

US RETAIL SALES DISAPPOINT IN FEBRUARY, BUT SOFTNESS NOT EXPECTED TO LAST

**U.S. retail sales declined 0.1% m/m for the third consecutive month in February, setting a low Q1 2018 baseline for broader consumption that includes services (Chart 1).*

**Sales excluding autos were slightly better, rising 0.2% m/m, and control retail sales (excludes sales at food service and drinking places, gasoline stations, auto and building materials stores) that is measured directly in GDP increased only 0.1% m/m after declining in the prior two months. Of the 13 primary retail categories, 7 registered declines.*

**The weak sales are disappointing in light of high consumer sentiment, ongoing job gains and the higher household take-home pay from the Tax Cuts and Jobs Act (Charts 2 and 3). We continue to expect consumption to move higher in the coming months, but the financial market volatility in early February may have had a larger impact on consumer activity than we initially thought.*

Control retail sales are on track to advance just 1% annualized in Q1, after the bumper holiday shopping season that pushed control retail sales up 7% annualized in Q4 (Chart 4). It is possible that consumers are just taking a breather this quarter with trend growth in retail sales closer to 4% annualized.

Spending on some discretionary categories increased, despite the broader weakness suggesting that underlying consumer demand is better than indicated by the headline:

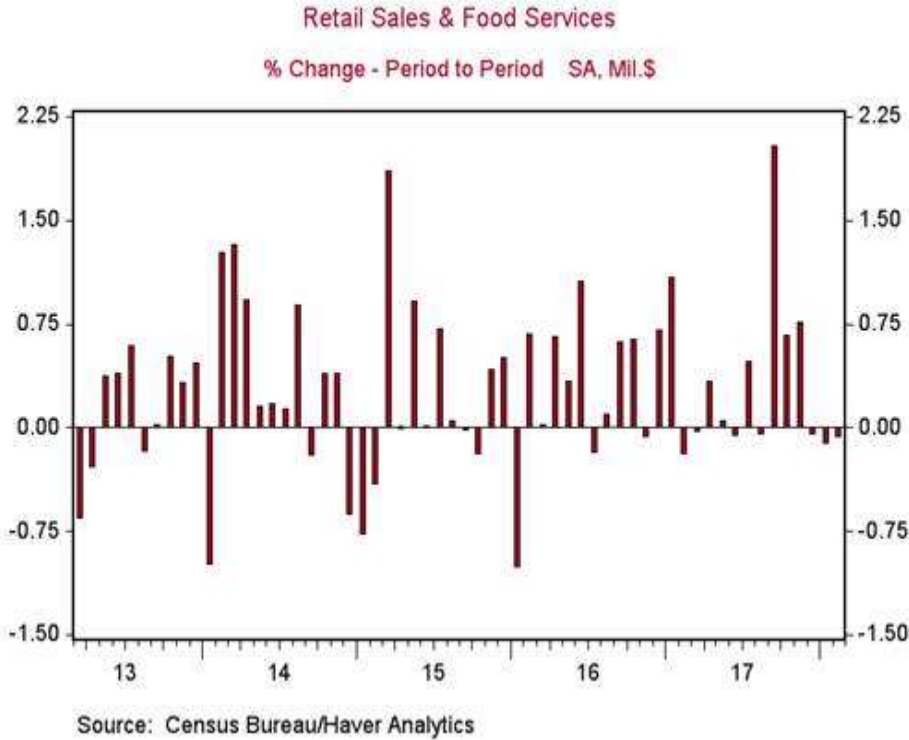
- 1) Sporting goods, hobby, book, and music sales advanced a robust 2.2% m/m reversing some of the declines in the prior two months
- 2) Sales at food services and drinking places rose 0.2% m/m and has now increased for five consecutive months

Non-store retail sales (includes online) continued to rise sharply, up 1% m/m and 10% yr/yr.

The fundamentals underlying consumption are solid, and in coming months we expect retail sales and consumption to rebound. Job growth has reaccelerated following several slower years and wages are gaining, albeit modestly (Chart 5). This is supporting growth in aggregate personal income. Household finances are strong, with high net worth and low debt services costs relative to disposable income. Growth in disposable income is getting a boost from the Tax Cuts and Jobs Act. Many businesses have provided workers one-time bonuses and increases in minimum wage rates in response to the tax legislation. Elevated confidence is increasing the propensity to spend.

14 March 2018

Chart 1: Total Retail Sales (month-over-month, %)



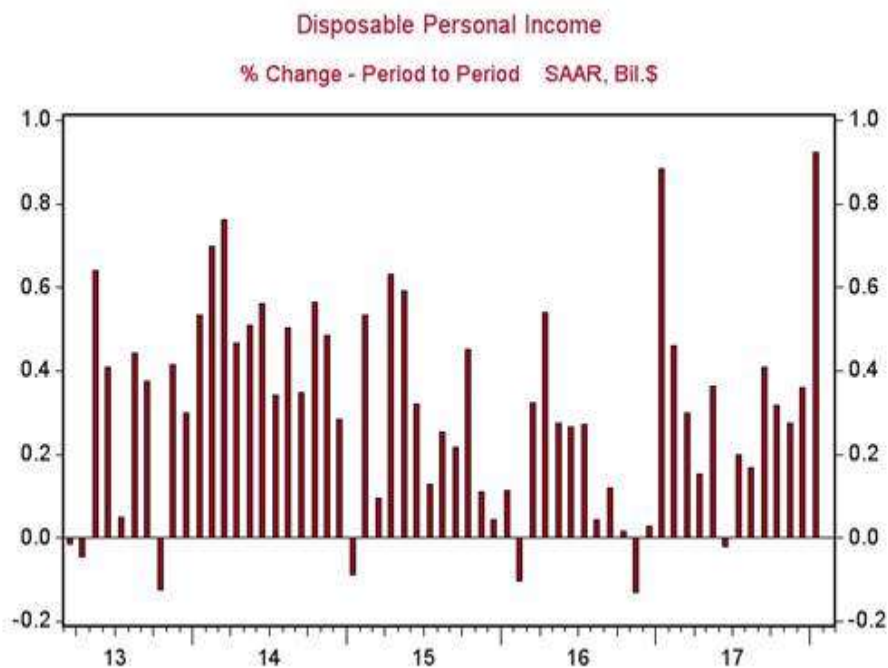
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 2: Conference Board Consumer Confidence and U Mich Consumer Sentiment



Source: Monthly data. Source: The Conference Board, University of Michigan and Haver Analytics

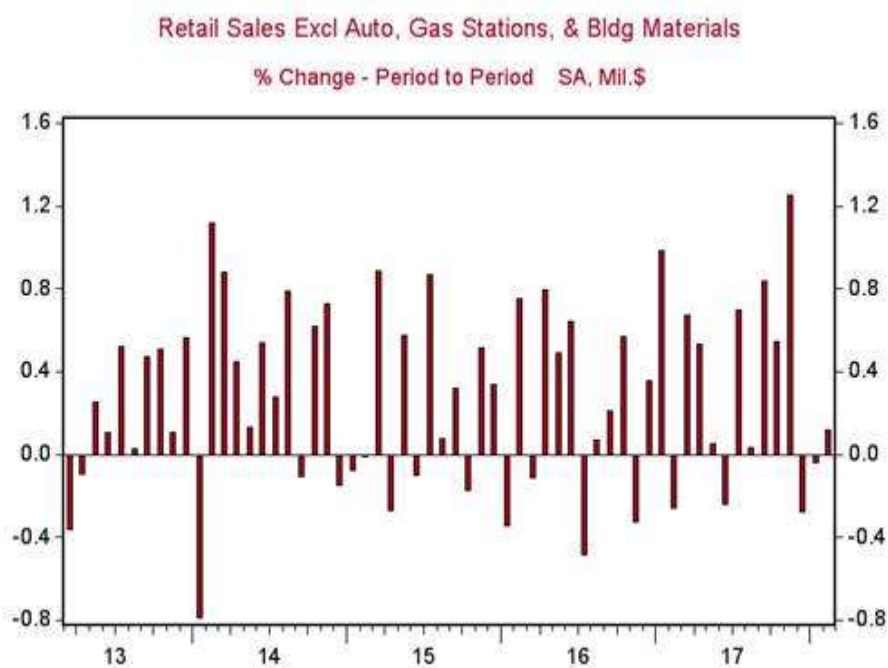
Chart 3: Disposable Personal Income (month-over-month, %)



Source: Bureau of Economic Analysis/Haver Analytics

Source: Monthly data. Source: Bureau of Economic Analysis and Haver Analytics

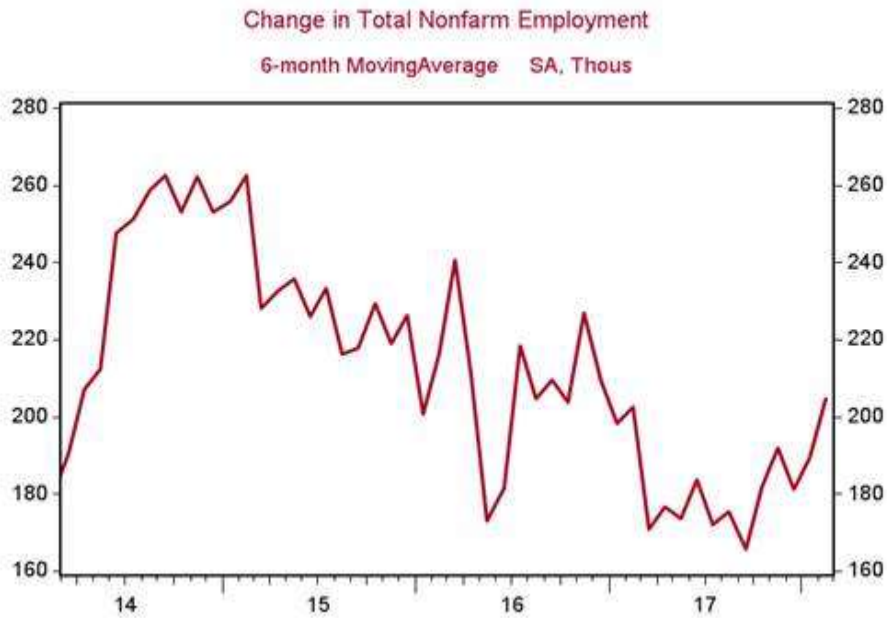
Chart 4: Retail Sales (month-over-month, %)



Source: Census Bureau/Haver Analytics

Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 5: Six-Month Moving Average of Nonfarm Payroll Growth



Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

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