Retail sales gains in January could boost growth

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WASHINGTON — A modestly better-than-expected report on retail sales for January could suggest stronger economic growth in coming months.

The 0.5 percent gain reported Friday by the Commerce Department exceeded the 0.3 percent increase economists had expected.

Strength came from a surge at general merchandise stores. These include big national chains such as those owned by Wal-Mart Stores Inc. Excluding autos, sales posted a 0.6 percent reading, also better than expected.

Higher consumer spending is vital because it accounts for about 70 percent of economic activity. Economists caution, though, that the spending increases seen since summer could falter as the jobs crisis weighs on a fledgling recovery.

"We expect that lingering high unemployment, weak income growth, low confidence, tight credit conditions and the continuing need to deleverage will constrain consumption growth for at least this year and possibly well beyond," said Paul Ashworth, senior U.S. economist at Capital Economics.

Adding to the caution was a separate Commerce report on businesses' inventories. It said companies reduced their stockpiles 0.2 percent in December. Economists had expected firms to boost their inventories 0.2 percent.

The dip in inventories shows businesses are reluctant to add to their stockpiles because they think consumer demand and the recovery will remain weak.

Still, total business sales rose 0.9 percent in December. That followed an even stronger 2.4 percent gain in November.

The economy grew at an annual rate of 5.7 percent from October through December. That was the best showing in six years. But analysts warn that growth could slow in coming months as the benefits of government stimulus programs fade and unemployment remains near double digits.

In its annual economic report to Congress, the Obama administration on Thursday forecast that the economy would average 95,900 new jobs per month this year. That wouldn't be enough to make much dent in an unemployment rate that's now 9.7 percent.

The administration's economists also forecast that Americans' personal savings would remain high as credit remains tight. That, too, will likely hold back spending.

The 0.5 percent increase in retail sales in January followed a 0.1 percent decline in December. The December figure was revised up from an initial report that sales fell 0.3 percent that month. In November, sales had surged 2 percent.

Sales at auto dealerships were flat in January after a 0.1 percent rise in December. Activity last month was hurt by safety recalls at Toyota. The 0.6 percent increase in retail sales excluding autos followed a 0.2 percent drop in this category in December.



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A bulk discount is advertised in a Washington state liquor store in Seattle. Retail sales posted a better-than-expected increase in January, a welcome development that could mean stronger economic growth in coming months.