

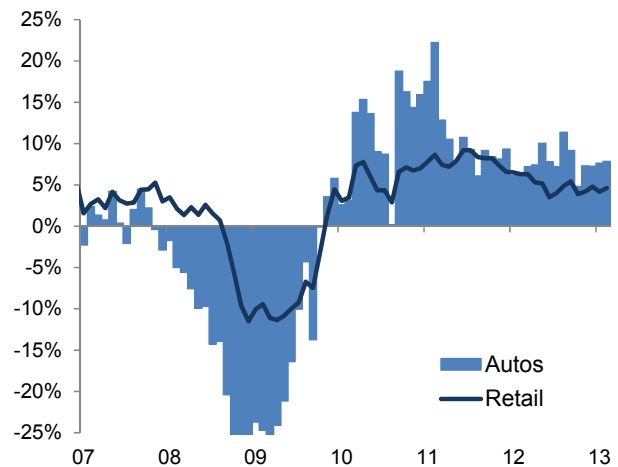
U.S. Flash

Retail Sales Emerge Strong Despite Payroll Tax Rise

- Retail Sales up 1.1% on higher gasoline prices and vehicle sales in February
- Excluding autos and gas retail sales grew by 0.4%, higher than expected
- Consumers curb spending less than expected according to sales growth

Emerging far stronger than consensus expected, retail sales for February grew by 1.1% over last month as consumer activity expanded. This comes on the heels of a much stronger employment report and consequently adds to the growing optimism regarding the recovery. Sales at the headline level were bolstered by higher gasoline prices which were moderately higher on average in February in comparison to prior months. Demand was still strong despite higher prices as the gasoline station portion of the sales release rose 5%. Automotive sales also put upward pressure on the headline sales figure as it continued its recent growth on better vehicle and parts sales. Vehicle sales rose 1.0% after declining the month before while auto parts rose 1.7% MoM in February, its largest rise in over a year. Excluding autos and gasoline, retail sales grew by 0.4% on gains from a variety of subcomponents. Building materials, clothing stores, miscellaneous stores and nonstore retailers all grew above 1.1% in February with miscellaneous stores rising the most at 1.8%. This points toward a positive outcome for consumers as they showed some resilience in spending activity despite the payroll tax and delayed income tax return that weakened personal income. However the subcomponents were not without some weakness as certain retailers fared better than others. Furniture and furnishings fell by 1.6%, sporting goods fell by 1.0% and food/drinks restaurants declined by 0.7%. Overall it seems as though payroll growth may have offset some of the decline in consumption from the payroll tax increase. While expectations have been for moderate growth in sectors like manufacturing and retail, recent data from both sectors, coupled with employment, point toward a stronger 1Q13 outcome than anticipated. However, headwinds from continuing fiscal debates and slow growth outside of the U.S. make it difficult to warrant a rise in GDP forecasts at present. Average growth in the aforementioned sectors has been modest and March's data may shift their outcome were there to be further fiscal tightening or woes in global markets.

Chart 1
Retail and Auto Sales
YoY % Change



Source: US Census Bureau & BBVA Research

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