United States

Retail sales are up despite tax increases

HIGHLIGHTS

- Retail sales edged up by 0.1% in January after a 0.5% gain in December.
- Automobile sales dipped by 0.1% after a 1.2% increase in December. Excluding automobiles, sales rose by 0.2% after a gain of 0.3%.
- Apart from automobiles, we note a slump in sales at drug stores, furniture stores and clothing boutiques. Sales in the “miscellaneous retailers” category fell by 2.6%.
- Most types of retailers recorded increases in January. The strongest sales growth came from department stores and nonstore retailers.
- Sales at gas stations ticked up by 0.2% after a 1.7% drop attributable to lower gas prices. Excluding autos and gas, sales advanced by 0.2% in January, after healthy growth of 0.7% in December.

COMMENTS

Many headwinds threatened household spending in January. The greatest of these was obviously the tax increase caused by the partial agreement on the fiscal cliff. On average, U.S. households will see their tax bills rise by US$1,273 in 2013; this would normally have a negative impact on consumption. Fortunately, retail sales did not deteriorate seriously in January. Certainly, growth of 0.2% is modest, but after a fairly good holiday season, a pullback in January is normal. Moreover, the few categories of retailers that suffered flagging sales in January are those that had performed well in the previous months. For example, the 0.3% downturn in clothing sales comes on the heels of monthly growth of 1.2% in December, the strongest since February 2012. In addition, changing weather in January (which continued in February) likely moderated some types of spending. So households seem to be holding their own. Given the decline in disposable income, it is conceivable that households dipped into their savings in order to increase their consumption in January.

Implications: While they are not extremely strong, retail sales show some resilience on the part of consumers, even though higher taxes and waning confidence could have had more serious consequences. But, looking ahead, another spike in gas prices and inclement weather will limit the chances of a rally in February.

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