FBIC GLOBAL RETAIL RESEARCH & INTELLIGENCE

FLASH REPORT

FEBRUARY 13, 2015

JANUARY 2015 RETAIL SALES REPORT

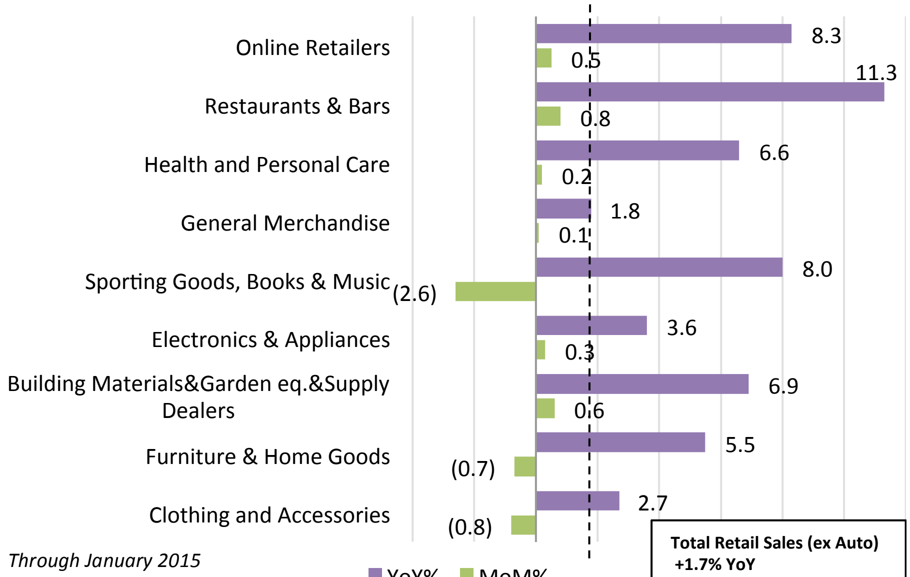
- **Another month of a disappointing retail sales report from the US Census Bureau as gains in discretionary income were likely diverted into spending on services**
- **Strongest categories in January remained autos and restaurants, while sales at gas stations dropped in tandem with prices paid at the pump**
- **The National Retail Federation (NRF) projects a 4.1% increase in 2015 retail sales, supported by continued improvement in the labor market and gains in consumer confidence**

JANUARY RETAIL SALES DISAPPOINT

According to the US Census Bureau, **January retail sales fell 0.8% from December** and x-auto declined 0.9%. The consensus forecast was for a 0.4% decline.

On a YoY basis, the sales gain was 3.3% (or up 1.7% x-autos). The strongest categories were restaurants, autos and sporting goods; restaurants and building material and garden equipment dealers lead the monthly gain, while sporting goods lagged the aggregate with a 2.6% month-over-month decline. Apparel is exhibiting moderate growth, up 2.7% YoY, and a 0.8% MoM decline.

January Retail Sales Growth by Category



Through January 2015
Seasonally adjusted
Source: US Census Bureau

RetailNext reported a 7.7% decline in store traffic and sales for the month of January. The Saturday before Martin Luther King, Jr. Day (January 17) experienced the highest levels of traffic and transactions, while January 31 saw the highest sales and average transaction value as wintry conditions during these periods drove store traffic across much of the US. The Midwest was the only region with a modest (0.1%) traffic increase. The Northeast experienced the most severe traffic decline, at 12.8%.

IMPROVING ECONOMIC TRENDS NOT YET SHOWING UP IN RETAIL RESULTS

The US economy added more than one million jobs in the past three months and wages are beginning to grow, up 2.2% on an annual basis according to the January US jobs report. Even the University of Michigan's consumer sentiment reading is at its highest level in 11 years, jumping to 98.1 in January (from 93.6 in December). Yet we continue to see less than robust sales trends.

The Conference Board surveyed consumers January 29–January 31 to understand this disconnect. Of those surveyed, 75% regard the recent decline in gas prices as temporary and expect prices to rise by summer, 45% haven't changed their spending due to the 37% YoY decline in the average price at the pump this January, and 32% are saving more or reducing debt.

FBIC thinks we are beginning the see signs of a sustainable recovery and that it will take time for the consumer to adjust from the austerity of the Great Recession. We see increased spending on casual dining, often a harbinger of improved retail activity in the near term. Economists at the NRF posited that the savings consumers are enjoying from reduced gas prices are being spent satisfying pent-up demand for services (consumer spending represents nearly 70% of US GDP; 35% is on goods and 65% on services).

The positive ripple effects of more people working, wages rising and energy costs reaching multiyear lows cannot be underestimated and are likely to work their way through the economy to retail sales as 2015 progresses. The NRF released its annual economic forecast today (February 12) and is looking for a 4.1% gain in 2015 retail sales, the fastest pace since the 5.1% gain in 2011 and up from 3.5% in 2014. For GDP the NRF projects growth within the 2.7%– 3.2% range (up from the 2.6% annual rate in the final quarter of 2014). Among the multiple supports underpinning its economic outlook, the NRF cited the lowest household debt burden in 25 years, and gains in equities and housing that have boosted net worth to record levels and in turn lay the foundation for consumers' growing confidence. FBIC sees these gains as certainly doable and potential to exceed as a virtuous cycle gets underway in 2015.

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