U.S. Flash

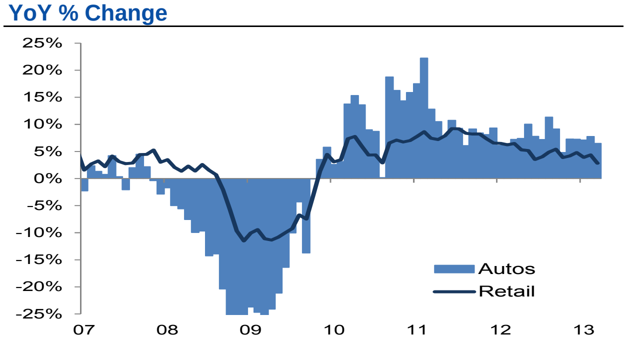
Retail Sales Slump, Led by Gasoline and Merchandise

- **Retail Sales declined -0.4% in March as gasoline station sales declined dramatically**
- **Excluding autos and gas, retail sales fell -0.1% after a 0.3% rise in February**
- **Broad-based declines suggests a lagged impact from the payroll tax increase**

The retail sales report for March showed a 0.4% decline in total sales, with most components on the downfall. Following a 1.0% rise in February, consumers seemed to have spent less as the payroll tax increase from January ultimately had some lagged impact. Adverse weather and disappointing Easter shopping also seemed to have acted as catalysts. Overall, the decline was heavily influenced by falling gasoline prices which declined over the month in comparison to February, pulling nominal gasoline station sales down 2.16%. In addition, vehicle and parts sales declined 0.6% for the second time in three months, despite the fact that demand for autos has been relatively strong. Excluding autos and gasoline sales, March's retail sales figure still dropped by 0.1% as core components suffered a ubiquitous decline. Furniture and electronics stores declined by 0.4% after a sharper 0.9% decline in February. This is primarily due to the weakening in computer and software sales which has continued to wane for the past three months. Down 1.9% in March, the decline comes on the heels of a report by an independent researcher that found sales of desktops and laptops have declined 14% on a QoQ basis to start 2013. Apparel also took a tumble as colder weather may have pushed back spring and summer clothing purchases. The clothing store component dropped 0.6%, the largest decline in 10 months as consumers kept their jackets on for another temperate month. Sporting goods store sales declined 0.8% but the largest decline in the core component came from the general merchandise component of retail sales. Falling by 1.2%, the general merchandise sector has fared poorly over the past two quarters, in constant decline except for a brief moment of growth in February. The department stores subcategory also exhibited the same constant decline as it fell 1.1% for the ninth straight month.

There were a few components that managed to grow in March. Building materials rose by 0.1%, while the miscellaneous component increased 0.8% after falling in the prior two months on slowing office supply purchases. Finally, food services and drive places reversed its February decline, up 0.75%. These details in the retail sales report are very telling due to the fact that they remains a relatively strong gauge on how the consumer regulates discretionary spending. One of the most common forms of saving on weekly expenditures is to reduce the amount of money spent going out to eat or drink, thus providing a pulse on how well the consumer is faring. In general, the March report finally showed the expected slowdown in sales from the rise in payroll tax. The broad decline points toward no particular sector taking the worst of the deceleration and we expect that as consumers adjust their budgets, spending will return in the coming months, fueled by better weather and economic conditions.

Chart 1
Retail and Auto Sales
YoY % Change



Source: US Census Bureau & BBVA Research

Kim Fraser
kim.fraser@bbvacompass.com
+1 713 831 7342

Alejandro Vargas
alejandro.vargas@bbvacompass.com
+1 713 831 7348