ECONOMIC UPDATE

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April Retail Sales: April Data Only Half Of The Story, Even If The Bad Half Of The Story

- Retail sales were unchanged in April after rising 0.6 percent in March (originally reported up 0.7 percent)
- Retail sales excluding autos rose by 0.2 percent in April after rising 0.9 percent in March (originally reported up 1.1 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.3 percent in April

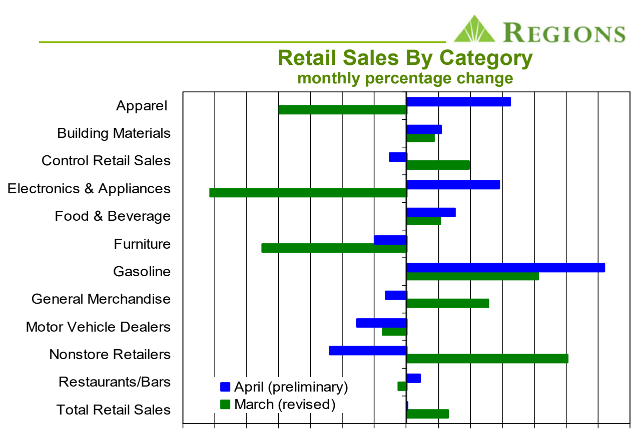
If there is one thing we can say with certainty about the retail sales data, it is that the retail sales data never disappoint. No, we don't mean the numbers themselves, which in the report on April retail sales were seen by many as a huge disappointment. Instead, we mean that the retail sales data are sure to deliver a jumbled mishmash of volatility, outsized revisions to prior estimates, and just plain dumbfounding results across the individual categories. So, in that sense, the report on April retail sales did not disappoint, because that description pretty much captures the essence of the report. Of course, that could just be our cynical selves, at least based on how so many analysts seize on each month's retail sales report as concrete evidence of the state of U.S. consumers. This helps account for the (latest) round of stories, triggered by today's release, bemoaning the coming collapse of consumer spending. If you're sensing that we may not exactly share that view, your instincts are spot on.

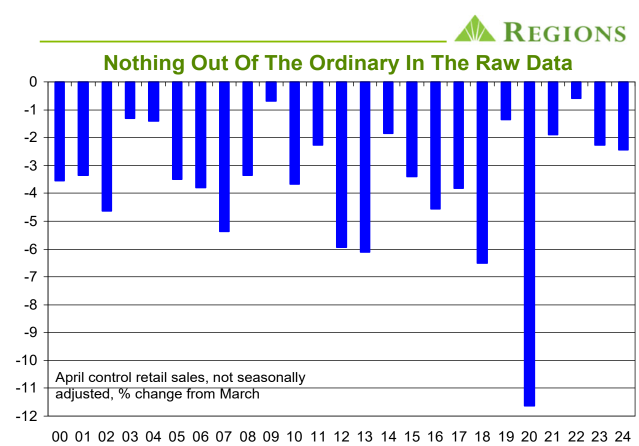
Total retail sales were unchanged in April, with ex-auto retail sales up by 0.2 percent and control retail sales down by 0.3 percent. That control retail sales are a direct input into the GDP data on consumer spending on goods is one of the few reasons to pay attention to the retail sales data, at least to the initial estimates, in any given month. That control retail sales fell in April is one reason many are downgrading their views of Q2 growth in consumer spending based on today's release. Sales fell in seven of the thirteen broad categories for which results are reported, and total sales would have been even weaker had it not been for a 3.1 percent increase in sales at gasoline stations. At the same time, prior estimates of sales in February and March were revised lower, particularly so in the case of February sales. Many are pointing to April declines in discretionary categories such as general merchandise stores (down 0.3 percent) and nonstore retailers (down 1.2 percent) as signs of growing weakness amongst U.S. consumers.

What is more than a bit curious, however, is that those doing so seem to not have noticed that sales at general merchandise stores rose by 1.3 percent in March while sales by nonstore retailers rose by 2.5 percent. This illustrates a point we routinely make in assessing the retail sales data for the months of March in April, which is that the shifting timing of Easter can and often does impact the retail sales data, including the seasonal factors used to adjust the raw data. As such, the best approach for anyone looking for clues as to the state of U.S. consumers is to take the average of the two months. It also helps to note that, over the past twenty-five years, the not seasonally adjusted data have never shown a decline in control retail sales in the month of March and have never shown an increase in control retail sales in the month of April. As our second chart below illustrates, this April's decline in unadjusted control sales, down 2.4 percent from March, sales, is nothing out of the ordinary.

To our point about revisions, the March declines in sales at furniture stores and electronics stores were originally reported as 0.7 percent and 0.9 percent, respectively, and are now reported as declines of 2.3 percent and 3.1 percent, respectively. At the same time, there were meaningful upward revisions to the initial estimates of sales at motor vehicle dealers and auto parts dealers. We think it worth also noting that the decline in control retail sales knocked four-tenths of a point off the monthly change in control retail sales, reflecting the outsized increase of this category, the bulk of which consists of online sales. We noted last month that the outsized increase for March made little sense to us, and by the same token neither does the sharp decline reported for April, particularly as the not seasonally adjusted data show sales by nonstore retailers rose by 2.0 percent in April. But, to our earlier point, the average of the seasonally adjusted changes for March and April, up 0.7 percent, does make sense.

We have, over the years, been quite open, not to mention quite consistent, in pointing to what we see as shortcomings in the retail sales data. In that sense, we do not think the report on April retail sales sheds any light on the state of U.S. consumers and find it curious that anyone would interpret the data as such without at least combining the April data with the March data. We have noted that discretionary services spending – not captured in the retail sales data – weakened in Q1, and that is something we are watching. Either way, while growth is slowing, nothing in the data suggests consumer spending is on the verge of collapsing.





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