ECONOMIC UPDATE
REGIONS
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## March Retail Sales: Beneath The Noise, Nothing Much Has Changed

- Retail sales rose by 0.6 percent in March after falling by 0.1 percent in February (matching the initial estimate)
- Retail sales excluding autos rose by 0.2 percent after rising by 0.2 percent in February (matching the initial estimate)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.4 percent in March

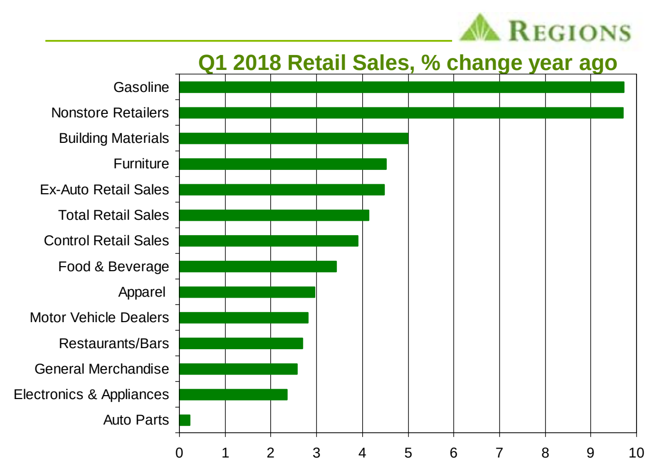
Total retail sales rose by 0.6 percent in March, topping the 0.4 percent increase we and the consensus had expected, with ex-auto retail sales up 0.2 percent as we and the consensus expected. Control retail sales were up 0.4 percent, just shy of our forecast of a 0.5 percent increase. Both total and ex-auto sales for February still stand as originally reported, with the former down by 0.2 percent and the latter up by 0.2 percent, which seems to contradict one of our biggest complaints about the initial estimate of retail sales in any given month, i.e., that they are prone to sizeable revision. While true of the February headlines, it is decidedly not the case with the details beneath those headlines, which show the usual hodgepodge of revisions, the only difference being that the upward revisions and downward revisions to the various categories offset each other, leaving the prior estimates of headline sales intact.

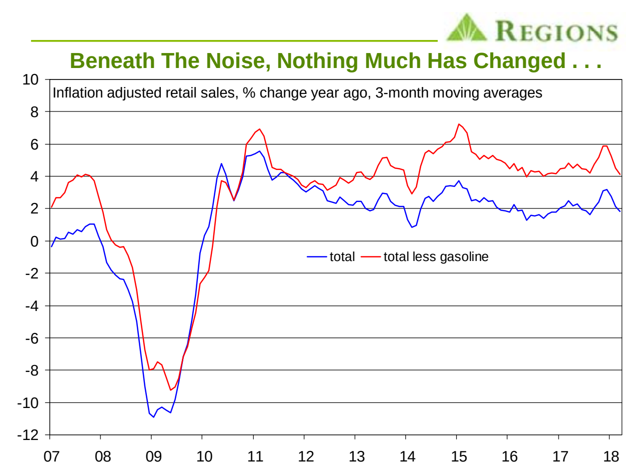
The broader point, however, is that the March retail sales data should at least give pause to what has been a notable degree of handwringing over the state of U.S. consumers following a run of soft retail sales reports. The operative word here being "should," which means probably won't, at least not for those still clinging to narratives of the dire state of consumers. Sure, the data still show a three-month run of declines in total retail sales between December and February. And, sure, for those either unwilling or unable to put the retail sales data in proper context, that run showed U.S. consumers had simply run out of steam and were all spent out and forced to dip into savings to fund the basic necessities of life. For the rest of us, that run of "weak" retail sales reports came off of a three-month run of notably robust retail sales, starting with a better than 2.0 percent increase in September alone.

It's by now an old story that the aftermath of Hurricanes Harvey and Irma saw a bust of replacement demand as consumers spent to replace items ranging from apparel to automobiles. That supported annualized growth in real (i.e., inflation adjusted) consumer spending of 4..0 percent in Q4 2017, the fastest growth since 2014. By no means was that a sustainable pace of growth, and anyone surprised by a slowdown in Q1 2018 should not have been. It wasn't all about the hurricanes, however, as the 2017 holiday sales season turned out to be the strongest since 2005. Again, anyone surprised that the initial months of 2018 would have seen some payback should not have been.

Finally, as we frequently note, the retail sales data are reported in nominal terms, meaning they are not adjusted for price changes. In the case of consumer goods, those price changes have, for the better part of five years now, come in the form of falling, not rising, prices. That has acted as a persistent drag on measured growth in retail sales but, as shown in our second chart below, when one takes those falling prices into account, growth in retail sales has been fairly steady, though the bump in Q4 2017 stands out. We'll also add that control retail sales, a direct input into the GDP data, account for less than one-quarter of all consumer spending as measured in the GDP data, which is a thin basis on which to draw any conclusions about the state of U.S. consumers.

In the March data, eight of the 13 broad categories for which sales are reported saw sales increase, with motor vehicle sales leading the way with a 2.0 percent increase, while sales by nonstore retailers were up 0.8 percent, sales at furniture stores were up 0.7 percent, and sales at electronics/appliance stores were up 0.5 percent. On the flip side, sales at apparel stores fell by 0.8 percent, sales at building materials stores were down 0.6 percent (both matching our forecasts, which anticipated weather effects in these categories), and sales at gasoline stations falling 0.3 percent (largely seasonal adjustment noise). Our first chart below, showing year-on-year changes by category for Q1, shows evidence of both price effects (higher gasoline prices, lower goods prices) and shifts in shopping patterns (steadily increasing online sales). What one does not see is any evidence of distressed consumers, even if Q1 came in a bit on the "soft" side for reasons we've outlined above. Between ongoing improvement in the labor market, the bump in disposable income from the tax cuts, record household net worth, and elevated consumer confidence, we retain a constructive view on U.S. consumers.

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