ECONOMIC UPDATE
REGIONS
April 15, 2024

March Retail Sales: Big Gains, But Few Drivers

- Retail sales rose by 0.7 percent in March after rising 0.9 percent in February (originally reported up 0.6 percent)
- Retail sales excluding autos rose by 1.1 percent in March after rising 0.6 percent in February (originally reported up 0.3 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 1.1 percent in March

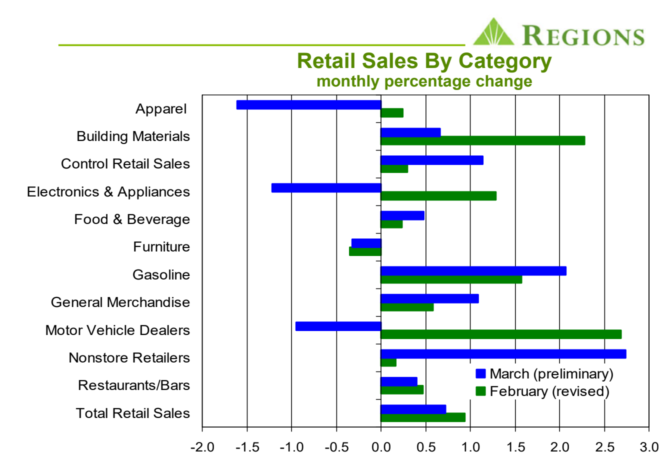
Total retail sales rose by 0.7 percent in March, with ex-auto sales up 1.1 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, also up 1.1 percent. Sales in each of the three main categories easily topped the consensus forecasts and had even less trouble trouncing our below-consensus calls. At the same time prior estimates of February retail sales were revised higher across the board, meaning consumer spending will make a larger contribution to Q1 real GDP growth than we and most others had anticipated. We have for some time been more constructive on the state of U.S. consumers than have many others, and our view was based on growth in labor earnings continuing to outpace inflation, still-low monthly debt service burdens, and record-high household net worth, amongst other factors. While we have pointed to pockets of stress amongst lower-income households, in the aggregate we've seen no signs of U.S. consumers being on the verge of packing it in and fading away. We bring this up because our forecast of March retail sales led some to question whether we had changed our view. We have not, but we're not so sure whether, or to what extent, the report on March retail sales helps shed any light on the matter.

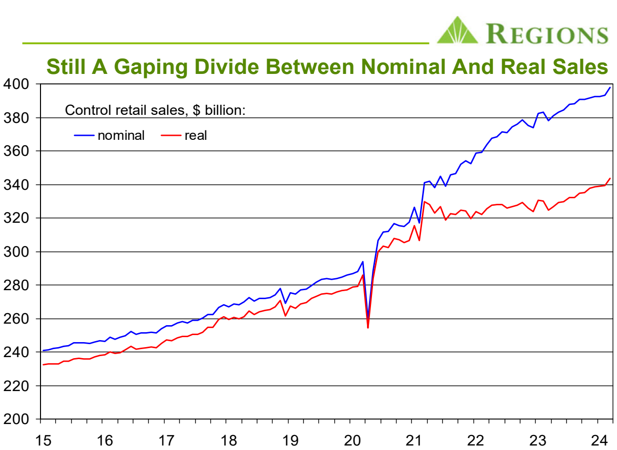
As badly as our forecast missed the mark, that really came down to two factors – sales at gasoline stations and sales by nonstore retailers posting significantly larger increases than we anticipated. Spending on consumer durable goods such as furniture, appliances, electronics, and motor vehicles fell in March. In the cases of furniture, appliances, and electronics, lower prices helped hold down sales revenue – retail sales are not adjusted for price changes. While vehicle prices were down in March as well, the decline in unit sales of new vehicles also included an element of payback after a stronger than normal February. But, one thing each of these categories has in common is that purchase of these and other consumer durable goods tend to be financed, so it could be that persistently elevated interest rates are taking a toll on consumer demand.

Gasoline station sales rose by 2.1 percent and sales by nonstore retailers rose by 2.7 percent in March, which, as noted above, in each case easily topped our forecast. Recall that our forecast anticipated control retail sales being flat in March, a forecast which incorporated a 1.2 percent increase in sales at nonstore retailers. That sales by nonstore retailers rose by 2.7 more than accounted for our forecast miss on control retail sales. If that seems at all unusual, keep in mind that sales by nonstore retailers – the vast majority of which are online sales – account for just over thirty percent of control sales. Gasoline station sales are one instance in which prices flattered March retail sales, as prices were up over six percent on a not seasonally adjusted basis, and even though much of that increase was washed away by seasonal adjustment, not all of it was. That teamed with a favorable March seasonal factor in the retail sales data to yield the reported 2.1 percent increase in gasoline station sales.

To that point, on the whole seasonal adjustment was basically neutral in the March data; while some categories, including gasoline and nonstore retailers, benefitted from favorable seasonal adjustment, other categories, including motor vehicles and grocery stores, faced punitive seasonal factors. On a not seasonally adjusted basis, control retail sales were up 9.1 percent in March which, excluding March 2020 for the obvious reason, is the smallest March increase in control retail sales since 2016 and well smaller than the average March increase.

As noted above, higher interest rates may be weighing on growth in spending on consumer durable goods. It is also the case that the shift in consumer spending patterns, away from goods, toward services, has shown no signs of abating. With the exception of restaurant sales, which were up by 0.4 percent in March, the retail sales data do not capture services spending. More recently, weakness in goods prices has weighed on retail sales. From the chart below, one can see that between 2021 and 2023 growth in control retail sales almost exclusively reflected rising prices for consumer goods, but as goods prices began to level out and then actually begin falling over the course of 2023, real spending on goods began to rise. Still, the cumulative increases in goods prices are an ongoing frustration for consumers, and we're not convinced goods prices will continue to fall in the months ahead. So, there could be more hurdles ahead of U.S. consumers than implied by the March retail sales data.





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