Mixed Retail Sales Report, Consumer Spending to Continue

Retail sales rose a trend-like 0.3% in January. Excluding volatile components, such as building materials and motor vehicles & parts, sales were flat. We expect the weakness was temporary and for spending to pick up.

Some Month-to-Month Volatility, but Spending Remains Intact

Retail sales rose 0.3% in January compared to the previous month, and were up 4.4% compared to a year earlier, but previous sales were revised lower. Sales in December were revised lower to show a 0.2% gain versus 0.3% previously reported. The growth in January was fairly broad-based. Of the 13 retail categories, nine reported higher sales, the most since July.

Overall sales were supported by a jump in the volatile building materials category, which rose 2.1% over the month. That was the second straight month of solid gains, and we suspect warmer-than-usual weather across the nation in December and January helped support this spending component. Restaurants also saw a large gain, with sales up 1.2%. Overall sales also got a slight boost from motor vehicles & parts, up 0.2% in January. This rise, however, was a touch softer-than-expected after the stronger rise in sales reported by automakers earlier this month.

Looking through some of these volatile components, control group sales, which exclude sales at restaurants, gasoline stations, building materials stores and auto dealers, were flat, as modest gains at some retailers were offset by sizeable, and arguably temporary, declines elsewhere.

Despite accounting for just 8% of the control group measure, the outsized 3.1% decline in sales at clothing stores dragged down the broader measure. While month-to-month changes can be pretty volatile, you have to go back to 2009 to find a larger monthly decline. Weakness at health & personal care stores, however, may be more lasting. This category declined 0.4% in January, which marks the seventh decline in eight months.

Sales at nonstore retailers rose a modest 0.3% after declining the previous four months. The weak stretch at nonstore retailers at the end of the year contributed to lower-than-expected 2019 holiday sales. Moreover, downward revisions in this component pushed 2019 holiday sales lower to a 3.8% year-over-year gain versus 4.1% previously reported.

The flat reading in January control group sales kept the three-month annualized rate in negative territory for the second straight month, at -0.7%. The control group sales measure feeds into the Bureau of Economic Analysis’ calculation of personal consumption expenditures (PCE), and is a good proxy for consumer spending on goods. Despite this lower-than-expected reading, we still expect consumer spending to drive growth in the first quarter, supported by a high saving rate and elevated consumer confidence.

The COVID-19 coronavirus, however, does present a risk to the outlook. We wouldn’t be surprised to see the recent outbreak weigh on consumer confidence, but as we described in a recent report, any hit to confidence will likely be short-lived, and only have a temporary, if any, effect on consumers discretionary spending.