ECONOMIC UPDATE

REGIONS

May 16, 2023

April Retail Sales: Headline Falls Short, But Solid Gain In Control Sales

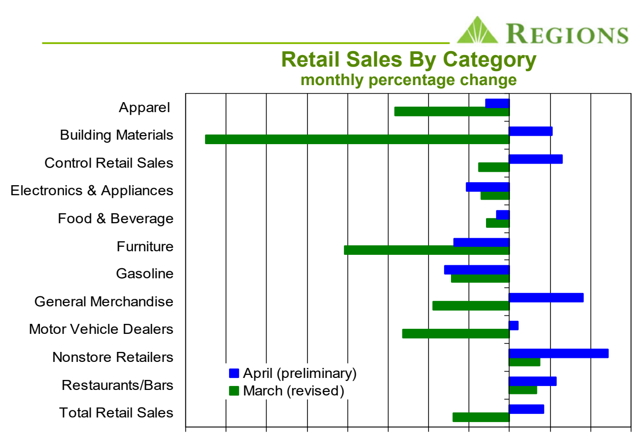
- Retail sales rose by 0.4 percent in April after falling 0.7 percent in March (originally reported down 0.6 percent)
- Retail sales excluding autos rose by 0.4 percent in April after falling 0.5 percent in March (initially reported down 0.4 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.7 percent in April

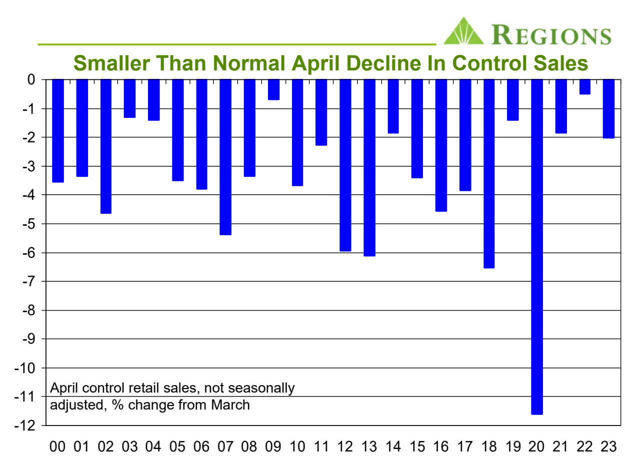
Total retail sales rose by 0.4 percent in April, short of the 0.8 percent gain expected by the consensus forecast and the 1.0 percent gain we expected. Ex-auto sales were also up by 0.4 percent, while control retail sales, a direct input into the GDP data on consumer spending on goods, rose by 0.7 percent, matching our forecast but more than double the consensus forecast of a 0.3 percent increase. Since the release of the report on March retail sales, the Census Bureau released their annual benchmark revisions to the recent historical data, with those estimates revised further as part of today's release. As such, the decline in total retail sales in March is now pegged at 0.7 percent, less harsh than the 1.0 percent decline originally reported, with a modestly smaller decline in ex-auto sales and a larger decline in control sales than first reported. Our miss on our forecast of total retail sales is in part to a much smaller increase in sales revenue at motor vehicle dealers than we anticipated given the jump in unit vehicle sales. Additionally, what for the most part were generous seasonal factors were not generous enough to coax out increases in seasonally adjusted sales in some key categories. Other than that, the April report is more or less as we expected and doesn't really shine any new light on the state of U.S. consumers. That in and of itself can be considered a win amid what have been some pretty uninspiring reads on consumer sentiment and a barrage of downbeat headlines on bank failures, stubbornly persistent core inflation, debt ceilings, and the bats of the Pittsburgh Pirates having gone suddenly and mysteriously cold, with at least some of those factors figuring to weigh on spending.

On a not seasonally adjusted basis, control retail sales fell by 2.0 percent in April, smaller than the typical April decline. Recall that the March increase in unadjusted control sales was smaller than normal for that month. Our sense was that Easter falling somewhat late this year likely held down March sales in some categories, but the flip side was that April sales would have benefitted. That the April decline in control sales was smaller than normal is consistent with our premise. While firmer pricing may also seem an obvious support for April sales, as the retail sales data are not adjusted for price changes, this wasn't necessarily the case. To be sure, the April CPI shows core goods prices (consumer goods excluding food and energy) rose by 0.6 percent in April, but keep in mind that this is largely a function of the not so believable 4.4 percent increase in prices for used motor vehicles. The BLS's series on core goods excluding used motor vehicles was flat in April, thus suggesting pricing provided little, if any, support for nominal control sales in April.

The seasonally adjusted data show increases in seven of the thirteen broad categories for which sales are reported. The largest increases came at auto parts stores (up 3.8 percent), amongst nonstore retailers (up 1.2 percent), and at restaurants (up 0.6 percent). Sales revenue amongst motor vehicle dealers is reported to have risen by just 0.1 percent which, as noted above, is considerably smaller than the increase we expected. Unit sales of new vehicles rose by over seven percent in April, which would have been more than sufficient to offset modestly lower new vehicle prices. At the same time, though not nearly to the extent implied by the CPI, used vehicle prices were higher in April. As such, this seems like one category ripe for upward revision to be incorporated into the May data. To the downside, sales at furniture stores fell by 0.7 percent in April while sales at electronics/appliance stores fell by 0.5 percent. As we noted in this week's *Economic Preview*, these were two categories in which the April seasonal factors were overly generous, which in turn should bolster these categories in the seasonally adjusted data. But, the unadjusted data show furniture stores fell by 9.0 percent and sales at electronics/appliance stores fell by 9.1 percent, larger than the normal April declines to the point that not even generous seasonal adjustment could salvage them. Tepid home sales are hurting both categories, but we also think a not insignificant share of spending in these categories had been pulled forward by pandemic-related transfers, making payback inevitable at some point. That point seems to be now.

The April retail sales data don't change our take on consumers. 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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