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## March Retail Sales: Retail Sales Being Pulled In Different Directions

- Retail sales rose by 0.5 percent in March after rising 0.8 percent in February (initially reported up 0.3 percent)
- Retail sales excluding autos rose by 1.1 percent in March after rising 0.6 percent in February (initially reported up 0.2 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.1 percent in March

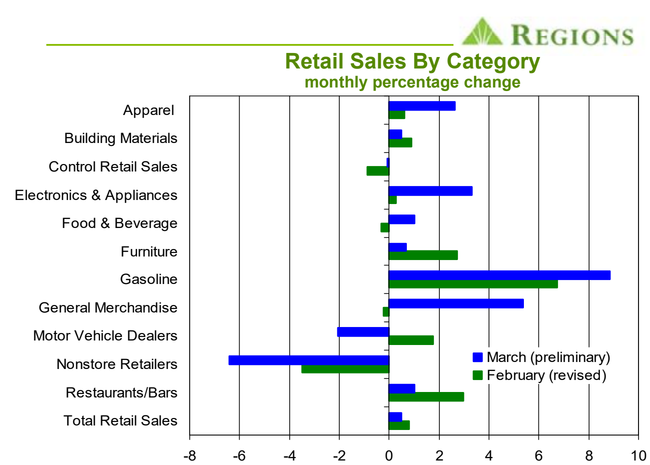
Total retail sales rose by 0.5 percent in March, equaling our below-consensus forecast, with ex-auto retail sales up by 1.1 percent and control retail sales falling 0.1 percent. At the same time, the initial estimate of February sales was revised higher, with total retail sales now reported to have risen by 0.8 percent rather than the initial estimate of a 0.3 percent increase. Much of March's increase in retail sales, however, comes from sharply higher gasoline prices, with retail sales excluding gasoline station sales falling by 0.3 percent. Higher gasoline and food prices are siphoning spending away from other areas, while this year's late Easter likely also weighed on spending in March. That said, it is also important to note that consumer spending on services, which prior to the pandemic accounted for roughly two-thirds of all consumer spending, is rebounding strongly as concerns over the pandemic abate. We have for some time been discussing our expectation of a realignment of consumer spending patterns, away from goods and toward services, and to the extent we are seeing that, it will naturally weigh on the retail sales data – spending on services is not captured in the retail sales data. So, while not by any means discounting the effects of higher prices for necessities such as food, energy, and shelter, the impact of shifting spending patterns should not be overlooked when discussing the state of U.S. consumers.

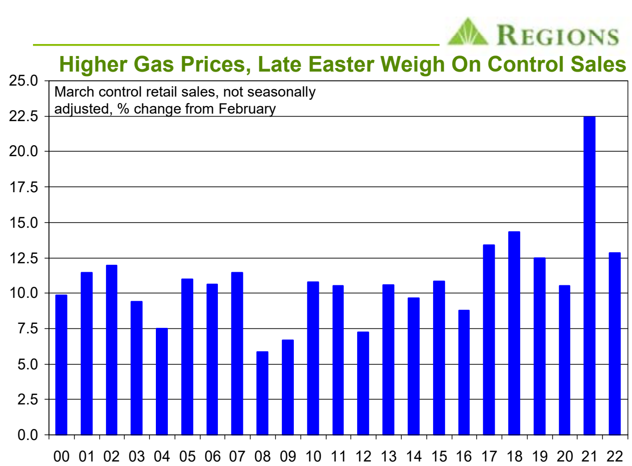
On a not seasonally adjusted basis, total retail sales rose by 16.8 percent in March, with control retail sales rising by 12.9 percent. On the whole, seasonal adjustment for the month of March tends to be punitive, in part reflecting spending related to Easter, but the challenge is that the timing of Easter varies from one year to the next, with Easter falling late in the calendar this year. In some of the broad categories, such as apparel, electronics, general merchandise stores, and nonstore retailers, seasonal adjustment was favorable to the seasonally adjusted estimates of sales, while the opposite was the case in categories such as motor vehicles, building materials, furniture stores, and restaurants. Another challenge in properly seasonally adjusting the March data is the outsized increase seen in control retail sales in March 2021, when the third round of Economic Impact Payments started hitting bank accounts, setting up an unfavorable comparison for this March. Still, with prices of core consumer goods (consumer goods excluding food and energy) up over eleven percent year-on-year, it would have been reasonable to expect the unadjusted data to show a larger increase in control retail sales than the 12.9 percent gain actually realized. This goes to the point about higher prices for necessities weighing on discretionary spending.

One place that stands out is sales by nonstore retailers, of which roughly 90 percent consist of online sales. The not seasonally adjusted data show sales by nonstore retailers rose by 5.9 percent in March, but the average March increase over the prior five years was 13.1 percent, and even if we somewhat discount the 18.2 percent increase in March 2021, this year's March increase was decidedly below par, as evidenced by the 6.4 percent decline reported in the seasonally adjusted data.

The seasonally adjusted data show sales rose in ten of the thirteen broad categories for which data are reported, but we'll again note that the retail sales data are not adjusted for prices. So, while grocery store sales were up by 1.3 percent in March, grocery store prices as measured in the Consumer Price Index (CPI) were up 1.5 percent in March. More prominently, gasoline station sales are reported to have risen by 8.9 percent in March, well short of the 18.3 percent increase in gasoline prices reported in the CPI data. Reflecting lower unit sales and lower prices for used vehicles, sales revenue at motor vehicle dealers fell by 2.1 percent in March. It is worth noting that restaurant sales rose by 1.0 percent in March, far outstripping the increase in prices, with the not seasonally adjusted data showing a 15.2 percent increase, which is in line with typical March increases. This goes to the point of services spending bouncing back sharply as COVID case counts receded.

Significantly elevated inflation, particularly for necessities, is weighing on discretionary spending, which is likely to remain the case in the months ahead. At the same time, services spending will continue to bounce back, even if at a slower pace than we had expected. Both factors will weigh on retail sales in coming months.

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