

February 12, 2010

U.S. Economy: Retail Sales Climb, Consumer Confidence Slips

By Bob Willis and Courtney Schlisserman

Feb. 12 (Bloomberg) -- January sales at U.S. retailers climbed more than anticipated, while consumer confidence unexpectedly fell this month from a two-year high, showing a recovery in household spending may be gradual.

Retail purchases increased 0.5 percent, the third gain in the past four months, Commerce Department figures showed today in Washington. The Reuters/University of Michigan's consumer sentiment gauge dropped to 73.7 from 74.4 the prior month.

The economic expansion is being fueled by gains in manufacturing and business investment that reflect growing demand from overseas and efforts to rebuild inventories. Americans, shaken by the loss of 8.4 million jobs during the recession, will probably be slow to regain the confidence needed to spearhead the next phase of the recovery.

"The good news is that consumers are still spending even though they are worried," said Nariman Behravesh, chief economist at IHS Global Insight in Lexington, Massachusetts, who projected the rebound in sales and setback in confidence. "Spending is decent enough to provide a foundation for growth. For now, this is going to be a business-led recovery."

Stocks fell today after China unexpectedly increased bank reserve requirements for a second time in a month to cool the world's fastest growing major economy. The Standard & Poor's 500 Index dropped 0.3 percent to 1,074.92 at 12:43 p.m. in New York. Treasuries climbed, pushing the yield on the benchmark 10-year note down to 3.68 percent from 3.72 percent late yesterday.

Stockpiles Drop

A third report today showed inventories at U.S. businesses unexpectedly fell in December for the first time in three months as companies couldn't keep up with increasing demand. Macy's Inc. and Gap Inc. are among retailers driving profits up by keeping stockpiles lean after the biggest household spending slump in three decades.

Retail sales were projected to rise 0.3 percent, according to the median estimate of 82 economists in a separate Bloomberg survey. Forecasts ranged from a decline of 1 percent to a 0.7 percent gain. The Commerce Department also revised the December decrease in purchases to 0.1 percent from 0.3 percent.

Purchases excluding autos climbed 0.6 percent, also exceeding the survey median, which called for 0.5 percent gain.

“Consumers showed continued improvement,” said John Herrmann, chief economist at Herrmann Forecasting in Summit, New Jersey. “Consumers are still relatively cautious, spending what they’re making and not taking on debt.”

Broad-based Gains

Nine of 13 major categories showed gains in sales last month, led by general merchandise stores, grocery stores and non-store retailers.

Sales at non-store retailers, which include Internet retailers, rose 1.6 percent after a 2.2 percent gain in December.

Amazon.com Inc. reported Jan. 28 that its fourth-quarter profit and sales beat analysts’ estimates as shoppers took advantage of holiday discounts and free shipping.

Sales at 31 chains rose 3 percent last month, the International Council of Shopping Centers said Feb. 4, beating its forecast of a 1 percent gain. Lower inventories helped stores reduce markdowns, which boosted sales volume and profit margins, said Mike Niemira, the ICSC’s chief economist.

Macy’s, the second-largest U.S. department-store company, last week said sales at stores open at least a year gained 3.4 percent in January, helped by online purchasing. The Cincinnati-based retailer said fourth-quarter profit exceeded its forecast.

Less ‘Fear’

“We’re not seeing the fear factor we saw last year,” retail analyst Dana Telsey, founder of Telsey Advisory Group in New York, said in an interview on Bloomberg Radio.

Today’s report showed the measure of current conditions, which reflects Americans’ perceptions of their own finances and whether it’s a good time to buy big-ticket items such as cars and homes, rose to 84.1 this month from 81.1 in January.

The index of expectations six months from now, which more closely projects the direction of consumer spending, decreased to 66.9 from 70.1 last month.

The jobless rate unexpectedly fell to 9.7 percent last month from 10 percent in December, figures from the Labor Department showed last week. A 20,000 drop in payrolls served as a reminder that the labor market has yet to fully recover.

The U.S. economy, the world’s largest, expanded 5.7 percent in the last three months of 2009, the most in six years, the Commerce Department said last month.

Consumer spending grew at an average 2.4 percent pace in the last six months of the year. For all of 2009, household purchases dropped 0.6 percent, the worst performance since 1974.

Consumer purchases, which account for 70 percent of the economy, will grow at a 2.3 percent rate in the second half of this year and expand 2.5 percent in 2011, according to the median estimates of economists surveyed this month. By comparison, spending rose 3.3 percent on average over the two decades through 2007.