ECONOMIC UPDATE

REGIONS

June 15, 2023

May Retail Sales: May Better Than Expected, But The Trend Is Clearly Softening

- Retail sales rose by 0.3 percent in May after rising 0.4 percent in April (as originally reported)
- Retail sales excluding autos rose by 0.1 percent in May after rising 0.4 percent in April (as originally reported)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.2 percent in May

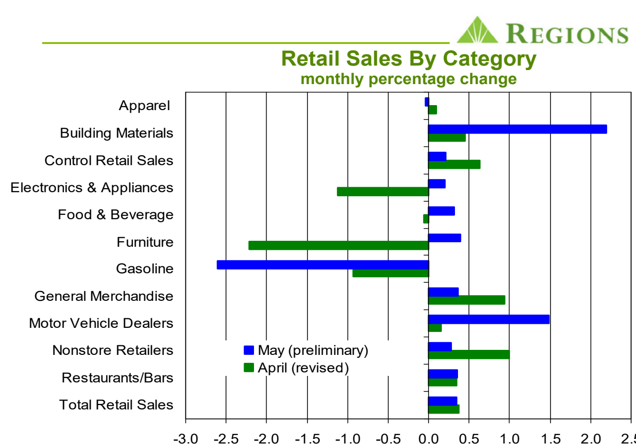
Total retail sales rose by 0.3 percent in May, with ex-auto sales up 0.1 percent and control retail sales up 0.1 percent, each topping expectations – we had anticipated declines across the board. There were meaningful downward revisions to prior estimates of the level of retail sales in both March and April, which left the monthly percentage changes for April intact but lowered those for March. The sizable downward revision to control retail sales, a direct input into the GDP data on consumer spending on goods, for March suggests a downward revision to growth in total consumer spending in the upcoming revisions to the Q1 GDP data. On net, even with a better than expected May, nominal control retail sales were on course for an annualized increase of just 0.9 percent in Q2, a gain which would be erased after accounting for price changes, with total retail sales on course for an annualized decline of better than one percent on a nominal basis. In that sense, the May retail sales data do not really change the narrative around U.S. consumers, particularly as the retail sales data do not capture services spending. We've argued that softer consumer spending over recent months has been a reflection of consumers lacking the will to spend more than a reflection of them lacking the wherewithal to spend. The BEA's more comprehensive data on consumer spending, which include services spending, will be a better test of our premise than are the May retail sales data.

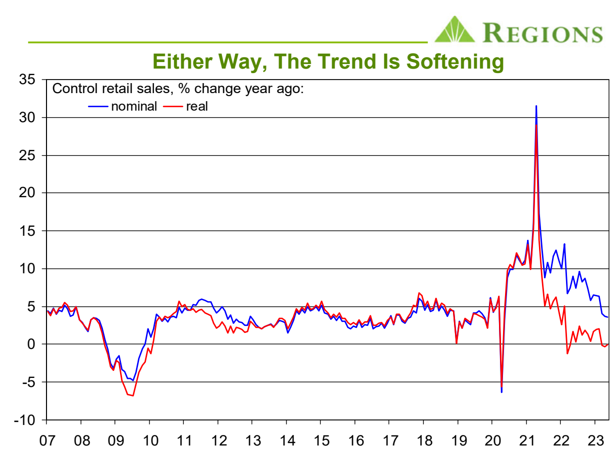
And, really, a report on retail sales just wouldn't be a report on retail sales without some, let's say, curious details. To that point, sales revenue at motor vehicle dealers is reported to have risen strongly in May (up 1.5 percent) despite a decline in unit sales of new vehicles and lower prices for new vehicles. Even if sales of used vehicles rose and you believe (which we don't) the implausibly large jump in prices for used vehicles reported in the May CPI data (a second straight monthly increase of 4.4 percent), the relative weights would mean lower revenue from sales of new vehicles would offset any increase in revenue from sales of used vehicles. Additionally, the not seasonally adjusted data show a surge in sales at building material/garden equipment & supply stores, with the 18.3 percent increase more than double a normal May increase, hence the 2.2 percent increase reported in the seasonally adjusted data for this category. To be sure, if the retail sales data were a relative, they'd be the uncomfortably strange uncle who lives in the attic and comes down only on Thanksgiving but, quirks and all, you accept him because, well, family. While the retail sales data show up more frequently, you still never know what to make of them but accept them because, well, data.

One thing that turned out as expected is that gasoline was a drag on May retail sales, with gasoline station sales down 2.6 percent on a seasonally adjusted basis. Even with the usual May spike in demand, lower prices held down total sales revenue. Aside from a minor decline in apparel store sales, May saw increases in each of the other broad categories for which data are reported. In some cases, however, the May increases have to be put in the context of weakness over prior months. For instance, furniture store sales rose by 0.3 percent in May, but this comes on the heels of three straight monthly declines, the smallest of which was the 1.7 percent decline in March. Along those same lines, the 0.2 increase in sales at electronics/appliance store sales follows three straight sizable declines.

The one component of the retail sales data which touches services spending is restaurant sales, which are reported to have risen by 0.4 percent in May, an increase smaller than the increase in prices reported in the May CPI data, which would leave restaurant sales down slightly on a real basis. That is worth noting in that it is in line with what we've seen in our proxy for discretionary services spending, which we construct from the BEA's monthly data. Our proxy has shown that, after accounting for price changes, discretionary services spending has been wavering since late last year (April was a notable exception). This has proven to be the most persistent source of inflation pressures, but if our proxy is any indicator, it could be that flagging demand will at some point take a toll on the pricing power of providers of such services, which would be a key development for an FOMC still focused on services price inflation.

We'll see how that plays out in the months ahead. For now, though, despite indicators showing household financial conditions remain quite healthy, growth in spending is slowing, which we think is more matter of consumers' willingness to spend, not their wherewithal.





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