

US Retail Sales Miss Explained By Revisions; Rebound Coming?

United States, Retail Sales, % Change headline/ex-autos/ex-auto-gas, m/m, February:

Actual: -0.2 / -0.4 / -0.6

Scotia: 0.3 / 0.3 / na

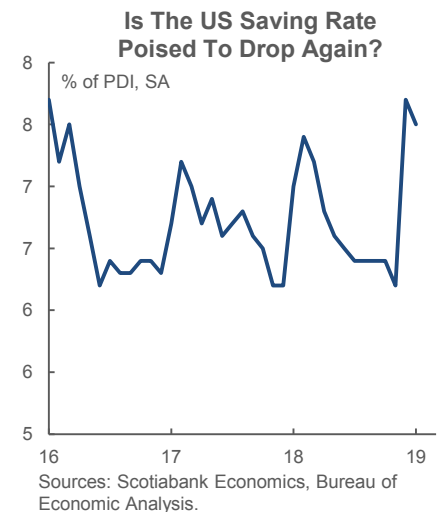
Consensus: 0.2 / 0.3 / 0.3

Prior: 0.7 / 1.4 / 1.7 (revised from 0.2 / 0.9 / 1.2)

- **The downside surprise to all of the retail sales readings in February was due to upward revisions to the prior month that made for a solid reading overall.** The USD and shorter term Treasury yields largely shook off the release partly because they saw through the miss versus revisions issue but also because of bigger forward-looking considerations (improving Chinese economy, trade negotiations etc). **I'll update the case for a rebounding US consumer below** and that may also be starting to creep into the market's understanding of the rest of the year's developments.
- **Key is that the retail sales control group was revised up six-tenths to +1.7% m/m in January and that explains the small 0.2% dip in February (0.3% consensus).** That's how this report feeds into total consumption and GDP. That general point follows through all of the other retail readings including headline, ex-autos, and ex-autos-and-gas. Upward revisions explain the miss in February.
- **Fresh tracking shows a modest 1.25% annualized and seasonally adjusted retail sales control group increase in Q1** after a small 0.7% gain in Q4.
- **In real terms using headline CPI, the retail sales control group is tracking only a 0.9% rise in Q1.** The trend in consumer spending remains soft over Q4/Q1 which isn't terribly surprising by way of today's fresh information.
- However, I still think the recent weakness is a pulled-forward effect from H1 last year as cash distributions related to the Tax Cuts and Jobs Act that came into effect in early January were aggressively spent later and at the expense of Q4/Q1. After total consumer spending in inflation-adjusted terms rose by only 0.5% in 2018Q1 SAAR, it rebounded to 3.8% growth in Q2 and 3.5% in Q3. We won't get the same policy-induced jump this year, but there is another reason to expect a rebound.
- **Why? The US personal saving rate is instructive in this regard.** In each of the past two years, it has soared higher into the new year and then the rest of the year it fell back down as pent-up demand was unleashed albeit for different reasons each year. The saving rate sat at 7.5% in January 2019 and peaked at 7.7% in December which was at the upper end of peaks witnessed over the past six years. By late Spring or early Summer, I think the saving rate will be back down by about a full point or perhaps more which entails a sharp unleashing of pent-up consumption and view the saving rate's jump higher as temporary rather than precautionary toward the full remainder of the cycle.
- By sector, six of thirteen subsectors moved higher in February. Gains were led by autos and parts (+0.7%, -1.9% prior), gas stations (+1.0%), health and personal care (+0.6%), sporting goods (+0.5%), non-store retailers (+0.9%) and restaurants (+0.1%). Declines were led by building materials (-4.4%), electronics (-1.3%), food and beverage sales (-1.2%) and 'miscellaneous' (-1.6%).

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