Economic Indicator — March 14, 2024

Retail Sales Indicate Weaker Pace of Spending at Start of Year

Summary

Retail sales bounced back in February, but the underlying details of the release were a bit more mixed, and the all-important "control group" measure of sales suggests some modest downside risk to broader Q1 consumer spending.

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U.S. Retail Sales: February 2024

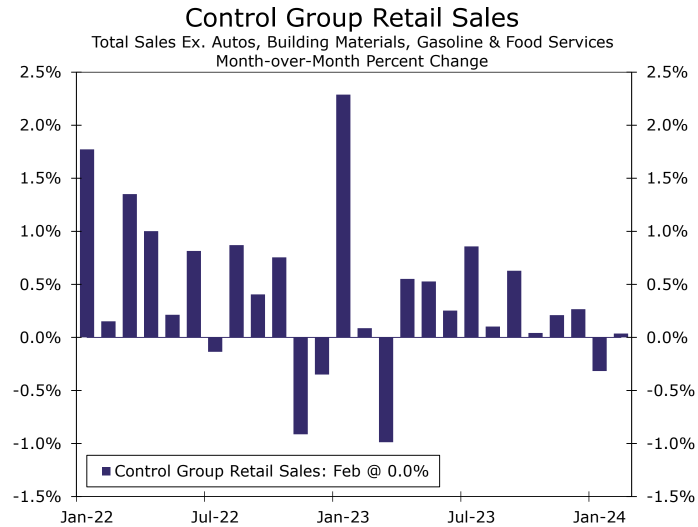
	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Retail Sales (MoM)	-1.3	0.4	0.7	0.2	0.6	0.7	0.8	-0.3	0.0	0.1	-1.1	**0.6**
Retail Sales, Ex. Autos (MoM)	-1.1	0.3	0.4	0.1	0.8	0.8	0.8	-0.1	-0.1	0.1	-0.8	**0.3**
Control Group Sales (MoM)	-1.0	0.6	0.5	0.3	0.9	0.1	0.6	0.0	0.2	0.3	-0.3	**0.0**
Real Retail Sales (MoM)	-1.1	-0.1	0.8	0.1	0.7	0.0	0.7	0.1	0.4	0.1	-0.8	**0.1**
Retail Sales (YoY)	2.2	1.3	2.1	1.5	2.8	2.8	4.0	2.2	3.6	5.0	0.0	**1.5**
Retail Sales, Ex. Autos (YoY)	2.5	1.6	1.4	0.5	1.7	2.4	3.4	2.0	3.1	4.0	0.6	**1.5**
Control Group Sales (YoY)	4.1	3.6	3.9	3.4	4.4	3.6	3.8	3.1	4.3	4.9	2.2	**2.2**
Real Retail Sales (YoY)	0.7	-0.8	1.3	2.5	3.2	1.7	2.5	1.8	3.6	4.2	-0.1	**1.2**

Notes: MoM = Month-over-Month Percent Change
YoY = Year-over-Year Percent Change

Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Economics

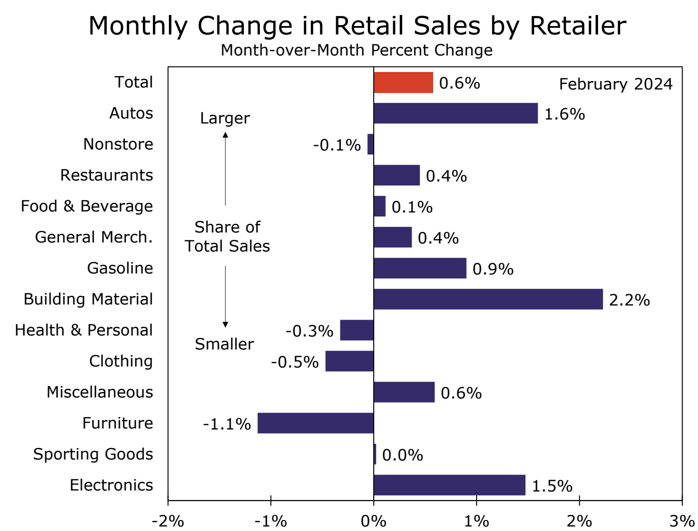
Consumer Spending is Moderating

While retail sales bounced 0.6%, that was slightly weaker than we were anticipating and comes with downward revisions at the start of the year which now show January sales declined 1.1%, rather than by the 0.8% drop reported previously. We got the lift we were anticipating from auto sales and building material stores, but the gain in gasoline sales was a bit more muted than expected given higher retail prices during the month and these retail series are nominal, or not adjusted for inflation. Nine of the 13 types of retailers tallied did report a rise in sales last month, which highlights the widespread nature of February sales growth, a notable difference from January.



Source: U.S. Department of Commerce and Wells Fargo Economics

When we look through some typically-volatile categories of retail such as auto dealers, gasoline stations, building material stores and restaurants, the “control group” measure of sales was flat in February. That was also weaker than we forecast, though it did come with a slight upward revision to January. The result is somewhat of a wash, and, if anything, suggests some modest downside risk to Q1 consumer spending given this tally of retail is factored into estimates of broader personal spending. Cutting through some monthly volatility, control group sales have been flat on average over the past three months. Consumer spending is moderating.



Source: U.S. Department of Commerce and Wells Fargo Economics

It is increasingly evident that after years of a devil-may-care approach to spending, consumers have at last shown signs of being more reserved at the start of this year. In January, we saw a pivot from discretionary items back to non-discretionary purchases in the broader personal spending release. Today's retail sales data are a bit more mixed in terms of the drivers, but over the past year we have seen more of a pullback in sales at retailers more likely to sell large durable items like autos, furniture, electronics, sporting goods, which tend to not only come with a higher purchase price but may also require financing. There's ultimately more competition for consumers dollars today while still-high prices for frequent purchases like food and gasoline may be diverting discretionary funds, just as higher interest payments may also be somewhat crowding out consumption.

Despite recent moderation, we ultimately do not think consumer spending is poised to slow meaningfully. Consumer momentum likely remains intact amid a still-sturdy labor market offering support to spending this year, even if that pace of spending is set to moderate. Separately released data this morning on jobless claims showed a still-low level of people filing initial claims for unemployment insurance, while continuing jobless claims continue to gradually drift higher. While the labor market is still sturdy with layoffs still low, for those who lose their job it appears it's not quite as easy to find a new one today as it was a couple of years ago.

We've long cautioned that it will be personal income that dictates the pace of spending this year. As the labor market moderates we should continue to see income growth slow as well, which will exert downward pressure on spending. The upshot of that moderation should be less demand-pull on inflation, which would be welcome news for the Fed once it more fully materializes in the consumer price estimates.

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