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TD Economics

Data Release: American consumers kick the year off on a strong note

- Retail sales rose by 0.4% in January, beating market expectations for a 0.1% gain. The rise follows last month's upwardly revised 1.0% print (previously 0.6%).
- Excluding autos (0.8%) and gasoline (0.2%), sales were even stronger (0.7%). The control group, which also removes building materials and food services and is used in the calculation of GDP, recorded an impressive 0.4% gain on the month following an upwardly revised 0.4% print in December.
- Gains were seen pretty much across the board, with the biggest gains coming from the sporting goods (1.8%), electronics (1.6%), and food services (1.4%) categories. Sales at motor vehicles and parts dealers (-1.4%) was the only major category to drag the headline print lower. Nonetheless, weakness in this number was expected given the very strong print (3.2%) in the prior month and corroborates the decline seen in unit sales reported earlier this month.

Key Implications

- American consumers finally appear to be opening up their wallets. The robust retail sales gain experienced during January comes on top of an upwardly revised print in the prior month and suggests that Americans are not taking much of a break following what was a very busy holiday shopping season. Spending was strong and with the gains broad across almost all components of the retail sector.
- Particularly encouraging is the fact that strong spending is being seen in the discretionary spending categories. This suggests that the gains in consumer confidence since the election are finally materializing as American consumers take to the malls to indulge in retail therapy and enjoy meals out at the same time. The more seasonal temperatures in January also allowed Americans to hit the slopes with new skis, snowboards, and winter jackets. The 1.8% monthly gain recorded in the sporting goods category follows three consecutive monthly declines, while the clothing component recorded the strongest gain all season.
- The outlook for 2017 looks bright. A strong handoff from the fourth quarter bodes well for the first quarter consumer spending component of GDP, which should come in around 2.8%. Furthermore, continued strength in job and income gains and still relatively low lending rates will continue to encourage spend in the coming months, with the consumer likely to be a key support for economic growth this year.

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