

## Economic Newsflash

# Consumer spending freeze thaws in January

Presented by BMO Wealth Management Investment Strategy Team

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U.S. retail sales only partially rebounded in January after the shockingly large setback in December. Sales nudged up 0.2% at the start of the year, a tad better than expectations, but this followed a revised 1.6% drop in December (even a deeper setback than the initial -1.2%). Core sales i.e., those excluding gas, food and building materials bounced back 1.1% after an extreme 2.3% plunge in December (first estimated at -1.8%, the second worst in more than 25 years of data). A sharp drop in both autos (-2.4%) and service stations (-2.0% on lower gasoline prices) held the headline number down again, leaving overall sales up a modest 2.3% y/y. The government shutdown no doubt added a drag on sales in the month, as it only ended late in January. Interestingly, the deep drop in “non-store retailers” (i.e. on-line shopping) first reported for December was actually revised to an even larger drop – it’s now estimated at a 5.0% fall for the month - versus the initial -3.9% reading, although these sales came back 2.6% in January. That left them up 7.3% y/y, which is still a strong number, despite being below the consistent double-digit gains of recent years.

Early indications for Q1 growth are underwhelming as auto sales actually slipped a bit further last month after a sluggish start to the year (16.5 million units versus 16.7 million in January). And, the deep downward revision to December sets up the possibility of a small downward revision to Q4 GDP as well.

Bottom Line: Sales managed only a tepid reversal in January from December’s deep freeze. While we expect a comeback in the next few months as the weather thaws, it seems the economy’s big engine - the consumer - has also cooled relative to recent trends. Tax refunds should help spending patterns into April & May, although so far data suggests excess refunds - i.e. the amount above those seen in 2018 - will be lower than expected. We will continue to monitor these trends closely, but for now slow and steady growth remains our base forecast for early 2019.

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