



Economics Group

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Retail Sales in January: One for the Bulls!

Retail sales rose a better-than-expected 0.2 percent in January, while the originally reported 0.1 percent drop in December was upgraded to a 0.2 percent increase. Control sales were up 0.6 percent. Overall a good report.

Bucking the Trend in Markets, Retail Sales Improve

Retail sales surprised markets in January by posting a better-than-expected 0.2 percent increase. But what makes this month's report more impressive is that the December number was revised up from a decline of 0.1 percent to 0.2 percent. Thus, instead of being weak at the end of last year, retail sales actually ended the year relatively strong.

In addition, gasoline station sales plunged 3.1 percent in the month, which makes January's 0.2 percent increase in overall sales important given the headwind faced by retail sales due to lower gasoline prices.

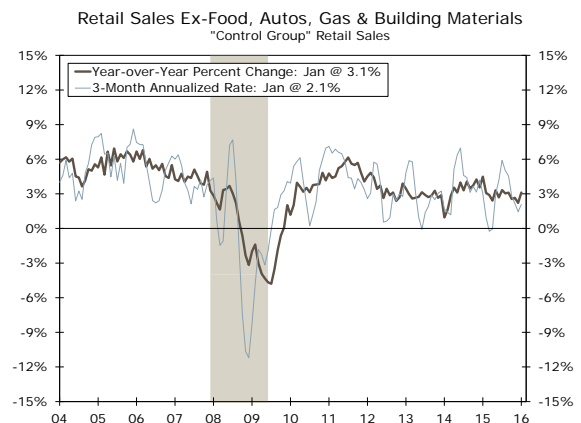
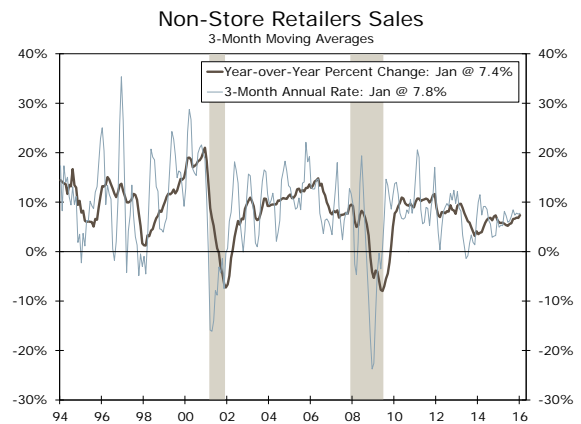
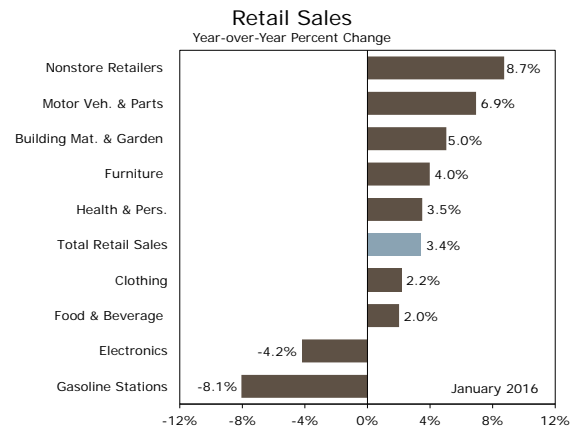
The strongest sectors in January were a 1.6 percent growth rate from non-store retailers and a 1.2 percent increase from miscellaneous retailers. Meanwhile, building material sales posted their fourth consecutive month-on-month increase by improving 0.6 percent in January after a strong 1.4 percent increase in December.

Motor vehicles and parts sales were also strong in January, increasing 0.6 percent for the third consecutive monthly increase while general merchandise stores improved 0.8 percent following a drop of 0.9 percent in December. Food and beverage stores were up 0.5 percent after a decline of 0.3 percent a month earlier. The softest sectors in January were health care (0.0 percent), electronic store sales (0.1 percent) and clothing store sales (0.2 percent). The worst performing sectors were gasoline sales, as referenced above, sporting goods sales, down 2.1 percent, eating and drinking store sales, which dropped 0.5 percent and furniture sales, which also dropped 0.5 percent.

Control Sales Soar in January

Perhaps the best news for the U.S. economy was the result for control group retail sales, which were up a very strong 0.6 percent. Recall that these are the components of retail sales that go into the calculation of GDP. This increase in control group sales was the strongest since a print of 0.8 percent in May of last year and should set the stage for perhaps, an improvement in consumer demand during the first quarter of the year if these numbers remain positive in the coming quarters.

Furthermore, since these results are given in nominal terms the expectation is that real retail sales were even stronger because we had further declines in gasoline prices during the month of January. Thus, in real terms we should expect U.S. consumer demand to have been very strong to start the year. Perhaps the only thing that could dampen consumer demand is if consumers begin to keep money for a rainy day, i.e., savings continue to increase. In any case, we believe that, for now, current recession fears in the U.S. have been exaggerated.



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