A Hopeful Economic Sign: February Retail Sales Jump

By **Janet Morrissey Friday, Mar. 12, 2010**

Despite blistering snowstorms and a dip in consumer confidence, retail sales rose strongly in February, signaling that recession-weary shoppers may finally be opening their wallets. Yet experts quickly noted that consumers have not convincingly abandoned their penny-pinching ways and likely won't for a long time.

Seasonally adjusted figures released by the Commerce Department on Friday show U.S. retail and food-services sales rose 0.3% from January and 3.9% from a year ago. If car and auto-part sales were excluded, the gain would be even bigger, 0.8% month-over-month and 4.2% year-over-year.

The results were roughly in line with same-store sales reported last week. In that report, owners posted a 4% year-over-year sales increase in February at stores they had owned at least a year, reversing the 4.7% decline posted during the same month a year earlier. Today's report casts a wider net, covering everything from mom-and-pop retail shops to car dealers, so the fact that it is similar to what big retailers were reporting says the February gains were broadly distributed — a positive sign for the economy.

"February sales were surprisingly good" considering the snowstorms that blasted across the Northeast and the Mid-Atlantic region, says Richard Jaffe, a managing director at Stifel Nicolaus & Co. "I think things are improving, but I don't think we're out of the woods."

Ian Shepherdson, chief economist at High Frequency Economics, offered an equally qualified cheer. "This is a very pleasant surprise," he reported to clients on Friday. "Before we get too excited," he warned, "note that one good month is not a trend — December and January sales were much weaker."

Overhanging the economic outlook is the dark cloud of jobs. With unemployment at 9.7%, underemployment (which includes those working part-time and those who have given up looking for work) at 16.8% and consumer confidence taking an unexpected 10-point drop in February, Americans are still feverishly chasing bargains. Gus

Faucher, director of macroeconomics at Moody's Economy.com, believes unemployment will hit 10.3% before peaking later this year.

"With the high unemployment figures and low consumer confidence, we have not yet seen a reversal" in frugal shopping trends, says Andrew White, chief financial officer of Sageworks, a financial-analysis firm.

Ellen Davis, a vice president at the National Retail Federation, says she started noticing a pickup in retail sales in January but believes economic indicators such as unemployment and the health of the stock market will play a major role in spending habits as the year progresses. "Jobs really is the biggest issue here," she says.

About 40% of the country's unemployed, or 6.1 million people, have been out of work for at least six months, and the number of people working part-time because they can't find full-time employment stands at 8.8 million.

Davis says she's "encouraged" by the February sales numbers. She notes that many of the retailer sales were on full-priced spring items — not on heavily discounted inventory left over from the holidays, as was the case in 2009. Still, she points out that the healthy sales increase is against last year's "disastrous" first-quarter sales numbers, so "I don't want to paint too rosy a picture."

Bryan Eshelman, a managing director in the retail practice at AlixPartners, a global business advisory firm, says the retail recovery has a long road ahead. "We're still about $25 billion [in retailer sales] below the autumn 2007 peak on a seasonally adjusted basis," he says.

An AlixPartners report released earlier this month showed a clear "shift to thrift" among the 7,700 Americans surveyed. The report found 66% of department-store shoppers, 55% of apparel consumers and 53% of electronics shoppers had switched retailers to find lower-priced goods. Consumers who used to shop for "the best" are now settling for products that are "good enough" with a lower price tag, the report said.

"People think that Americans are notorious consumers and will shift very quickly back to their old habits, but we're not so sure about that," says Eshelman. He speculates that because of the number of jobs that would need to be added each month, it will likely take five to 10 years for employment to return to 2007 levels. In December 2009, the country's seasonally adjusted employment was at 129.5 million, down 8.5 million jobs from its peak in December 2007. Even if 150,000 jobs were added every month, it would take five years to return to 2007 job levels, he notes.

"We've seen a fundamental shift in human behavior — people living more within their means — and I think that's going to be a permanent shift," says Faucher. "The go-go attitude of borrowing against your house to buy a big-screen TV is largely going to be a thing of the past."

However, Michael Niemira, chief economist at the International Council of Shopping Centers, is more bullish. He sees the February sales numbers as the beginning of a cyclical recovery. "I think the picture is overwhelmingly one of a retail recovery," he says. While he acknowledges that the sales increase is off weak 2009 numbers, he's nevertheless optimistic. "A broad retail recovery is in play," he contends. "There is a fair amount of pent-up demand ... and we're only seeing the beginning of that."