ECONOMIC UPDATE

REGIONS

April 14, 2023

March Retail Sales: Headline Declines Mask The More Relevant Story

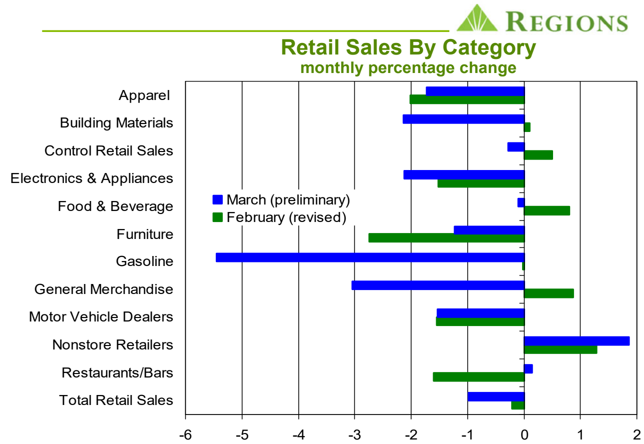
- Retail sales fell by 1.0 percent in March after falling 0.2 percent in February (originally reported down 0.4 percent)
- Retail sales excluding autos fell by 0.8 percent in March after being flat in February (initially reported down 0.1 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.3 percent in March

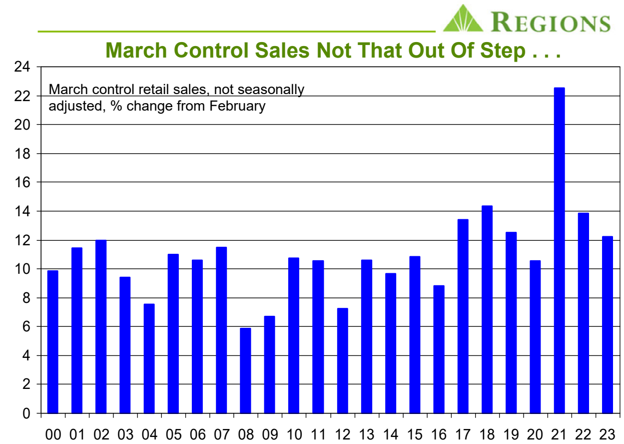
Total retail sales fell by 1.0 percent in March, a bit worse than the 0.8 percent decline our forecast anticipated but twice the decline called for in the consensus forecast. Ex-auto sales were down by 0.8 percent, shy of the 0.9 percent decline we expected, while control retail sales, a direct input into the GDP data on consumer spending on goods, fell by 0.3 percent, less harsh than the 0.6 percent decline we expected. There were some modest upward revisions to the initial estimate of February sales, at least on the top line as control sales were marked slightly lower. Sales fell in eight of the thirteen broad categories for which data are reported. As if on cue, the March data have unleased another round of tales of struggling U.S. consumers and a sinking U.S. economy. While by no means being dismissive of the cumulative effects of higher prices and higher interest rates, we have just a bit of a different take on the March retail sales data. As we noted in this week's *Economic Preview*, our below-consensus forecast was predicated on a decline in unit motor vehicle sales, lower gasoline prices, and a relatively late Easter holiday acting as drags on March retail sales. We also noted that our forecast would yield double-digit sequential increases in not seasonally adjusted total and control retail sales but that these would be a bit smaller than the typical March increases, which proved to be the case. So, sure, we know it's not the norm, but our focus will always be on the not seasonally adjusted data, and the story being told by the unadjusted data doesn't match the interpretation being attached to the seasonally adjusted data. We'll leave it up to each reader to decide which take they want to go with.

To our point, on a not seasonally adjusted basis total retail sales rose by 14.5 percent in March, while control retail sales rose by 12.2 percent. As our second chart below shows, the increase in control retail sales wasn't all that out of line with what typical patterns for the month, and unadjusted sales rose in each of the main categories. So, it's a matter of degree, not direction, hence the declines reported across many categories in the seasonally adjusted data. As for the seasonally adjusted data, as noted above sales fell in eight of the thirteen broad categories for which data are reported. Gasoline station sales were down by 5.5 percent, reflecting a sharp decline in retail pump prices. Again, though, this is mainly the result of seasonal adjustment; from the CPI data, we know that unadjusted gasoline prices rose by 1.0 percent in March, but as this is much smaller than the typical March increase, the seasonally adjusted data show gasoline prices falling by 4.6 percent, and this same seasonal adjustment pattern carried into the retail sales data. Based on what we've seen over the first half of the month, it will be a much different story in the April data, with sharply higher gasoline prices acting as a support for the CPI and retail sales. Sales revenue at motor vehicle dealers fell by 1.5 percent in March, a slightly larger decline than we anticipated given the 1.2 percent decline in unit sales and firmer pricing for new motor vehicles. Sales at general merchandise stores were down by 3.0 percent, sales at building materials stores were down by 2.1 percent, sales at electronics and appliance stores were down 2.1 percent, apparel store sales were down by 1.7 percent, and furniture store sales were down by 1.2 percent. On the upside, sales by nonstore retailers rose by 1.9 percent, with middling increases in a few other categories including restaurants.

Again, we'd argue that the story being told by the unadjusted data doesn't quite match the narrative being attached to the seasonally adjusted data. For instance, the unadjusted data show sales at general merchandise stores were up by 11.0 percent and sales at apparel stores were up by 19.1 percent. Note that these are two categories in which there is typically a boost associated with Easter, meaning this year's later date likely held down March sales. We can make the same point about restaurant sales, which were up by 14.5 percent on a not seasonally adjusted basis, again a smaller than typical March increase. We think all of this to be more a calendar story than a consumer story, but it will be easy enough to watch the April data and see, at least for those inclined to actually dig through the details of the data.

Our take on consumers hasn't really changed. We have for some time looked for discretionary spending to soften, particularly for goods, but also thought this softening would cover up what remain low debt service burdens, still-elevated saving levels, and healthy, albeit slower, growth in labor earnings. That may not be all that interesting of a story, but we think it to be the more relevant story.





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