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Economics Group

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Retailers Report Stronger Sales in February

Retail sales increased 1.1 percent in February, right in line with expectations. Last month's initially reported gain of 0.4 percent was revised higher to a 0.6 percent increase. Auto sales reclaimed lost ground.

Revisions Suggest Stronger Start to Q1 Spending

The revisions are a big part of the story today. What had seemed like a lousy month for sales in January is now looking less concerning and the increases in February seem to suggest that the U.S. consumer is not going into hiding. There has also been some concern that auto sales at the wholesale level were running ahead of actual sales on dealer lots. Today's report showed that sales at automobile dealers increased 1.6 percent in February, offsetting a decline of the same magnitude in the previous month. Additionally, reports of increased fleet sales at the start of the year alleviate some of the concern about bloated dealer inventories. We expect automobile and other durable goods consumption to continue to offer a small contribution to headline GDP growth this year.

Gas Prices Not Holding Back Consumer…Yet

With gas prices surging in February, it comes as little surprise that sales were up 3.3 percent at gasoline stations. Ordinarily, rising gas prices take a toll on consumer confidence. At some point it may, but so far most measures of consumer sentiment continue to rise, as equity markets remain strong and the labor market continues to improve.

Another interesting dynamic is that higher gasoline prices are taking away "wallet share" from other spending categories. Despite the increased outlays for gas and autos, "core" retail sales, which exclude autos, gas and building materials, increased 0.5 percent, and previous data here were also revised higher. The bottom line is that core spending is on much better footing than most economists had expected after last month's lackluster results.

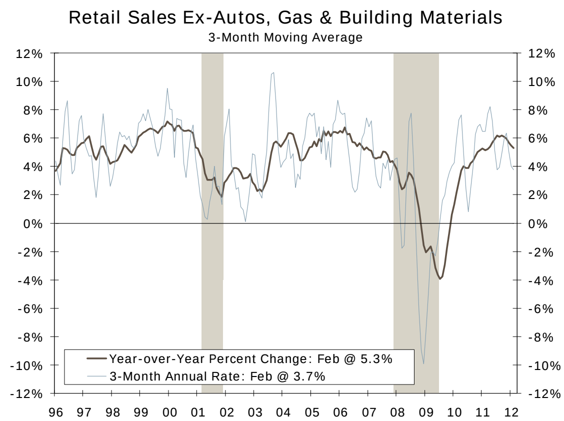
Warmer Weather Heating up the Economy?

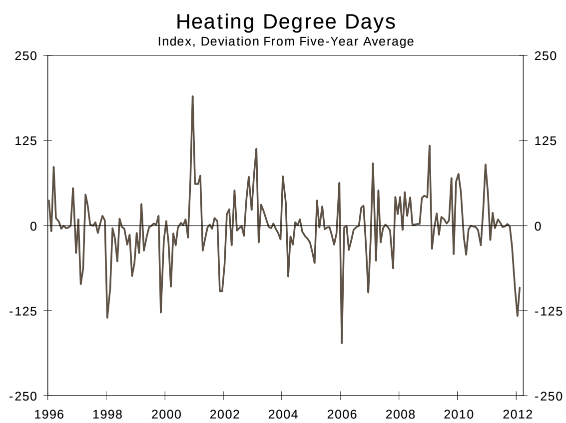
The impact of a warmer winter continues to find its way into the economic data. According to a tally from the National Oceanic and Atmospheric Association of the number of heating degree days across the contiguous United States, the unusually mild winter has caused a stunning decline in heating needs, which may have offset some of the sting from higher gasoline prices.

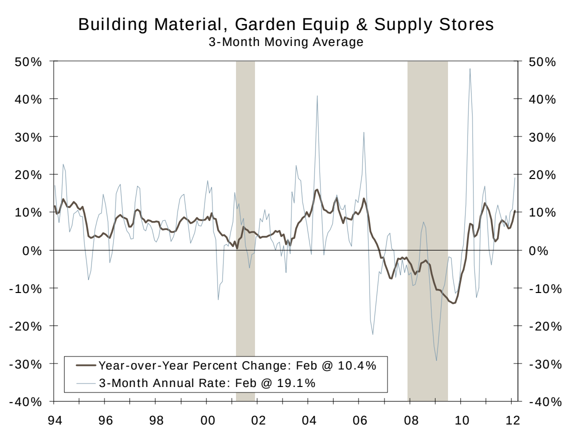
Another beneficiary is home improvement centers which posted their third straight monthly increase, taking the three-month annualized growth rate to 19.1 percent. Sporting goods stores also posted a second-consecutive monthly increase.

Department store sales jumped 1.5 percent and clothing store sales notched a 1.8 percent monthly gain. While encouraging, this is typically a slow season at these retailers, so it does not take much to move the needle.

The only major categories that were down were furniture stores and general merchandise stores.







Source: U.S. Department of Commerce, NOAA and Wells Fargo Securities, LLC

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