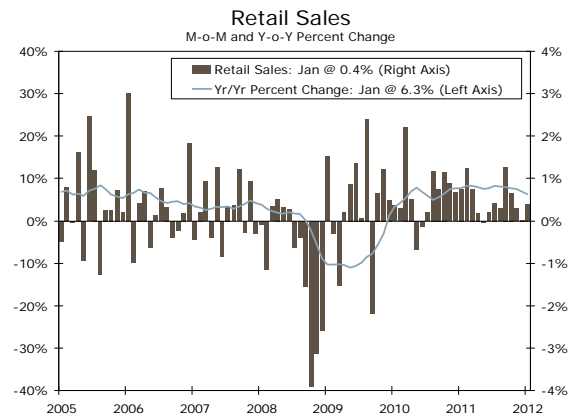
On the down side, spending at filling stations surged 1.4 percent, which is likely tied to higher prices. Sales declined modestly at drug stores and health and beauty shops. Sales at furniture stores also declined modestly, falling 0.2 percent. The rise in gasoline prices will likely take a toll on spending in coming months unless income growth improves. So far, the data are spotty on that front, and it looks like real earnings likely declined again in January.

Are Motor Vehicle Sales Strong or Weak?

January's 1.1 percent plunge in motor vehicle sales is a bit of a head scratcher. Sales at motor vehicle dealers actually declined 1.3 percent, following a 2.9 percent rise in December. January's drop contradicts the stronger manufacturer sales reported earlier in the month, which noted that sales jumped to a 14.1 million unit pace from a 13.5 million unit pace in December. Two things likely account for the disparity. Rental car companies typically make large purchases in January, which show up in business fixed investment rather than in retail sales. We also believe that inventories are building up at car dealers, which may lead to some production cuts in coming months.

Core Retail Sales Still Look Pretty Good

While the headline retail sales number came in below expectations and December data were revised lower, the core numbers still look good. Sales excluding motor vehicles, gasoline, and building materials rose 0.7 percent in January. If sales were to remain at their current level, this would put sales up at a 1.8 percent annualized rate during the first quarter. This is a little better than consensus estimates and may cause folks to slightly boost their first quarter consumer spending forecasts. Longer term, however, we still see consumer spending rising at around a 2 percent pace in 2012. With real after-tax income per person slightly lower today than it was a year ago, consumers simply lack the wherewithal and confidence to boost spending; that is, unless job and income growth improve even further.



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wellsfargo.com
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(704) 715-0314	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Senior Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Michael A. Brown	Economist	(704) 715-0569	michael.a.brown@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com
Kaylyn Swankoski	Economic Analyst	(704) 715-0526	kaylyn.swankoski@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2012 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

