

Economic Analysis

# Winter Weather Freezes Retail Sales

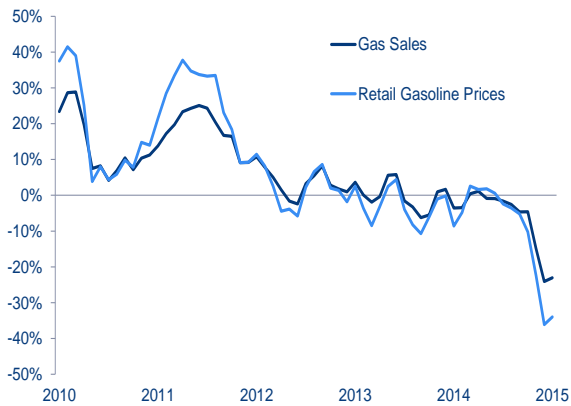
Amanda Augustine

- **Broad-based drop in purchases by 0.6% despite higher expectations**
- **Bump in gas prices responsible for lifting gasoline station sales for first time since May**
- **Weather effect most visible in auto sales, which dropped 2.5%**

Against general consensus, retail sales fell 0.6%, declining for the third month in a row for the first time since 2012. Core retail sales, excluding auto and gas, also defied expectations, declining 0.2%-- even further than last month's revised number. Given the persistent decline in retail sales, the expectations for a Fed interest rate hike in June could be lower.

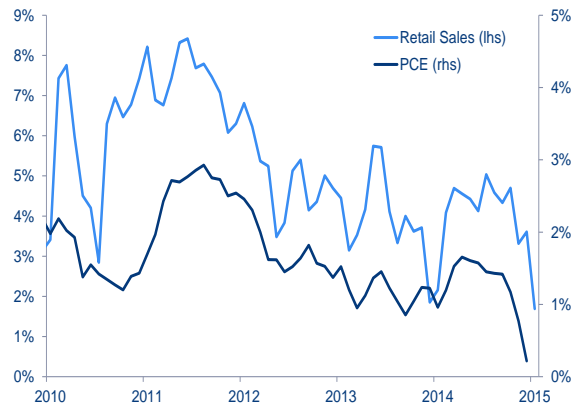
The cold weather that hit the East Coast, particularly New England, played a key role in discouraging consumers from visiting malls and auto showrooms. The fact that receipts fell in 9 out of 13 categories further confirms the part the weather played in the slowdown of economic activity, especially auto sales which declined the most since January 2014. Other categories experiencing a large decline in sales were restaurants and bars and building material and garden equipment. As oil prices appeared to stabilize in February after their previous plunge, gas station receipts were once again on the rise, up 1.5%-- the first increase seen since May 2014. The other categories that experienced an increase in sales were online retailers and sporting goods and hobby shops.

Chart 1  
**Gas Prices and Gas Sales**  
YoY %



Source: US Census Bureau, EIA

Chart 2  
**Personal Consumption Expenditures and Retail Sales**  
(YoY %)



Source: US Census Bureau, BEA

As the most recent Personal Income and Outlays release depicted, consumers are opting to use their higher disposable income from decreased pump prices to build up savings rather than spend. Despite higher employment numbers, persistently slow wage increases could be motivating consumers to pay down debt and save. The drop in retail sales should not be cause for pessimism though, as retail sales tend to be volatile from month to month, and the last year has displayed very mixed results. The stubborn decline in retail sales is

expected to ease off in March as spring begins and consumers return to their shopping malls and dealerships. We do not intend to revise down our GDP forecast for the quarter solely based on this disappointing report as our forecast already accounted for a weather-related impact. While real retail sales declined in both January and February, real personal consumption expenditures were stronger-than-expected to start 1Q15. There seems to be a growing divergence between the two series, with PCE having more of an influence over the GDP figure.

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