Retail sales surprise economists with 1.1 percent rise

Americans spent more on gas, cars

By Tim Mullaney
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Marty Grossman shops for a hat late last month at Lodge's store in Albany, N.Y. He was among the Americans who spent at the fastest pace in five months in February, boosting retail spending 1.1 percent compared with January. MIKE GROLL/AP

Retail sales climbed at an annual rate of 1.1 percent in February, as strength in auto sales helped show that consumers are not scared off by this year's tax increases.

Higher gasoline prices also drove spending higher, but sales still rose 0.6 percent last month, excluding spending at the pump. Strong auto sales, up 1.1 percent from January, also contributed.

"The headline number was misleading because people had to spend so much more for gasoline, but even excluding gasoline stations the number is very encouraging," said Nigel Gault, chief U.S. economist at IHS Global Insight. "The numbers support the view that the private sector is gaining momentum."

The Census Bureau report beat economists' consensus forecast sales would rise 0.2 percent, after a 0.1 percent seasonally-adjusted gain in January. Retail sales were 4.6 percent higher than a year ago, as the government found especially strong gains among sensitive cyclical industries such as vehicles and building materials. Spending at restaurants and on furniture fell.

The report was strong enough to convince investment bank Barclays to raise its first-quarter economic growth estimate to 2.2 percent from 1.9 percent.

Earlier, economists had expected the payroll tax increase to shave as much as 1 percentage point from the year-over-year growth in consumer spending, essentially cutting growth in half. Optimism about consumer spending has risen the past month on reports showing the housing market is building strength and specialty retails sales are rising.

Steven Wieting of Citigroup say lower consumer debt and better job prospects are making consumers more confident. The unemployment rate fell to 7.7 percent in February from 7.9 percent and 236,000 nonfarm jobs were added to payrolls. Wieting expects growth to accelerate in the second half of the year.

More bearish economists, such as Benjamin Engen of consulting firm Action Economics, concede that the impact of this year's tax hikes is not immediately slowing sales as much as expected.