

Economists: Spending 'hangover,' volatile stock market drive weak February sales

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By Evan Fallor and Chris Hudgins

Economists pointed to a pullback in consumer spending following a robust fourth quarter, combined with stock market swings fueling consumer uncertainty, as key drivers behind a retail sales decline of 0.1% in February.

The U.S. Department of Commerce's Census Bureau on March 14 reported a 0.1% seasonally adjusted decline in retail sales to \$492 billion in February as sales at gas stations, motor vehicle and parts dealers, and furniture and home furnishings stores slumped, marking the third straight month of sales declines.

Ryan Sweet, director of real-time analytics for Moody's Analytics, attributed the drop in sales to what he called a consumer "hangover" from strong spending patterns in the fourth quarter of 2017. Sweet said delays in tax refund payouts from the IRS could have also taken money out of consumers' pockets and led to the slowdown in spending.

Holiday retail sales were strong, driven by a surge in consumer spending that could be experiencing a slowdown in the first quarter.

According to the National Retail Federation, holiday sales increased year over year by 5.5% in 2017 to \$691.9 billion. Adobe Digital Insights projected consumers spent \$108.15 billion online during November and December 2017.

The 0.1% drop in February sales was well below Moody's projected 0.4% rise in February, but Sweet said he expected sales to pick up again in March.

"It was a little bit of a surprise," Sweet said in an interview. "But overall, this isn't an immediate cause for concern."

Morgan Stanley, which had also projected a 0.4% increase, said that the 0.2% rise in food services and "drinking places" sales --the fifth straight month of increases for the category-- provide confidence for discretionary spending, though economists from the firm admitted they were also surprised by the total sales decline.

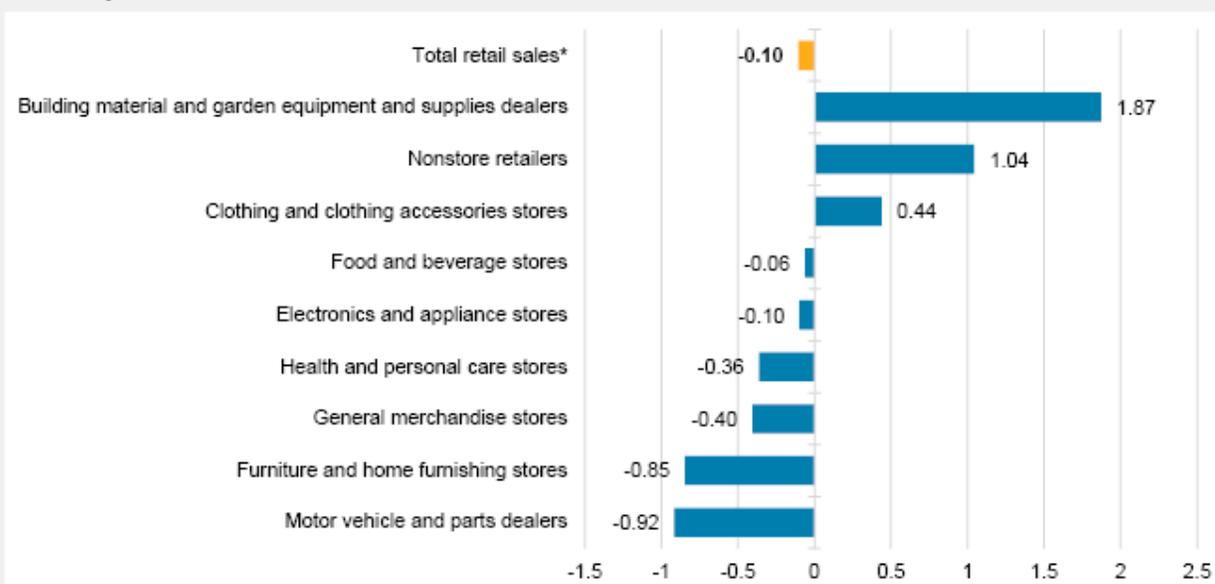
"To our surprise, retail sales in February not only surprised to the downside, it extended the string of weak prints [reports] to three months," the economists wrote in a March 14 report.

Sales at motor vehicle and parts dealers fell by 0.9% month over month in February to \$99.73 billion, while gas sales fell by 1.2% to \$40.94 billion, according to the Census report.

Declines were seen in seven of the 13 product categories covered in the report in February, including furniture and home furnishing stores, which saw its sales fall by 0.8% to \$9.74 billion, and general merchandise stores, which saw sales drop by 0.4% to \$58.44 billion.

MOM change in seasonally adjusted store sales (%)

February 2018



Based on data released March 14, 2017.

Data includes month-over-month change in seasonally adjusted estimates of monthly sales.

* Total retail sales excludes food services.

Source: U.S. Census Bureau

Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University said that sales of new cars, which spiked during rebuilding efforts from the hurricanes that destroyed personal property in parts of the Southeast and Texas during August and September 2017, have now slowed. He said many people replacing destroyed or damaged automobiles did so by purchasing used cars, which do not show up in the Census data. Used cars also require additional maintenance and upkeep that can draw from discretionary spending, he added, potentially triggering a ripple effect across other areas of the economy.

Dhawan also cited trade and tariff rhetoric from the Trump administration as adversely impacting the stock market, which could also have made consumers hesitant in making big-ticket item purchases in February.

"The data says to me that people are a bit more cautious," Dhawan said. "Since late January and February, the stock market has been yo-yo-ing and that doesn't build confidence in the middle class. It doesn't make them feel good."

Total retail sales excluding auto and gas sales rose 0.2% in February, falling below IHS Markit's expectations.

"Our expectation for a much larger increase in February reflected our view that unseasonably mild weather would provide a sizable boost -- a boost that we did not get in today's report," IHS Markit economist Kathleen Navin wrote in a note.

However, sales rose by 4.18% year over year in February, according to Census.

YOY change in seasonally adjusted store sales (%)

February 2018



Based on data released March 14, 2017.

Data includes year-over-year change in seasonally adjusted estimates of monthly sales.

* Total retail sales excludes food services.

Source: U.S. Census Bureau

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