ECONOMIC UPDATE

REGIONS

April 15, 2021

March Retail Sales: Better Weather + Lots Of Cash = A Surge In Retail Sales

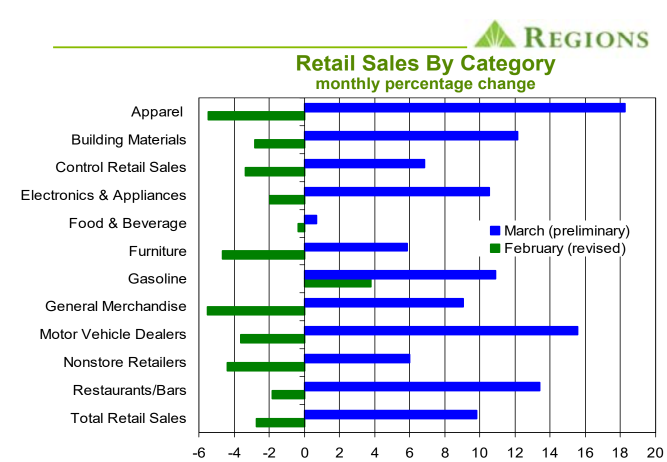
- Retail sales rose by 9.8 percent in March after falling by 2.7 percent in February (initially reported down 3.0 percent)
- Retail sales excluding autos rose by 8.4 percent in March after falling by 2.5 percent in February (initially reported down 2.7 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 6.9 percent in March

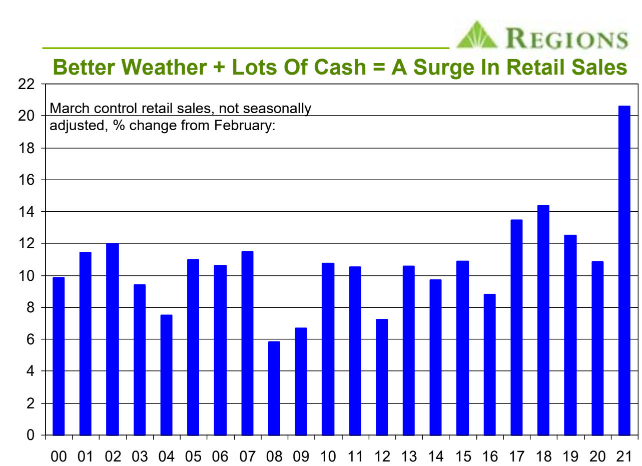
The stars were aligned, conditions were ripe, the ducks were in a row, the stage was set, and a perfect storm was brewing – if we've missed one, feel free to add it here – for a surge in retail sales in March, and that's exactly how it worked out. Total retail sales rose by 9.8 percent in March, much better than what we (6.4 percent) and the consensus (5.4 percent) expected, with ex-auto sales up 8.4 percent and control retail sales, a direct input into the GDP data on consumer spending, up 6.9 percent. At the same time, the decline in retail sales in February was not as severe as initially reported, with total retail sales down by 2.7 percent, rather than by 3.0 percent as first reported. Still, February's decline, which largely reflected the unusually harsh winter weather that pummeled much of the U.S., helped set the stage for March's outsized increase, as easily seen in the not seasonally adjusted data. The unadjusted data show control retail sales fell by 6.9 percent in February, the largest February decline on record in the current series that dates back to 1992, but this gave way to a 20.6 percent increase in March, easily the largest March advance in the life of the data. For perspective, the average March increase in not seasonally adjusted control retail sales over the prior 20 years was 10.3 percent. So, while in any given year March is typically a strong month for retail sales, this March got plenty of extra support. Though playing a significant role, payback for weak sales in February is not the only factor behind March's surge, as a stepped-up flow of income tax refunds – many pushed back from February this year – and the third round of Economic Impact Payments also played a role.

March's surge in retail sales was broad based, with sales rising in each of the 13 broad categories for which data are reported. Revenue at motor vehicle dealers jumped by 15.5 percent, reflecting a 12.5 percent increase in unit motor vehicle sales, which rose to their highest monthly sales rate since October 2018. Sales at building materials stores leapt by 12.1 percent, in part a reaction to February's sharp decline. Gasoline station sales rose by 10.9 percent, reflecting higher prices, as retail gasoline prices were up by more than nine percent in March. Restaurant sales rose by 13.4 percent, which reflects further easing of remaining restrictions on activity as well as consumers feeling more confident and moving more freely about. It is worth noting that over the past two months, restaurants have added 660,000 workers, and further outsized gains are likely in the months ahead as demand continues to pick up.

Stripping out the categories mentioned above yields control retail sales which, as noted above, feed directly into the GDP data on consumer spending. The patterns in the individual categories are the same – much larger increases in not seasonally adjusted sales than is typical for the month of March which overwhelmed the seasonal adjustment factors and thus yielded hefty increases on a seasonally adjusted basis, as seen in our first chart below. On a nominal basis, total retail sales were up by 34.7 percent in Q1, with control retail sales up at an annualized rate of 27.5 percent. Clearly, this will provide a significant boost to real consumer spending on goods in the Q1 GDP data. Moreover, with the level of sales in March well above the Q1 average, this sets the stage for a hefty boost in Q2. If the level of control retail sales held at March's level through Q2 this would yield an annualized increase of 13.9 percent in Q2, so the actual gain will almost surely be higher.

A considerable pool of "excess saving" on household balance sheets and further reopening of the economy set the stage for further growth in consumer spending. Our estimate puts the level of excess saving (reflecting the boost to the personal saving rate from the financial support provided to households over the past year) at $1.8 trillion as of February, and that number will be significantly higher in the March data, reflecting the third round of Economic Impact Payments. Keep in mind that the retail sales data do not capture consumer spending on services, which accounts for roughly two-thirds of total consumer spending and which, as of February, remains well below pre-pandemic levels. As the economy further reopens, we expect sizable increases in spending on travel, dining out, recreation, and entertainment, among other areas. While consumer spending on goods won't fall off the table, we are likely to start seeing more "normal" monthly changes in retail sales in the months ahead.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com