March Retail Sales: More To The March Data Than Front-Running Tariffs

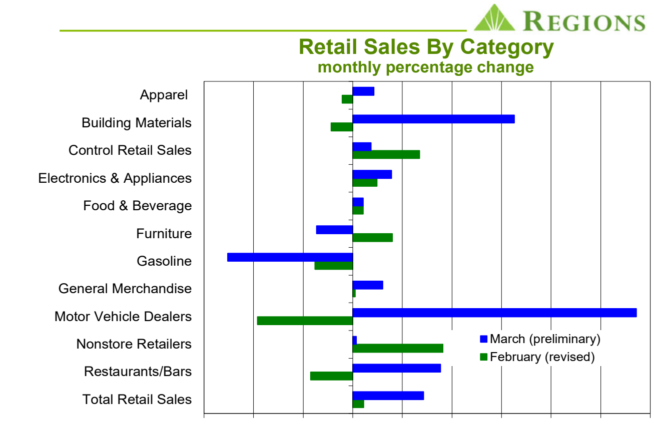
- Retail sales rose by 1.4 percent in March after rising 0.2 percent in February (as originally reported)
- Retail sales excluding autos rose by 0.5 percent in March after rising 0.7 percent in February (originally reported up 0.3 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.4 percent in March

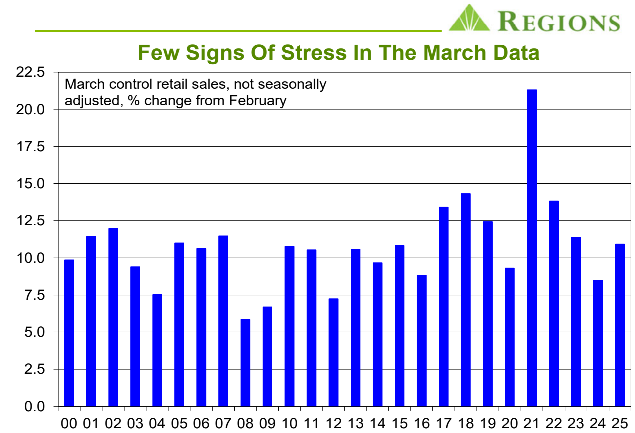
Total retail sales rose by 1.4 percent in March, matching the consensus forecast and above the 1.1 percent gain we anticipated, with ex-auto sales rising by 0.5 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, rising by 0.4 percent. We had anticipated ex-auto sales being up 0.4 percent and control group sales being up 0.5 percent. There were meaningful upward revisions to the initial estimates of ex-auto and control group sales in February, at least kind of. Ex-auto sales are now shown as up 0.7 percent in February and control group sales are now shown as up 1.4 percent, compared to the initial estimates of 0.3 percent and 1.0 control percent increases, respectively. The main factor behind those revisions, however, is an upward revision to sales by nonstore retailers, originally reported as up 2.4 percent and now shown as up 3.2 percent. That, however, is more than a bit misleading as it merely reflects a smaller decline in not seasonally adjusted sales in this category than first reported; that decline is now shown to be 5.3 percent rather than the 7.0 percent decline first reported. Either way, given that the seasonally adjusted data on control group sales feed into the GDP data, this revision secures a larger Q3 increase real spending on goods in the Q1 GDP data than previous tracking had implied. As for the March data, a much larger increase in motor vehicle dealer revenue and a stronger increase in restaurant sales than our forecast anticipated are the main factors behind our misses on headline and ex-auto sales while, in the wake of the upward revision to the February data, a smaller March increase in sales by nonstore retailers than we anticipated thwarted our forecast of control group sales.

On a not seasonally adjusted basis, total retail sales were up by 14.9 percent and control retail sales were up by 10.9 percent, each smaller than the typical March increases. In our preview of the March data, we noted that in any given year, the increases in unadjusted sales are stronger in March than in any other month save for December, and while we noted that our forecast for control retail sales – up 11.9 percent not seasonally adjusted – was shy of the typical March increase, we further noted that this year's seasonal factors were more generous than usual for the month of March. As we anticipated, the March data show mixed results in the categories in which consumers were likely pulling purchases forward to avoid tariff-related price increases in the months ahead. The most notable instance of this is that sales revenue at motor vehicle dealers was up 5.3 percent in March, easily ahead of our forecast. Unit sales of new motor vehicles spiked to an annual rate of 17.8 million units in March, the highest monthly sales rate since April 2021, which clearly offset what, at least according to the March CPI data, was weak pricing. Sales at electronics/appliance stores were up 0.8 percent in March on top of a meaningful upward revision to the initial estimate of February sales. In contrast, furniture store sales fell by 0.7 percent in March, but this is another category in which the initial estimate of February sales was revised higher. We have, over recent months, been pointing to strong sales in the consumer durables categories as signs of consumers pulling purchases forward to avoid higher tariffs, and while we suspect this has largely run its course, the pause in implementation of the most punitive tariffs announced on April 2 gives consumers who may still be pondering such pre-emptive purchases more time to do so. At some point, however, there will be payback in the data, which we'll likely see in Q3.

Elsewhere in the data, sales at building materials stores jumped by 3.3 percent in March, reflecting payback from sharply lower sales over the first two months of the year thanks in no small measure to atypically harsh winter weather. Gasoline station sales were down by 2.5 percent in March, though more than anything this reflects harsh seasonal adjustment as gas prices were far weaker this March than is typical for the month. Sales at general merchandise stores rose by 0.6 percent, apparel store sales were up by 0.4 percent, and restaurant sales rose by 1.8 percent.

It is hard to draw many firm conclusions from the March retail sales data regarding the state of U.S. consumers. It is, however, noteworthy that while measures of consumer confidence/sentiment have tanked, that has not kept consumers from pulling purchases forward to front-run higher tariffs. Though slowing, growth in aggregate labor earnings continue to outpace inflation. While higher tariffs will take a bite, perhaps a nasty bite, out of consumer spending, as long as the labor market holds up, growth in real labor earnings will remain a vital support.





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