TD Bank Financial Group

TD Economics

Commentary

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U.S. RETAIL SALES FALTER IN FEBRUARY

- **Retail sales slipped 0.6% M/M in February which was significantly worse than expected**
- **Excluding autos, retail sales fell 0.2% M/M and was also well below expectations**
- **Excluding autos and gas, retail sales fell 0.1%**

Retail sales were much worse than expected in February, posting a 0.6% M/M drop. Excluding autos, retail sales were down 0.2% on the month. On a year ago basis, total retail sales are now up only 2.6%, while retail sales excluding autos posted a 4.4% Y/Y gain. Even more concerning is the fact that the three month trend in total retail sales is now down 3.3%, while excluding autos, the three month trend is down 0.8%. Both are well off their recent peaks. These soft numbers are telling in that they indicate momentum in retailing activity and suggest that consumer activity is becoming increasingly fatigued.

It is clear that the housing market continues to exert a big drag on consumer activity. Building materials were down 0.7% on the month, while furniture and electronics fell 0.5% and 0.4%, respectively. The deterioration in these categories comes as little surprise and should continue as the housing market continues to correct.

Other sectors that posted declines aside from the 0.2% decline in autos were food and beverage sales which were down 0.2%. A number of commodities are posting new highs or at least continue to see price gains. As such, food prices continue to rise across the globe and this could be acting as a drag.

There were, however, a small handful of categories to post gains. They included health and personal care (+0.5%), clothing and accessories (+0.2%), and general merchandise (+0.4%). But in light of the confluence of categories that posted large declines, these modest increases do little to offset the deterioration in overall retailing activity in February.

On balance, this report is troubling. It suggests that the consumer is feeling the pinch of a softening job market, higher prices for key goods, and the other macro economic headwinds that currently weigh on the U.S. economy. The fact that the consumer can no longer depend on the housing wealth effect and job growth is slowing is a bad combination for retailing activity and suggests that consumption, which is the largest component of GDP is increasingly at risk.

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