ECONOMIC UPDATE

REGIONS

May 15, 2018

April Retail Sales: Consumers Remain On Solid Ground

- Retail sales <u>rose</u> by 0.3 percent in April after rising by 0.8 percent in March (initially reported up 0.6 percent)
- Retail sales excluding autos <u>rose</u> by 0.3 percent after rising by 0.4 percent in March (initially reported up 0.2 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) <u>rose</u> by 0.4 percent in April

Total retail sales rose by 0.3 percent in April, as we and the consensus expected, with ex-auto sales increasing by 0.3 percent and control retail sales, a direct input into the GDP data on consumer spending, logging a 0.4 percent increase. April's numbers are a bit stronger when put into the context of the upward revision to the initial estimate of March sales. The upward revision to control retail sales for March suggests a modest upward revision to growth in consumer spending on goods in the Q1 GDP data. We will note, however, that next week brings the comprehensive revisions to recent historical data on retail sales and retail inventories, which will give us a much better picture of the trend rate of growth of consumer spending on goods. For now, though, the combination of the upward revision to March control sales and the solid gain in April shows U.S. consumers remain on solid ground.

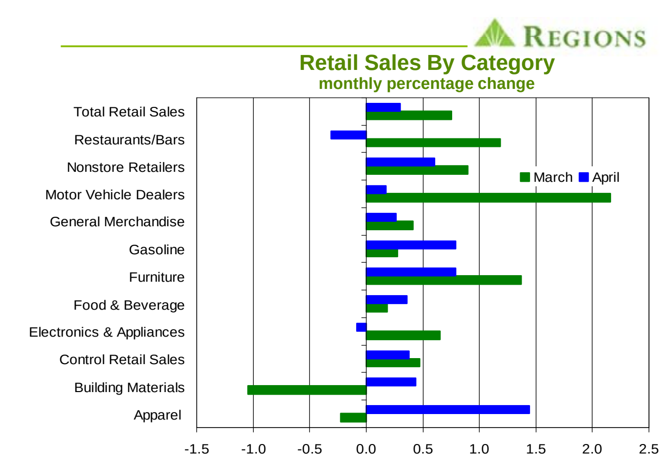
As we noted in our weekly *Economic Preview*, there was a higher than normal degree of uncertainty associated with our forecast of April retail sales. Abnormally harsh "winter" weather, the effects of higher retail gasoline prices, this year's early Easter, and reported apparel price increases out of alignment with recent patterns were all wild cards for the April retail sales data. Sales at gasoline stations rose by 0.8 percent in April, largely reflecting a much steeper increase in gasoline prices than is normally seen in the month of April. Still, there is little to suggest that higher gasoline outlays had a material impact on other types of spending. At first glance one could interpret the reported decline in restaurant sales as a reaction to higher gasoline prices, but we'll simply note that this is one category for which the initial estimate of sales in any given month tends to be revised higher in subsequent months. For instance, the initial estimate of a 0.4 percent increase in restaurant sales for March is now shown to be a 1.2 percent increase.

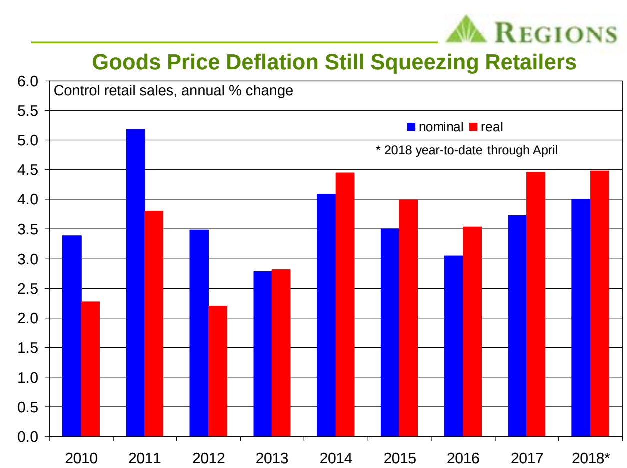
Sales at motor vehicle dealers are reported to have edged up by 0.1 percent in April despite a decline in unit motor vehicle sales and lower prices for new and used vehicles. The one saving grace here is that sales of new vehicles were highly concentrated amongst higher priced SUVs/light trucks, thus helping offset lower unit sales. Furniture store sales were up 0.8 percent in April on top of an upwardly revised increase of 1.4 percent in March, grocery store sales rose by 0.5 percent, and sales by nonstore retailers were up by 0.6 percent.

That the timing of Easter varies from one year to the next makes it difficult to properly seasonally adjust the retail sales data. This year's early Easter is apparent in the not seasonally adjusted data, which show a larger than normal increase in sales for the month of March and a smaller than normal increase for the month of April, hence the rule of thumb to average the increases for March and April to account for the varying timing of Easter. Apparel store sales were up by 1.4 percent, which seems oddly strong, particularly in light of harsh winter weather for a good chunk of April and this year's early Easter. It could be that the reported April increase in clothing sales has more to do with price effects – the retail sales data are not adjusted for price changes and the April CPI data show an out of trend increase in apparel prices .

More generally, one trend we have been pointing to for quite some time, literally years now, is that falling prices for "core" consumer goods, i.e., excluding food and energy, have been putting a squeeze on retail profit margins. This is seen in our second chart below, which shows annual percentage changes in control sales on both a nominal and real (i.e., adjusted for price changes) basis. Though there are signs that goods prices are firming, they remain far from firm. But, given higher costs for inputs, labor, and shipping, the path of core goods prices in the months ahead bears watching, both in terms of the impact on consumer spending and the impact on inflation in the broader economy. Amazon or not, goods prices seem likely to head higher, even if only modestly.

Price effects notwithstanding, in light of the bump in disposable income from the tax cuts, ongoing improvement in the labor market, record household net worth, and elevated consumer confidence, we retain a constructive view on U.S. consumers.





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