

Retail Sails Through Snowstorm

U.S. retail sales unexpectedly rose 0.3% in February amid broad strength in 10 of 13 major categories, though the prior month's gain was revised down to 0.1% (from 0.5% previously, and largely in autos). The "core" measure (ex autos, gasoline and building supplies) that feeds into real personal consumption expenditure jumped 0.9% after a solid 0.6% gain the prior month, up 5.2% annualized in the past three months. This means real consumer spending is likely on track for a 3% advance in Q1, a decent improvement on the 1.7% clip in Q4. The East Coast snowstorms apparently had little adverse impact on retailers, as even sales at bars and restaurants rose sharply. Retail outlets as diverse as electronics, sporting goods, clothing and furniture all sported solid increases. The one laggard was autos, with Toyota's recall problems likely explaining a portion of the 2.0% decline.

	(month/month % change)			(% change : a.r.)	
	Feb	Jan	Dec	3-month	12-month
Retail Sales	0.3	0.1	-0.2	1.2	3.9
Ex. Autos	0.8	0.5	-0.1	4.8	4.2
Ex. Gasoline	0.3	0.1	-0.3	0.7	2.1
Ex. Autos, Gas	0.9	0.5	-0.2	4.6	2.0
Ex. Auto Dlr., Gas, & Build. Mats.	0.9	0.6	-0.2	5.2	2.5
Building Materials	0.5	-0.8	0.1	-1.0	-3.9
Furniture	0.7	-1.0	1.9	6.1	-2.1
Autos	-2.0	-1.5	-0.5	-14.8	2.1
General Merchandise	1.0	1.3	-0.9	5.6	3.2
Department Stores	1.1	0.2	-0.3	4.3	0.1
Food Stores	1.3	0.9	-0.9	5.8	4.0
Apparel	0.6	1.5	-0.7	5.6	-0.7
Gasoline	0.3	0.5	0.7	6.3	24.0
Restaurants	0.9	0.0	-0.4	2.1	-0.3

The Bottom Line: Despite ongoing job losses, Americans are spending more freely again. Personal consumption should lead an expected 3.2% annual gain in Q1 real GDP, supplanting the heavy lifting so far undertaken by inventory rebuilding. A stabilizing unemployment rate might explain part of the increase in spending. In addition, household wealth has retraced one-third of its previous massive decline, due largely to a partial rebound in equity values and partly to debt reduction. While we still believe that balance-sheet deleveraging will dampen consumption this year, the recent encouraging upturn lends confidence to the sustainable recovery story.

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