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February Retail Sales

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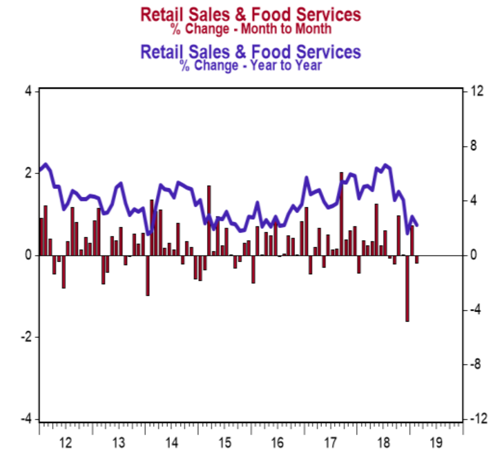
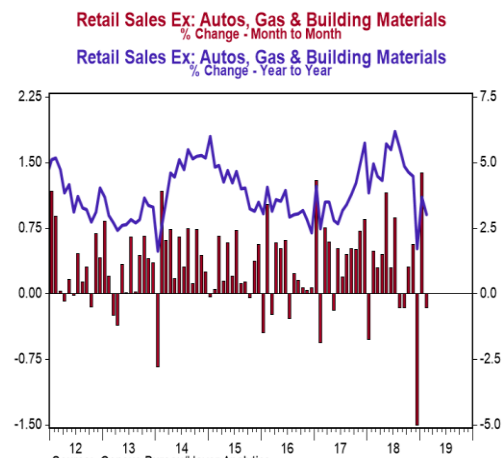
- Retail sales declined 0.2% in February (+0.3% including revisions to prior months) versus a consensus expected gain of 0.2%. Retail sales are up 2.2% versus a year ago.
- Sales excluding autos declined 0.4% in February (unchanged including revisions to prior months), coming in below the consensus expected 0.3% gain. These sales are up 2.2% in the past year. Excluding gas, sales were down 0.3% in February but are up 2.8% from a year ago.
- The decline in sales in February was led by building materials and food & beverage stores. The largest increases were for autos and non-store retailers (internet & mail order).
- Sales excluding autos, building materials, and gas declined 0.2% in February but were up 0.3% including revisions to prior months. If unchanged in March, these sales will be up at a 0.9% annual rate in Q1 versus the Q4 average.



Source: Census Bureau/Haver Analytics



Source: Census Bureau/Haver Analytics

Implications: Today's retail sales report was stronger than the headlines suggest. Although retail sales declined 0.2% in February, sales for January were revised up to a strong 0.7% gain. Including these revisions, retail sales were up 0.3%, which actually beat the consensus expected 0.2% gain. The weakest category in February itself was building materials, which fell 4.4%. But this February was the coldest since 2010 and the second coldest since 1994, so expect a sharp rebound in sales of building materials in March. Auto sales were the biggest gainer in February, up 0.7%. "Core" sales, which exclude autos, building materials, and gas stations (the most volatile sectors) were down 0.2% in February, but were up 0.3% with revisions to prior months and are up 3.0% from a year ago, while overall retail sales are up 2.2% over the same period. Meanwhile, the severity of the December decline in sales remains a complete mystery given how inconsistent the report is with other economic data – like strong employment, accelerating wages, the Johnson-Redbook measure of same-store sales, as well as surging revenue at Amazon and Wal-Mart. December's 4.5% decline in sales at non-store retailers, which includes internet sales, was the largest percentage drop since November 2008! Give us a break! Something is wrong with that December report – seasonals, missing data, or an error in the spreadsheets. Unsurprisingly, it has only taken non-store sales two months to completely wipe out this strange December decline. Non-store sales rose 0.9% in February, are up 10% from a year ago, and sit at all-time highs. Given the tailwinds from deregulation and tax cuts, we expect an average real GDP growth rate of close to 3% in 2019, just like we saw in 2018. Jobs and wages are moving up, tax cuts have taken effect, consumer balance sheets look healthy, and serious (90+ day) debt delinquencies are down substantially from post-recession highs. Some may point to household debt at a record high as reason to doubt that consumption growth can continue. But household assets are near a record high, as well. Relative to assets, household debt levels are hovering near the lowest in more than 30 years. For these reasons, expect solid gains in retail sales over the coming months.

Retail Sales *All Data Seasonally Adjusted*	Feb-19	Jan-19	Dec-18	3-mo % Ch. *Annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Retail Sales and Food Services	**-0.2%**	0.7%	-1.6%	-4.3%	-0.7%	2.2%
Ex Autos	**-0.4%**	1.4%	-2.1%	-4.6%	-1.5%	2.2%
Ex Autos and Building Materials	**0.0%**	1.1%	-2.3%	-4.9%	-1.6%	2.3%
Ex Autos, Building Materials and Gasoline	**-0.2%**	1.4%	-1.8%	-2.5%	0.2%	3.0%
Autos	**0.7%**	-1.9%	0.4%	-3.2%	2.1%	2.4%
Building Materials	**-4.4%**	4.4%	-0.1%	-1.1%	0.6%	1.4%
Gasoline	**1.0%**	-1.2%	-5.9%	-22.2%	-14.5%	-3.2%

Source: Bureau of Census