ECONOMIC UPDATE
REGIONS
March 16, 2022

February Retail Sales: Sales Fall Short Of A Much Higher Bar

- Retail sales rose by 0.3 percent in February after rising 4.9 percent in January (initially reported up 3.8 percent)
- Retail sales excluding autos rose by 0.2 percent in February after rising 4.4 percent in January (initially reported up 3.3 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 1.2 percent in February

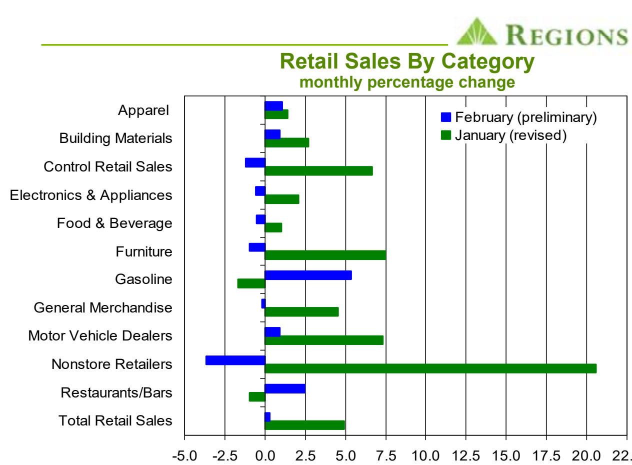
Total retail sales rose by 0.3 percent in February, between our forecast of a 0.2 percent increase and the consensus forecast of a 0.4 percent increase. Ex-auto retail sales rose by 0.2 percent in February while control retail sales, a direct input into the GDP data on consumer spending on goods, fell by 1.2 percent. While price effects likely weighed on control retail sales, the February data must also be put into the context of what were substantial upward revisions to the first estimate of January sales. Originally January retail sales were reported to have risen by 3.8 percent, with ex-auto sales up 3.3 percent and control retail sales up 4.8 percent, but the revised data show increases of 4.9 percent, 4.4 percent, and 6.7 percent, respectively. Even for a data set prone to sizable revision, the magnitude of the revisions to the January data is noteworthy, but yet also reinforces our general rule of not putting too much stock in the initial estimate of retail sales in any given month.

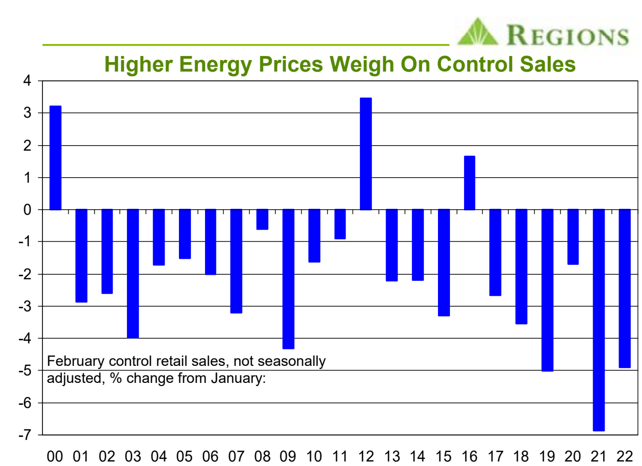
There are two other points to help put the February data in proper context. First, February is a seasonally weak month for retail sales and, as such, not seasonally adjusted sales tend to decline in February – the last year either total or control retail sales rose in the month of February was 2016. One implication is that the February seasonal factors, used to derive the estimates of seasonally adjusted sales, tend to be on the generous side. The second point to keep in mind is that the retail sales data are reported in nominal terms, i.e., they are not adjusted for price changes. Gasoline station sales are an illustration of both of these points. On a not seasonally adjusted basis, gasoline station sales fell by 0.1 percent in February. While this may seem odd in light of significantly higher gasoline prices, this is actually much smaller than the typical February decline in gasoline station sales, meaning that the February seasonal factors were in essence geared for a much larger decline. This helps account for the 5.3 percent increase in gasoline station sales on a seasonally adjusted basis.

Obviously, higher prices are a key factor behind February's decline in unadjusted gasoline station sales being smaller than normal for the month. At the same time, higher retail gasoline prices ate into spending in other categories. This helps account for the 4.2 percent decline in control retail sales on a not seasonally adjusted basis, which is larger than the typical February decline. As such, favorable seasonal adjustment was not enough to salvage control retail sales, compounded by what was a much tougher month/month comparison after the upward revision to the January data. One category that stands out is sales by nonstore retailers, of which roughly 90 percent is accounted for by online sales. After having fallen by 21.6 percent in January on a not seasonally adjusted basis, sales by nonstore retailers fell by 6.5 percent in February, which is larger than the typical February decline. As such, the seasonally adjusted data show sales by nonstore retailers falling by 3.7 percent in February.

As is often the case in the retail sales data, reported sales revenue at motor vehicle dealers raises questions. Recall that unit motor vehicle sales fell sharply in February, prices for used motor vehicles, as measured in the Consumer Price Index, fell, and prices for new vehicles barely budged. Yet, the retail sales data show revenue at motor vehicle dealers rose by 0.9 percent. As we often note, revisions to the initial estimate of sales in this category are amongst the largest in the retail sales data, so tune back in next month to see what becomes of the initial estimate for February.

The quirks of the retail sales data notwithstanding, we think the main story line is how higher prices are impacting consumer spending. In particular, how higher prices for necessities such as food, energy, and shelter are impacting discretionary consumer spending. While it has taken the shock value of average retail gasoline prices topping $4 per gallon for some to pay attention to this point, the reality is that these price effects have been at work for some time now. Inflation pressures have broadened, as evidenced by the CPI series on prices of consumer goods excluding food, energy, and used motor vehicles, which shows prices up 7.8 percent year-on-year as of February. The recent steps higher in food and energy prices will only compound the hit to discretionary consumer spending. While we and many others expected a shift in consumer spending patterns this year, away from goods and toward services, higher food, energy, and shelter prices are likely to make that shift less pronounced than was anticipated to be the case at the start of this year.





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