

US Watch

Downward revisions tarnish a decent retail sales report

February retail sales were tepid

Retail sales for February came in below consensus but firmer than our forecasts. Headline retail sales were up 0.6% m/m, supported by the surge in auto sales last month. The ex-autos component rose by 0.3% (consensus: +0.5%, BofA forecast: -0.1%). The core control group was flat (consensus: +0.4%, BofA: -0.3%).

Revisions stole the show once again

For the second consecutive month, there were large downward revisions to the prior two months' retail spending data. Ex-auto retail sales were revised down more than 0.5pp over December and January, while core control sales were marked down by more than 0.2pp on net. Therefore, the trajectory of retail spending looks significantly softer than it did when the data for December were released. For example, as of the latest data, ex-auto retail sales for December are 0.7pp weaker than they were in the initial release (Exhibit 2).

The details of the report were a mixed bag

Among the categories of retail sales, building supplies, autos, gas stations, and electronics & appliances saw large gains. The first three of these categories are omitted from the core control group, which is why it was weaker than the other aggregates. The pickup in gas spending was likely related to higher gas prices and payback for the weather disruptions in January. Recent gains in electronics & appliances appear to be payback for a massive drop in November. Meanwhile, furniture spending was particularly weak. Clothing, auto parts and health & personal care were also soft (Exhibit 1).

Restaurants and online shopping still the biggest drivers

Stepping back, restaurants & bars and nonstore retailers remain the most important drivers of retail spending over the last six months. The strength in spending at restaurants and bars is partially due to elevated inflation in food services, although inflation-adjusted spending has also held up well.

Demand is not re-accelerating

Similar to most of the other major data releases for February, the retail sales report suggests that the economy is not overheating. If anything, spending appears to have softened a bit. It remains to be seen how much of this is because of outright deflation in many goods categories, and how much of the slowdown in retail spending will be offset by robust services demand. Either way, the latest data flow should pare tail risks of re-acceleration.

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Exhibit 1: Retail sales heat map (% m/m SA)

The details of the February retail sales report were mixed

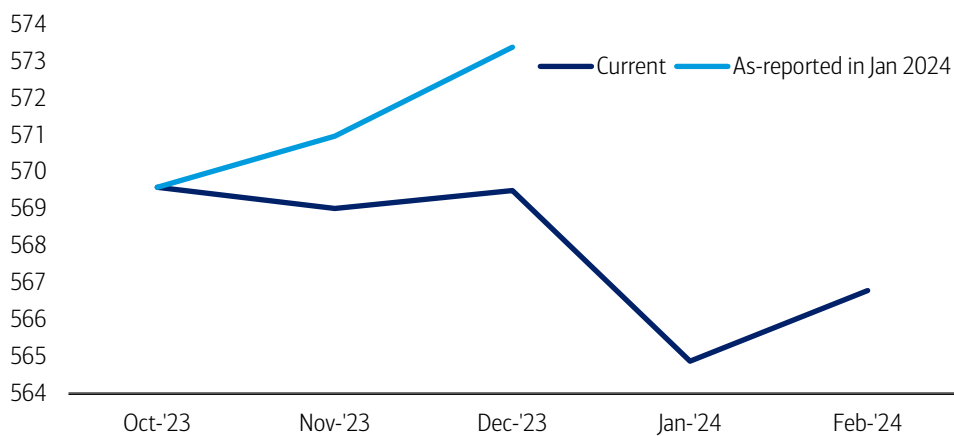
Feb-'24 wt	Category	Feb-'24	Jan-'24	Dec-'23	Nov-'23	Oct-'23	Sep-'23
100.0%	Headline retail sales	0.6%	-1.1%	0.1%	0.0%	-0.3%	0.8%
80.9%	Ex-autos	0.3%	-0.8%	0.1%	-0.1%	-0.1%	0.8%
7.6%	Gas stations	0.9%	-1.4%	-0.8%	-3.7%	-1.7%	1.0%
13.3%	Restaurants & bars	0.4%	-1.0%	-0.5%	1.4%	0.3%	1.7%
5.8%	Building supplies	2.2%	-4.3%	0.9%	-1.4%	0.1%	-0.3%
55.8%	Core control	0.0%	-0.3%	0.3%	0.2%	0.1%	0.6%
1.5%	Furniture	-1.1%	0.2%	-2.2%	2.7%	-2.2%	-0.3%
1.1%	Electronics & appliances	1.5%	2.8%	0.2%	-5.2%	0.6%	0.1%
11.8%	Groceries	0.1%	-0.3%	-0.3%	0.3%	0.1%	0.4%
5.1%	Health & personal care	-0.3%	-1.4%	-2.2%	0.2%	1.3%	0.9%
3.8%	Clothing	-0.5%	-0.8%	1.4%	1.2%	-0.1%	-1.2%
1.2%	Sporting goods & hobbies	0.0%	-0.4%	-0.8%	0.2%	0.0%	0.5%
10.5%	General merchandise	0.4%	0.0%	0.7%	-0.2%	0.0%	-0.3%
2.3%	Miscellaneous stores	0.6%	0.2%	-0.4%	0.1%	0.9%	4.9%
16.9%	Nonstore retailers	-0.1%	-0.3%	1.3%	0.4%	-0.3%	1.3%
1.6%	Auto parts	-0.5%	-0.5%	-0.2%	-0.4%	0.6%	0.8%
17.5%	Autos ex parts	1.8%	-2.2%	0.2%	0.4%	-1.1%	1.1%

Source: Census Bureau

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Exhibit 2: Retail sales ex-autos, current vs. as-reported in Jan 2024 (SA, \$bn)

Downward revisions to retail sales for Nov, Dec and Jan have significantly lowered the trajectory of retail spending



Source: Census Bureau

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