

# U.S. Flash

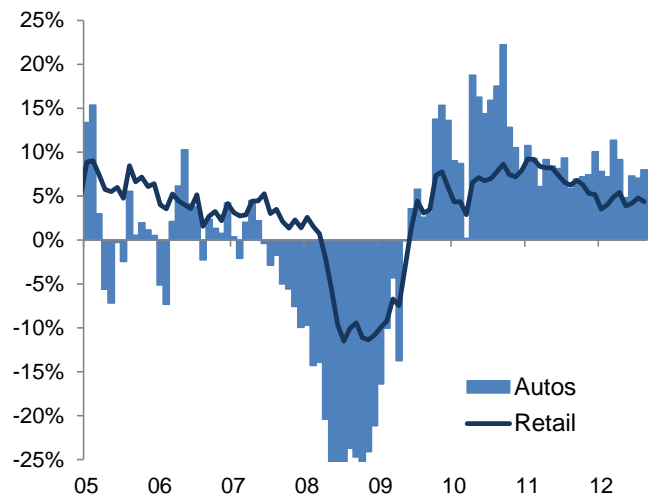
## Retail Sales Rise in January Despite Payroll Tax Increase

- Although depressed by the expiration of the payroll tax cut, retail sales rose 0.1%
- Components come out mixed as they reverse their December highs
- Overall gains show signs of soft economic footing to start the New Year

Coming out of a strong holiday-related spending surge in November and December, retail sales managed to grow a modest 0.1% in January although at a depressed rate due to the expiring payroll tax cut that took effect at the beginning of the year. December's 0.5% gain in sales would have been a hard act to follow and early estimates had retail sales stagnant or declining. However, on par with consensus figures, retail sales came out ahead but not necessarily due to stronger economic conditions emboldening consumer demand. Higher equity levels, rising home prices and continued improvement in the labor market invoked a little more optimism that translated somewhat into consumer demand for goods despite the hit to disposable personal income. Retail strength was not easily identifiable as the gainers and lagers were mixed. Excluding autos, retail sales rose 0.2% which means auto sales were less prolific than the past few reports, declining 0.1% after two months of strong growth. In terms of movers, computer parts and software saw a significant drop in sales, down 1.7% in January while miscellaneous store retailers fell 2.6% on weak office sales. The drivers for the month were general merchandise and jewelry stores which rose 1.1% and 5%, respectively, while a majority of the other retail components shifted less than a percent on a more muted basis. Gasoline sales also rose 0.25% after two consecutive months of deep decline, mostly reflecting January's rise in oil prices. Overall, this month's figure suggests the consumer was less affected by the payroll tax increase than expected although it did mute some components of the sector. We can expect modest growth in February's figure as economic conditions continue to improve but headwinds from the payroll tax may still have some effect.

Chart 1

### Retail and Auto Sales YoY % Change



Source: US Census Bureau &amp; BBVA Research

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