ECONOMIC UPDATE
REGIONS
June 14, 2017

May Retail Sales: What Does It Mean? Ask Us Again A Month From Now

- Retail sales fell by 0.3 percent in May after rising by 0.4 percent in April (originally reported up 0.4 percent).
- Retail sales excluding autos fell by 0.3 percent after rising by 0.4 percent in April (originally reported up 0.3 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) were unchanged in May.

The May retail sales data came in much weaker than expected, with total and ex-auto retail sales falling by 0.3 percent and control retail sales being unchanged (down slightly on an unrounded basis). Our forecast, which matched the consensus, called for headline sales to be up 0.1 percent, ex-auto sales to be up 0.2 percent, and control sales to be up 0.3 percent. Still, we're going to reserve judgement on May retail sales for at least another month, probably two, in light of the initial estimate of retail sales in any given month being prone to large, often ridiculously so, revisions. To that point, prior estimates of control retail sales, a direct input into the GDP data on consumer spending, in March and April were revised higher, which puts Q2 growth in consumer spending on a firmer trajectory despite the lousy May numbers. And, to repeat a point we've made, well, repeatedly, that the retail sales data are reported on a nominal basis fails to account for the fact that goods prices have been falling for the past four years. This of course has different implications for those who sell goods and those who buy them, but properly accounting for price changes should be a matter of course for anyone offering an analysis of trends in consumer spending.

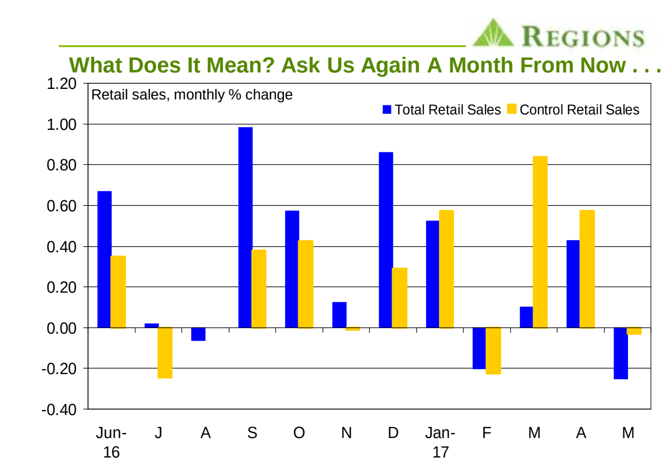
As expected, motor vehicles and gasoline were major drags on May retail sales. A decline in unit sales led to a 0.2 percent decline in motor dealer revenue, while sales at auto parts stores fell by 0.8 percent. With a decline in retail gasoline prices on a not seasonally adjusted basis, atypical for the month of May, the seasonally adjusted data figured to show a much more pronounced decline, hence the 2.4 percent decline in gasoline station sales. Note this also played into the 0.3 percent decline in sales at general merchandise stores, as this broader category includes the club/warehouse stores that also sell gasoline.

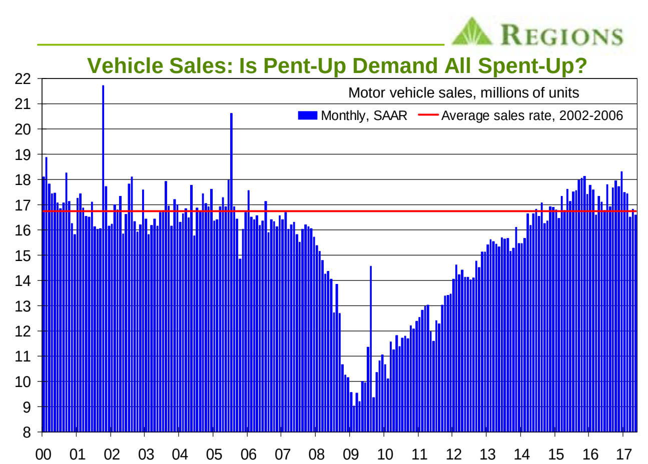
Another drag on May retail sales, at least for now, is the reported 2.9 percent decline in sales at electronics stores. To some extent, a decline here would not have been a surprise, and indeed our forecast included a decline, after sizeable gains in both March and April. But, those gains are now even larger than had been previously reported, as sales in this category were revised significantly higher in today's release. Sales at furniture stores are reported to have risen 0.4 percent in May, but this is a category in which the revisions have tended to be upward over the past several months. Sales at apparel stores were up 0.3 percent in May, with April sales having been revised from down 0.5 percent to up 0.2 percent. Still, it has become increasingly difficult to square the data on apparel store sales with the data on apparel prices in the monthly CPI reports.

Sales at nonstore retailers, of which roughly 87 percent are online sales, were up 0.8 percent in May, extending a streak of solid monthly gains. While the online sales component is reported with a two-month lag, the last data point shows nonstore retailers accounted for just over 17 percent of control retail sales, a share that has been steadily climbing for over a decade now while at the same time the share of control sales accounted for by department stores has steadily faded.

There is little to suggest this trend won't continue for some time to come. But, many still take the ongoing struggles of many brick and mortar retailers as a sign of weakness in consumer spending, which is also the case with those who fail to account for falling goods prices when commenting on the nominal retail sales data. We have for some time now been firm and consistent in our views of the health of the underlying drivers of consumer spending. To be sure, motor vehicle sales are clearly past their cyclical peak, but what we are seeing now is what we typically see in the latter stages of expansions, i.e., spending on consumer durables shifts to spending on other goods and, to a greater extent, services. That the retail sales data are consistently subject to often sizeable revision doesn't exactly help clarify the picture.

The drivers of consumer spending remain solid and, while the pace will surely be somewhat uneven, we expect steady growth in retail sales over coming months. The weak, at least for now, May retail sales report does nothing to change the narrative on consumer spending.





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