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Retail faces challenges, but not all the news is bad

Article

The prevailing narrative: There's no shortage of bleak headlines (including from us) about retail's uncertain outlook this year, as companies like **Amazon** and **Unilever** issue downbeat guidance, citing stiff macroeconomic headwinds in the US and abroad.

The US Commerce Department's January retail sales report added fuel to the fire as countless articles noted:

- Overall sales fell 0.9% MoM, far worse than the 0.2% decline analysts expected.

- Control-group sales—which exclude food services, auto dealers, building materials, and gas stations—dropped 0.8% MoM, a stark contrast to the expected 0.3% gain.

A different perspective: While the MoM decline grabbed headlines, stepping back provides a more nuanced view.

- The weak January numbers were partially skewed by the Commerce Department's upward revision of December MoM growth to 0.7% from 0.4%.
- Other one-off factors affected results, including devastating wildfires in Los Angeles, extreme cold in other parts of the country, and auto dealers pulling back big year-end incentives.

More importantly, YoY trends tell a much more positive story:

- **Retail sales climbed 4.2% YoY, well ahead of inflation and the third straight month of at least 4% gains.**
- **Spending at restaurants and bars surged 5.4% YoY** and 0.9% MoM, proving that many consumers are still willing to splurge on experiences.

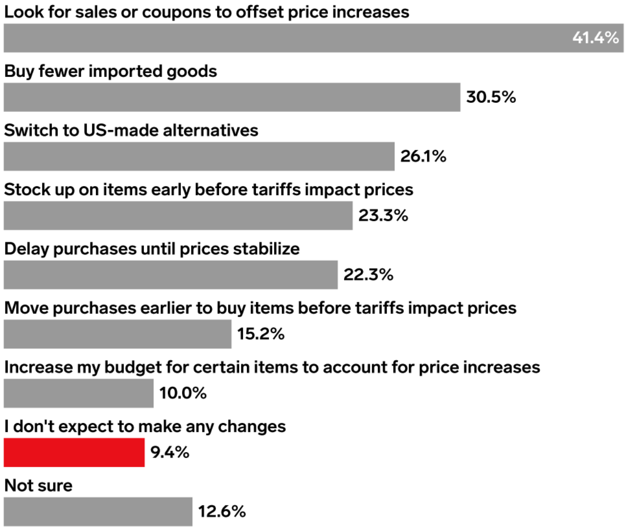
Our take: January's retail numbers painted a relatively positive picture—with consumers continuing to spend, especially on experiences, and retail sales outpacing inflation.

- But—and it's a big but—the January numbers don't tell the whole story because they don't reflect the full impact of the Trump administration's economic agenda (and may even have benefited as consumers stocked up on items before tariffs took effect). **Donald Trump** took office on January 20, and his 10% tariffs on Chinese imports only went into effect on February 4.
- These tariffs—and the potential for additional duties on goods from Mexico, Canada, the EU, and elsewhere—could significantly shift consumer behavior. According to a Numerator survey, only 9.4% of US consumers expect tariffs to have no impact on their shopping habits, while many plan to adjust by hunting for sales or coupons (41.4%), buying fewer imported goods (30.5%), or delaying purchases (22.3%).
- Those expectations, along with the significant uncertainty due to inflation and other issues, helps explain why so many retail companies expect a tough road ahead.

Only 9% of US Consumers Say Tariffs Won't Change Their Shopping Habits

% of US consumers, Feb 2025

Q: Do you anticipate making any changes to your finances or shopping behaviors in response to or in preparation for new tariffs?



Note: n=1,023
Source: Numerator, "Tariff Impact Survey," Feb 13, 2025

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