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## May Retail Sales: 5s Are Wild . . . And Consumers Remain On Solid Ground

- › Retail sales rose by 0.5 percent in May after rising by 0.3 percent in April (initially reported down 0.2 percent)
- › Retail sales excluding autos rose by 0.5 percent after rising by 0.5 percent in April (initially reported up 0.1 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.5 percent in May

If you're a fan of the number 5, the May retail employment report is for you. Total retail sales were up by 0.5 percent in May, the fifth month of the year, short of our forecast of a 0.8 percent increase, and both ex-auto and control retail sales were up by 0.5 percent (our forecasts anticipated 0.5 percent and 0.6 percent increases, respectively). But wait, there's more . . . prior estimates for April retail sales were revised up to show an increase of 0.3 percent rather than the 0.2 percent decline originally reported (0.5 percentage point swing), and, to top it all off, ex-auto retail sales are now reported to have risen by 0.5 in April, up from the initial estimate of a 0.1 percent increase. April control retail sales are now reported to have risen by 0.4 percent, so you fans of 5 will have to settle for being close on that one. More significantly, the upward revision to the initial April print and the solid gain in May puts control retail sales, a direct input into the GDP data on consumer spending, well above where our forecast anticipated, thus leaving Q2 growth in real consumer spending tracking ahead of our forecast. But, as we note in this space each and every month, the initial estimate of retail sales in any given month is prone to sizable revision, so, maybe don't get too attached to all of the 5s that appear in today's release.

The increase in retail sales in May were broad based, with gains in 11 of the 13 broad categories for which data are reported. Sales of nonstore retailers rose by 1.4 percent after a well below-trend increase of 0.5 percent in April, though this was originally reported as a 0.2 percent decline. Online sales account for roughly 89 percent of sales in the broader nonstore retailers category, and as our chart below shows, online sales account for an increasingly large share of control retail sales, with this share closing in on 20 percent. An interesting question is whether Census has been able to keep up with the steadily rising incidence of online sales, which could be one reason the initial estimate of total retail sales in any given month tends to be revised so heavily. Sales at electronics and appliance stores were up 1.1 percent in May, though this simply reverses most of the 1.3 percent decline in April. This category has been even more volatile than usual over the past four

months, alternating between increases and declines each better than 1.0 percent. Sales at motor vehicle dealers are reported to have risen by just 0.8 percent in May. We say "only" because unit motor vehicle sales were up by better than six percent in May, so even allowing for fleet sales and lower prices on used vehicles, we think the initial estimate of sales by motor vehicle dealers in May is on the light side. Sales at general merchandise stores were up by 0.7 percent, as were restaurant sales. Sales at gasoline stations were up by 0.3 percent; we had expected the seasonally adjusted data to show a modest decline, but, either way, given sharply declining retail gasoline prices, gasoline sales are likely to be a material drag on June retail sales (thought this only reinforces the importance of focusing on control retail sales). While sales at furniture stores are reported to have risen by just 0.1 percent in May, keep in mind that this is one of the categories for which the revisions to the initial estimate in any given month tend to be the largest. For instance, furniture store sales are now reported to have risen by 1.9 percent in March, originally reported as up 1.0 percent, and by 0.6 percent in April, originally reported as down 0.1 percent.

Grocery store sales fell slightly in May after only a modest increase in April. Sales at auto parts dealers fell by 0.4 percent in May, a second straight decline after sizable increases in March and April. Department store sales, a subset of the general merchandise stores category, fell by 0.7 percent in May, extending a long-running trend of weakness that, unsurprisingly, has coincided with the rise of online sales.

That gains in retail sales were so broad based in May points to ongoing strength in discretionary consumer spending. This should come as no surprise given solid growth in aggregate wage and salary earnings and consumer confidence hovering near a two-decade high. We dismissed the weak print on Q1 growth in consumer spending as an outlier, and while Q2 growth will overstate the case a bit, the bottom line is that U.S. consumers remain on solid ground, which should ease concerns about the state of the broader economy.

