

## Small Gain in Retail Sales in February After January Decline

- Retail sales increased 0.2% in February, not making up for January's 1.2% decline.
- Details were better, with core sales up 0.5%, and control sales up 1.0%.
- On a year-ago basis total retail sales growth was 3.1% in February, down from above 4% in December.
- Restaurant sales have been declining for the past few months.
- The outlook is for more modest growth in consumer spending going forward.

Retail sales increased 0.2% in February from January after falling 1.2% in January (revised lower from a 0.9% decline). Although the January drop was the biggest since late 2022, growth had averaged 0.7% in the last four months of 2024.

The details were better—sales excluding autos and parts rose 0.3% over the month, and sales excluding autos and gasoline rose 0.5%. Control retail sales—sales excluding autos, gasoline, food services and building materials, and which go into nominal consumer spending in GDP—rose a solid 1.0% in February, more than making up for January's 0.9% decline.

On a year-ago basis retail sales growth was 3.1% in February, down from 3.9% in January and 4% or greater in November and December. Core sales—excluding autos and gasoline—were up 3.5% from a year earlier, down slightly from the pace of the previous five months. Control sales were up 4.4% in February from a year earlier, and growth has been running at roughly this pace for about one year.

Although consumer confidence measures have been weak in 2025, nominal retail sales rebounded somewhat in February after a big drop in January. Although the headline number was nothing spectacular, the details were better, with solid growth in control sales. The outlook is for slower growth in retail sales this year, but not a decline. The labor market is solid in early 2025, with a low unemployment rate, moderate job growth, and wage gains that are outpacing inflation. But other factors will weigh on spending growth this year. The recent decline in stock prices will be a drag, particularly for high-income households. Interest rates, although off their peaks, are still much higher than they were a few years ago. The savings rate is below its pre-pandemic level, so households will need to boost their saving and correspondingly watch their spending. And federal government job cuts will lead to cutbacks.

One segment to watch going forward is spending at bars and restaurants. Sales fell a big 1.5% in February, the largest decline since January 2024. And food services sales have fallen a cumulative 2% since November.

Consumer generally cut back on restaurant spending when they first start to turn cautious, and so the drop over the past few months could be a warning that consumers are faltering.

Sales of autos and parts fell 0.4% in February, despite an increase in unit auto sales over the month. Sales at gasoline stations were down 1.0% with lower gas prices. Sales were also down for clothing and specialty stores. But sales rose a big 2.4% for nonstore retailers, primarily online, with moderate growth for grocery store (0.4%) and general merchandise stores (0.2%). Building materials sales were flat in February.

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