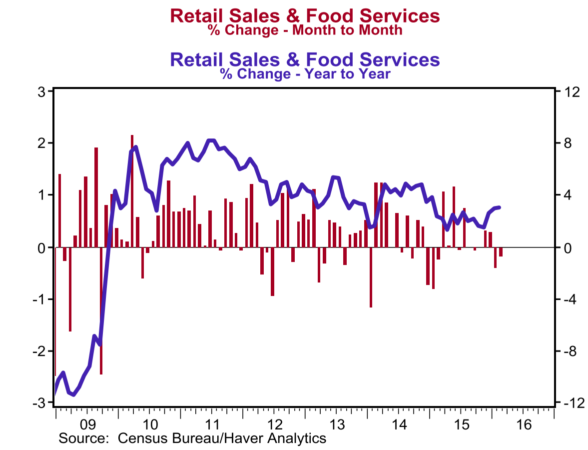
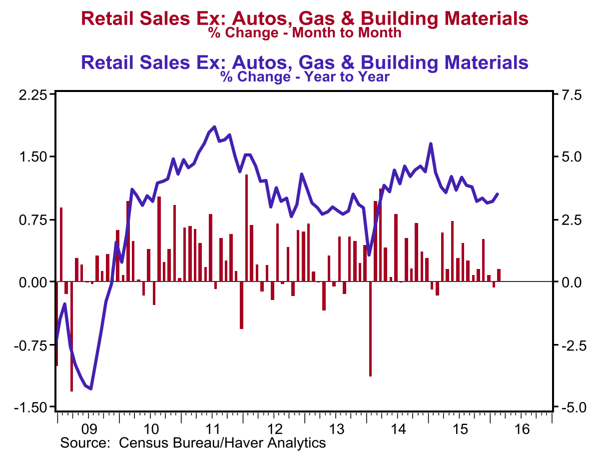
February Retail Sales

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- Retail sales declined 0.1% in February. Including revisions to prior months, sales fell 0.6%. The consensus expected a decline of 0.2%. Retail sales are up 3.1% versus a year ago.
- Sales excluding autos declined 0.1% in February (-0.3% including revisions to prior months). The consensus expected a decline of 0.2%. These sales are up 2.1% in the past year. Excluding both autos and gas, sales are up 4.2% versus a year ago.
- The drop in sales in February was led by gas stations. The biggest gains were for restaurants & bars and building materials.
- Sales excluding autos, building materials, and gas rose 0.1% in February (-0.2% including revisions to prior months). If unchanged in March, these sales will be up at a 1.1% annual rate in Q1 versus the Q4 average.





Implications: Retail sales were soft in February, but the decline was driven by gas station sales as lower gas prices took down top line sales. This has been a major theme lately, with gas station sales dropping 4.4% in February and down at a 30.7% annual rate in the past three months. Excluding gas stations, retail sales were up 0.2% in February and are up a healthy 4.8% from a year ago. As we've said before, sales weakness at gas stations isn't a bad thing. Lower gas prices give consumers more money in their pockets, which, in spite of a narrative to the contrary, they are spending, although not all at once. So far, it looks like restaurants and bars have been getting some of the extra spending money, up 1% in February and 6.4% from a year ago. Although autos sales slipped in February, they're up 6.8% versus a year ago, another beneficiary of lower gas prices. We expect other sectors to benefit in the year ahead. Overall retail sales are up a 3.1% from a year ago. "Core" sales, which exclude autos, building materials, and gas stations (the most volatile sectors) rose 0.1% in February and are up 3.5% from a year ago. In other news this morning, business inventories rose 0.1% in January. Plugging these data into our GDP models suggests real (inflation adjusted) consumer spending is rising at a 2.0 – 2.5% annual rate in Q1 while real GDP grows at about a 1.5% rate. We still expect roughly 2.5 million more jobs in 2016 along with at least a modest acceleration in wage gains. In turn, this will translate into further spending growth in the year ahead. In other news today, the Empire State index, a measure of manufacturing sentiment in New York, turned positive coming in at +0.6 in March, well above the consensus expected -10.5 as well as the -16.6 reading for February. More important, it's the first positive reading since July 2015, signaling that the factory sector is starting to move past the headwinds caused by slower energy production. In other words, the economy remains a Plow Horse, not a horse destined for the glue factory, like the fear mongers claim.

Retail Sales *All Data Seasonally Adjusted*	Feb-16	Jan-16	Dec-15	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Retail Sales and Food Services	**-0.1%**	-0.4%	0.3%	-0.9%	0.1%	3.1%
Ex Autos	**-0.1%**	-0.4%	0.4%	-0.8%	-0.6%	2.1%
Ex Autos and Building Materials	**-0.3%**	-0.4%	0.0%	-2.9%	-1.8%	1.4%
Ex Autos, Building Materials and Gasoline	**0.1%**	-0.1%	0.1%	0.8%	1.9%	3.5%
Autos	**-0.2%**	-0.2%	0.0%	-1.5%	2.8%	6.8%
Building Materials	**1.6%**	-0.4%	4.9%	26.8%	15.1%	12.2%
Gasoline	**-4.4%**	-3.3%	-1.2%	-30.7%	-29.0%	-15.6%

Source: Bureau of Census