ECONOMIC UPDATE
REGIONS
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January Retail Sales: January Retail Sales In Deep Freeze

- Retail sales fell by 0.4 percent in January after a 0.1 percent decline in December (originally reported as up by 0.2 percent).
- Retail sales excluding autos were unchanged following an increase of 0.3 percent in December (originally reported as up by 0.7 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, and building materials) fell by 0.3 percent in January.

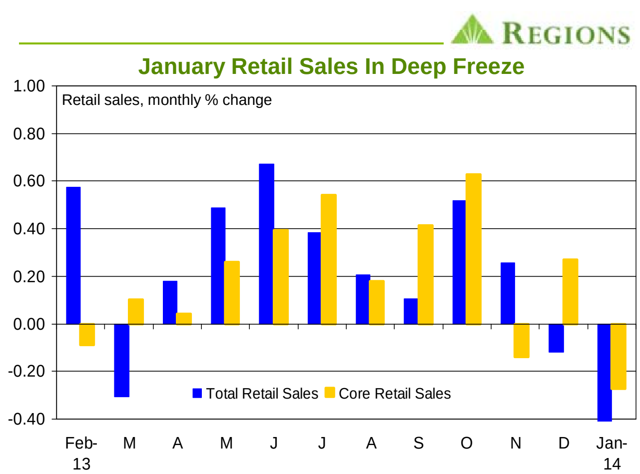
Total retail sales fell by 0.4 percent in January, with spending declining in nine of the thirteen broad categories for which sales are reported. Ex-auto sales were flat in January while control retail sales fell by 0.3 percent. That sales declined in January comes as no big surprise given the harsh winter weather seen across much of the U.S. during the month. More concerning, however, are the downward revisions to previously reported estimates of retail sales for November and December. December's gain in ex-auto sales was marked down from 0.7 percent to 0.2 percent while the gain in control retail sales is now reported as 0.3 percent compared to the initial estimate of 0.7 percent.

That said, we had thought the BEA's initial estimate of growth in real consumer spending for Q4 – an annualized rate of 3.3 percent – was on the light side and would be revised higher given the reported growth in control retail sales, which are a direct input into the BEA's estimates of consumer spending. What instead appears to be the case is the marked down control sales figures in the retail sales data are more in alignment with the BEA's tally. As such, it is not clear today's retail sales data will prompt a material downward revision in Q4 real GDP growth due to growth in consumer spending being marked down.

As to the January retail sales data, as noted above the decline in sales was broad-based. Sales at motor vehicle dealers fell by 2.1 percent, much larger than we had anticipated. True, unit sales did decline in January, but part of this was due to lower fleet sales, which should not impact the retail sales data, while the mix of vehicles sold shifted towards higher prices light trucks (including CUVs and SUVs) and away from lower priced autos. One factor, other than the weather, behind the sharp decline in the dollar volume of retail vehicle sales in January could be stepped up discounting/incentives by dealers looking to move stock. Recent months have seen motor vehicle inventories rise markedly, and while several of the manufacturers have stated they see this as a transitory imbalance there seems to be a greater level of concern beneath the surface. It will be worth watching production schedules over coming weeks to see if output will be scaled down.

Spending at apparel stores also declined sharply in January, down by 0.9 percent. This is only slightly larger than the decline we had factored into our forecast and to some extent reflects aggressive post holiday discounting. Sales at sporting goods stores fell by 1.4 percent and sales at department stores fell by 1.5 percent. One surprise is the decline in sales at nonstore retailers which includes but is not limited to on-line sales – overall sales at nonstore retailers fell by 0.6 percent in January, so apparently those trapped inside by harsh weather had better things to do than shop on-line. We will note the data for on-line sales are reported with a longer lag so January figures are not yet available but such sales rose 1.3 percent in December. Restaurant sales fell 0.6 percent in January after a 0.7 percent decline in December. The categories for which higher sales were reported in January are grocery stores, building materials stores, electronics stores, and gasoline stations.

As with much of the top-tier economic data, the retail sales data for December and January have the weather's imprints all over. The weak tone of discretionary spending in such conditions comes as no surprise. Another factor at play is what are generally smaller seasonal adjustment factors this year than in previous years, reflecting the fading of the profound impact the Great Recession has had on seasonal adjustment – this is one factor that has contributed to the "Spring Swoon" seen in the economic data over the past few years, and as this effect diminishes the intra-year patterns of growth will be altered. What is more difficult is assessing whether, or to what extent, underlying fundamentals of the economy have deteriorated. We are not yet convinced this is the case, even in the face of what could be an ugly report on Q1 GDP as the weather has remained miserable thus far in February. It will be some time until the data are free of weather related distortions and we have a better sense of whether there has been a shift in the fundamentals.



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