Economic Indicator — March 17, 2025

Worries in Soft Data Corroborated by Weak Retail Sales

Summary

Despite a downward revision that makes last month's drop in retail sales the biggest monthly decline since 2021, overall retail sales rose a scant 0.2% in February. The 1.0% gain in control group sales offers little consolation as it mirrors a decline of the same magnitude in January.

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U.S. Retail Sales: February 2025

	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25
Retail Sales (MoM)	0.4	-0.2	0.2	-0.3	1.2	-0.1	0.9	0.6	0.7	0.7	-1.2	**0.2**
Retail Sales, Ex. Autos (MoM)	0.6	0.1	0.0	0.5	0.5	-0.1	1.0	0.2	0.1	0.6	-0.6	**0.3**
Control Group Sales (MoM)	0.8	-0.3	0.4	0.9	0.4	-0.2	1.3	0.1	0.0	0.9	-0.9	**1.0**
Real Retail Sales (MoM)	0.4	-0.3	0.5	0.0	1.4	0.0	0.9	0.6	0.4	0.3	-1.6	**0.1**
Retail Sales (YoY)	3.6	2.8	2.6	2.0	2.9	2.0	2.0	3.0	4.0	4.4	3.9	**3.1**
Retail Sales, Ex. Autos (YoY)	3.7	3.2	2.9	3.3	3.2	2.3	2.4	2.7	3.2	3.4	3.5	**3.1**
Control Group Sales (YoY)	4.6	3.4	3.4	4.0	3.7	3.4	4.3	3.9	4.2	4.5	3.7	**4.4**
Real Retail Sales (YoY)	3.0	2.4	2.5	2.3	3.2	3.1	3.4	4.1	4.3	4.1	3.1	**2.5**

Notes: MoM = Month-over-Month Percent Change
YoY = Year-over-Year Percent Change

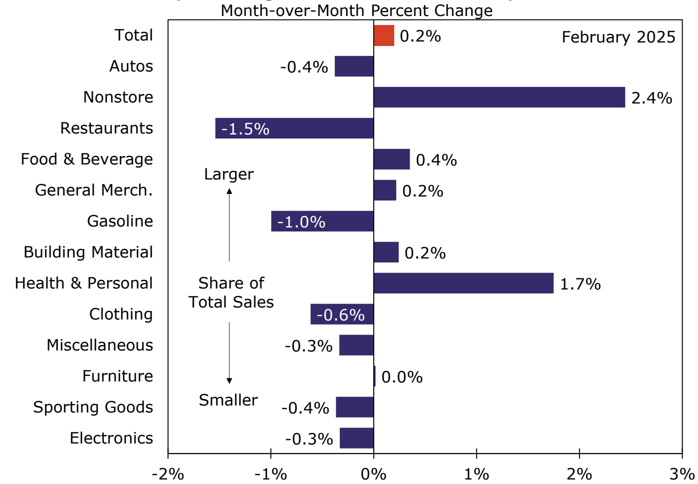
Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Economics

Broad-Based Declines

February's retail sales report was expected to show a bounce after a weak report for January. The key thing to understand in today's report is that last month's sales figures were revised sharply lower resulting in what turns out to be the worst month for retail sales since 2021. The 0.2% increase in headline retail sales for February was just a third of the 0.6% increase that had been expected. The fact that this modest bounce comes on the heels of the downward revision makes it all the more disappointing.

Worries about the ability of consumers to keep spending have been bubbling up at a more rapid pace in recent weeks with airlines and major retailers pointing to a slackening in demand. That was evident in today's report with spending at bars and restaurants down 1.5% in the month, a decline that was only exceeded by department stores where sales fell 1.7% (chart). Other stores reporting falling sales included electronic and appliance stores, clothing stores and, most impactful, auto dealers where sales fell 0.4% in February.

Monthly Change in Retail Sales by Retailer



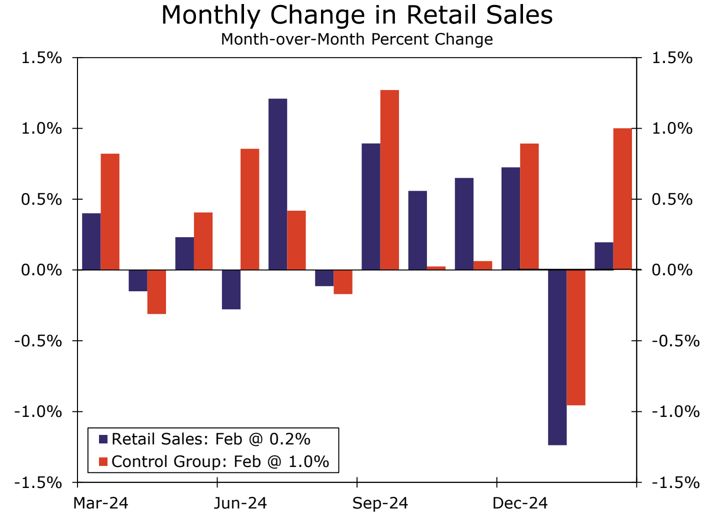
Source: U.S. Department of Commerce and Wells Fargo Economics

Control Group Got Help from Ecommerce

Despite the evidence of deteriorating fundamentals for the consumer, control group retail sales actually rose the most in five months in February (chart). The control group excludes sales from some of the more volatile categories to offer an assessment of underlying spending and tends to be a good predictor of consumer spending as it eventually gets tallied in the GDP report. As it happens, many of the excluded categories were among the big decliners this month (auto dealers, gas stations, bars & restaurants). Control group *does* include ecommerce, and that was far and away the big winner in today's report. Non-store retailers reported a 2.4% increase in sales in February, the next largest percentage gain by store types was drug stores where sales rose a comparatively modest 1.7%.

The Conference Board and the University of Michigan have slightly different ways of measuring it, but they both have noted a trend decline in how consumers are feeling. The Business Roundtable, an association of American CEOs, hosted an event at which the President spoke last week at which they reported that CEO's expectations for sales decreased 5 points to a value of 118 in the first quarter.

Monthly Change in Retail Sales

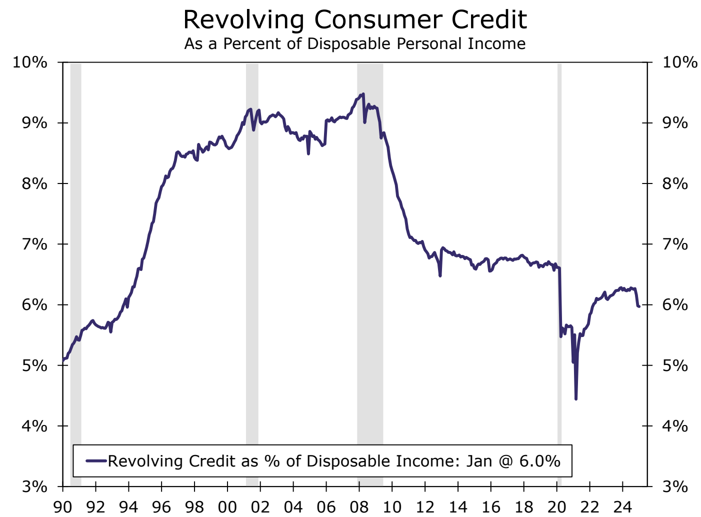


Source: U.S. Department of Commerce and Wells Fargo Economics

The Far-Reaching Impact of Trade Policy

The upbeat case for sustained consumer spending is predicated on the idea that the household sector remains in good financial shape. The aggregate debt-to-income ratio is historically low, even if some households may be relying too much on credit cards to sustain spending (chart). Still, personal income growth started off the year strong, and the strength of income growth in recent months remains supportive of a decent pace of consumption growth going forward. As with so many facets of the economy today, much of the outlook depends on trade policy.

In discussing the potential impacts of tariffs, the conversation tends to lean toward goods production, yet in the latest ISM report of the service sector, a respondent from the accommodation and food service business sector observed that "tariff actions have created chaos in information and pricing measures, forecasting and forward buys, which may artificially inflate purchases to be followed by a drop off." On that basis, at least some concern about potential tariff impact on goods spending should extend to the outlook for service spending as well. Broad tariffs will have a far-reaching impact on consumer spending.



Source: Federal Reserve Board, U.S. Department of Commerce and Wells Fargo Economics

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