Data Release: Retail sales confound expectations, drop for third consecutive month

- Retail sales fell -0.6% M/M in February, falling well short of the +0.3% M/M gain expected by the market. January's figure was left unchanged at -0.8%.

- For the first time in three months, gasoline stations could not be blamed for the decline as the average cost of retail gas bounced 4.7% M/M in February – not as strongly on a seasonally-adjusted basis though. Sales at gasoline stations were one of the stronger performers on the month, rising 1.5%. In contrast, motor vehicle and parts dealers was the weakest category in February, as telegraphed by the modest new vehicle sales report earlier this month. Sales there dropped -2.5% M/M.

- Excluding gasoline and autos, core sales also fell by -0.2% M/M, contrary to the consensus view for a gain of 0.3% M/M. What's more, January’s tally was revised down from +0.2% to a negative -0.1%. This was only partially offset by a mild upward revision to December.

- Gains in February were observed in only 4 of 13 subcomponents. Besides gasoline stations, sales rose at sporting goods & hobby stores (+2.3%), bouncing back after a weak performance last month, nonstore retailers (+2.2% – which includes online shopping – and food & beverage stores (+0.3%).

- Aside from autos, retailers experiencing the largest declines include building materials stores (-2.3%), miscellaneous stores (-1.2%), and electronics stores (-1.2%).

Key Implications

- This was the first retail sales report in a while where gas prices could not be blamed for the weak showing. The headline figure has fallen for three consecutive months, and even the core measures are remarkably weak. While retail sales represents only a minority of total consumer expenditures, consumer spending over the first quarter is likely to be weaker than in recent quarters, which poses downside risk for overall GDP growth.

- It shouldn't come as a surprise that the two weakest categories in the month were autos and building materials, two of the categories most impacted by harsh winter weather. In contrast, online retailers had their best month since 2013. Weakness in both these categories is likely to rebound as more clement weather sets in.

- Overall, our core view remains that the conditions are ripe for robust consumer spending this year (link). Strong job growth, high consumer confidence, and a savings rate that is now the highest since 2012, suggests better consumer spending growth ahead.

Andrew Labelle, Economist
416-982-2556

DISCLAIMER
This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.