Economic Analysis

Gasoline Drags Down Retail Sales in February

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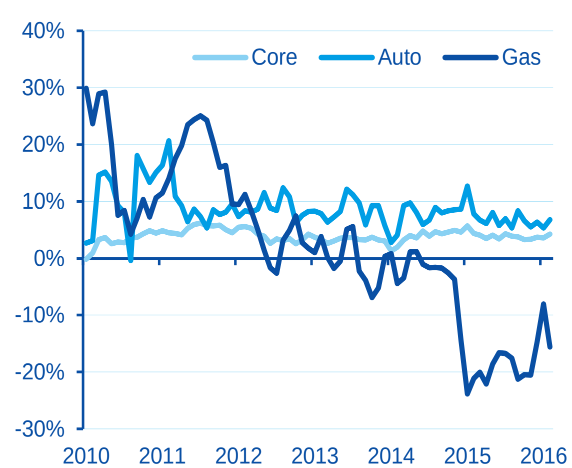
- **Retail sales declined 0.1% MoM, while core (ex-auto, ex-gas) sales increased 0.3% MoM**
- **Despite declines in multiple sectors, spending on discretionary goods/services is healthy**
- **Job gains and gas savings should support consumer spending going forward**

Just when we thought consumer spending made a comeback in January, February's retail sales report proved us wrong. Total retail sales for the month declined 0.1%, following downward revisions to the January figures into negative territory (from 0.2% MoM to -0.4% MoM). Despite weakness in many categories, much of the decline in the month's headline figure was due to a 4.4% MoM drop in gas stations sales – the nominal figure obviously having been dragged down by lower gasoline prices. This was the eighth consecutive monthly decline for gasoline station sales. Other weak sectors included motor vehicle and parts dealers (-0.2%), furniture and home furnishing stores (-0.5%), electronics and appliance stores (-0.1%), food and beverage stores (-0.2%), general merchandise stores (-0.2%), and miscellaneous stores retailers (-0.2%). Gains were seen in sales of building materials, garden equipment and supplies (1.6%), clothing and accessory stores (0.9%), sporting goods, hobby, book and music stores (1.2%), and electronic shopping and mail-order houses (1.3%).

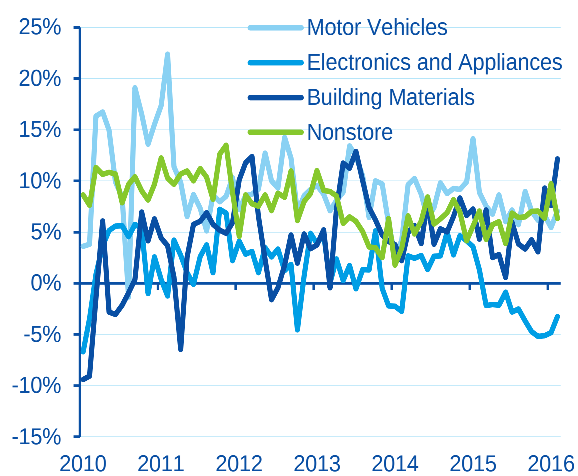
On a YoY basis, retail sales increased 3.1% (Chart 1). Building materials, garden equipment and supply posted the highest YoY increase (12.2%), followed by motor vehicle dealers (7.1%) (Chart 2). The strong gains in building materials and garden equipment are due to the robust performance of the housing market over the last year. We expect the housing market to continue performing well into 2016, despite slowing down somewhat, so the positive trends in retail sales for these products should continue. Auto sales, despite the slowdown in January and February, were driven by solid demand, supported by low oil prices and gains in employment. It is likely that auto sales will rebound as both trends are likely to continue in 2016, especially with the positive developments in the labor market that we saw in February.

Chart 1
Core, Auto and Gas Sales
YoY % Change



Source: US Census Bureau & BBVA Research

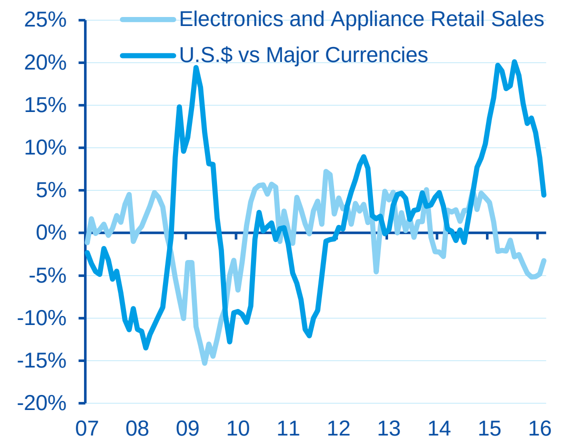
Chart 2
Retail Sales and Selected Categories
YoY % Change



Source: US Census Bureau & BBVA Research

Only two sectors posted YoY declines - gasoline stations (-15.5%) and electronics and appliance stores (-3.2%). Gasoline station sales in 2016 will greatly depend on the price of oil, which is likely going to remain close to the current levels between $30 and $40 per barrel, at least in the next couple of months. The growth in electronics and appliance retail sales is inversely correlated (statistically significant) with the strength of the U.S. dollar (Chart 3), so it could reflect retailers lowering prices due to cheaper imports. That said, it is also likely that a lot of the sales that traditionally were made by electronics and appliance stores, as well as furniture and department stores, are moving online, as electronic shopping has been posting comparatively strong gains for quite some time.

Chart 3
Electronics and Appliance Retail Sales and U.S. Dollar Exchange Rate
YoY % Change



Source: US Census Bureau, FRB & BBVA Research

While retail sales in February were relatively weak and the revision for January is worrisome, the silver lining is that spending on discretionary goods such as sporting goods, books, music records and apparel, whose sales usually rise when the economy is doing well, performed quite well. Furthermore, despite the slowdown in January, people are eating out more, another sign of confidence in the economy. We expect the weaknesses in some of the other categories like auto sales to be transitory, especially considering the positive developments in the labor market in February and the prospects for continuing low gasoline prices that provide a favorable environment for consumers.