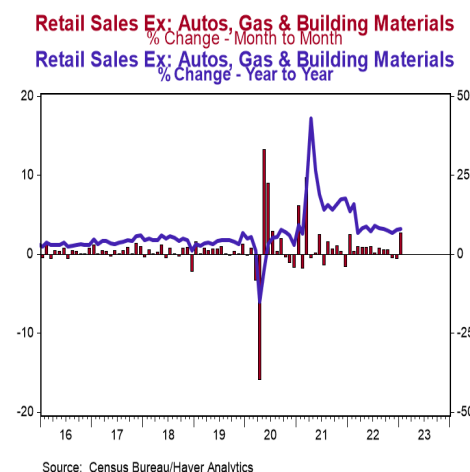
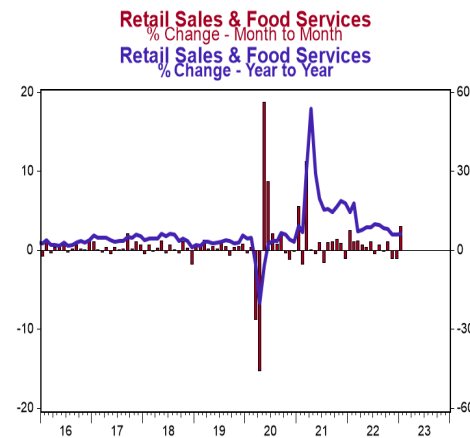


**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Dep. Chief Economist  
**Strider Elass** – Senior Economist  
**Andrew Opdyke, CFA** – Senior Economist

## January Retail Sales

- Retail sales rose 3.0% in January (+2.9% including revisions to prior months), beating the consensus expected increase of 2.0%. Retail sales are up 6.4% versus a year ago.
- Sales excluding autos increased 2.3% in January, well above the consensus expected 0.9% gain. These sales are up 7.3% in the past year.
- The largest gains in December were for autos, restaurants & bars, and general merchandise stores.
- Sales excluding autos, building materials, and gas rose 2.7% in January. If unchanged in February/March, these sales will be up at a 9.0% annual rate in Q1 versus the Q4 average.



**Implications:** Retail sales surged 3.0% in January, beating consensus expectations and the fastest gain for any month in almost two years. However, the January surge needs to be taken with a grain of salt; we still believe the tightening in monetary policy since last year will eventually deliver a recession. As we explained in this week’s [Monday Morning Outlook](#), there were several reasons to expect retail strength in January, none of which change our fundamental view of the economy. First, January was unusually warm, which made it easier for consumers to be out and about. Second, auto sales were very high because of a temporary spike in fleet sales to rental companies, which are counted in retail sales. Look for a big drop in auto sales in February. Third, cost-of-living adjustments for Social Security happen in January and were very large this year because of high inflation in 2021-22. And last, massive government payments during COVID look like they’ve messed up the normal Christmas seasonal pattern in retail spending, with relatively less spending in December, in turn making January look better by comparison. For example, just in the single month of January, department store sales supposedly rose 17.5%. This seems implausible. In addition, some of the gain in January was due to inflation. Adjusted for the Consumer Price Index, retail sales are unchanged versus a year ago. Looking at the retail report at face value, the gain in nominal sales in January was broad, with all thirteen major categories up in January, led by autos as well as restaurants & bars, and with large gains also for general merchandise stores. “Core” sales, which exclude the most volatile categories of autos, building materials, and gas station sales, rose 2.7% in January and were up 8.0% from a year ago. Due to very loose monetary policy and the massive increase in government transfer payments in response to COVID, retail sales are still running higher than they would have had COVID never happened. However, loose monetary policy, which helped finance that big increase in government spending, is translating into high inflation, which is why “real” (inflation-adjusted) retail sales are flat versus a year ago. Powell & Co. have their hands full.

<b>Retail Sales</b> <i>All Data Seasonally Adjusted</i>	<b>Jan-23</b>	<b>Dec-22</b>	<b>Nov-22</b>	<b>3-mo % Ch.</b> <i>Annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <i>% Change</i>
<b>Retail Sales and Food Services</b>	<b>3.0%</b>	<b>-1.1%</b>	<b>-1.1%</b>	<b>3.0%</b>	<b>4.7%</b>	<b>6.4%</b>
<b>Ex Autos</b>	<b>2.3%</b>	<b>-0.9%</b>	<b>-0.8%</b>	<b>2.2%</b>	<b>3.2%</b>	<b>7.3%</b>
<b>Ex Autos and Building Materials</b>	<b>0.0%</b>	<b>-1.1%</b>	<b>-0.6%</b>	<b>3.0%</b>	<b>3.5%</b>	<b>7.8%</b>
<b>Ex Autos, Building Materials and Gasoline</b>	<b>2.7%</b>	<b>-0.6%</b>	<b>-0.5%</b>	<b>6.9%</b>	<b>7.5%</b>	<b>8.0%</b>
<b>Autos</b>	<b>5.9%</b>	<b>-1.8%</b>	<b>-2.2%</b>	<b>6.7%</b>	<b>11.5%</b>	<b>2.8%</b>
<b>Building Materials</b>	<b>0.3%</b>	<b>1.1%</b>	<b>-3.3%</b>	<b>-7.5%</b>	<b>0.4%</b>	<b>1.1%</b>
<b>Gasoline</b>	<b>0.0%</b>	<b>-4.8%</b>	<b>-1.4%</b>	<b>-22.3%</b>	<b>-21.6%</b>	<b>5.7%</b>

Source: Bureau of Census