

ECONOMIC UPDATE



REGIONS

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April Retail Sales: No Clear-Cut Evidence One Way Or The Other . . .

- › Retail sales rose by 0.1 percent in April after rising 1.7 percent in March (originally reported up 1.4 percent)
- › Retail sales excluding autos rose by 0.1 percent in April after rising 0.8 percent in March (originally reported up 0.5 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.2 percent in April

Total retail sales rose by 0.1 percent in April, with ex-auto sales up 0.1 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, fell by 0.2 percent. Across the board the April data came in softer than what we and the consensus expected, with the decline in control group sales the biggest surprise. To some extent, though, the softer April prints reflect upward revisions to the initial estimates of March sales; total retail sales are now reported to have risen by 1.7 percent, rather than the 1.4 percent increase first reported, while ex-auto sales are now reported to have risen by 0.8 percent in March, up from the initial estimate of a 0.5 percent increase. The upward revision was much smaller for control group sales, now reported to have advanced 0.5 percent in March rather than by 0.4 percent as first reported. That said, the decline in not seasonally adjusted control retail sales was easily smaller than the "typical" April decline, which is somewhat fitting given that this April was about as far away from "typical" as one could imagine. That total retail sales came in a bit better than we anticipated is in part a function of a much smaller decline in motor vehicle dealer revenue, while control group sales coming in below our forecast reflect sales at apparel stores and sales by nonstore retailers falling short of our expectations. At the same time, the 1.2 percent increase in restaurant sales, on the heels of an upwardly revised increase of 3.0 percent in March, is little more than a gift from seasonal adjustment, as unadjusted restaurant sales declined.

Though the temptation will be to draw inferences about the impact of higher tariffs, the April retail sales data offer no clear-cut evidence one way or the other. That is in keeping with the April data on the Consumer Price Index, which showed mixed evidence in the behavior of core goods prices, while the April data on the Producer Price Index show evidence of firms absorbing much of the earliest increases in tariffs. We had pointed to that as being likely, as many firms are waiting for further clarity around trade policy before making decisions on pricing. That said, with it looking more and more likely that a "universal" ten percent tariff rate will be the benchmark, firms may be willing to be more aggressive in testing how much pricing power they have remaining. If so, then the data on the PPI, the CPI, and retail sales over the next few months will

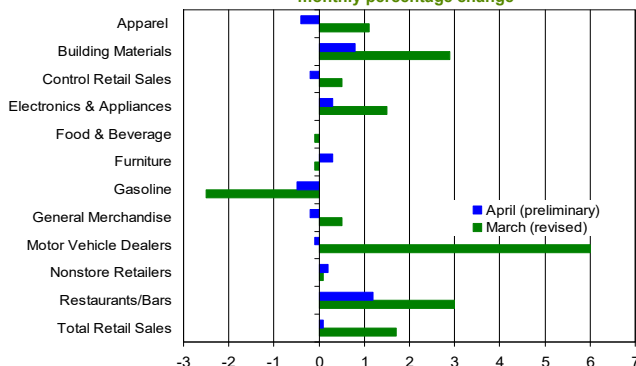
begin to tell a more convincing, and more consistent, story on the impact of higher tariffs.

To our earlier point, the not seasonally adjusted data show control group sales fell by 1.2 percent in April, smaller than the typical April decline (one has to go back to 1998 to find the last year unadjusted control group sales rose in the month of April). Seasonal adjustment, however, was a mixed bag across the individual categories. For instance, the 1.8 percent decline in not seasonally adjusted apparel store sales is right in line with the typical April decline, but the seasonally adjusted data show a 0.4 percent decline, which acted as a weight on control group sales. Along those same lines, not seasonally adjusted sales by nonstore retailers fell by 0.4 percent, considerably smaller than the typical April decline, yet the seasonally adjusted data for this category show just a 0.2 percent increase. We can also point to smaller declines in unadjusted sales at electronics/appliances stores and furniture stores than typical for the month of April. Our point here isn't to pick at the April seasonal factors, but instead to offer a caution about using the seasonally adjusted data to make inferences about the impact of higher tariffs, as the results in the not seasonally adjusted data are not supportive of the premise that higher tariffs are behind "soft" April retail sales.

Elsewhere in the data, revenue at motor vehicle dealers fell by just 0.1 percent in April. Our forecast anticipated a much larger decline based on the decline in unit sales of new motor vehicles and what for this category was a somewhat punitive April seasonal factor. The tempered decline in revenue is even more noteworthy given that the April CPI data show weak pricing. This is one category in which prices seem set to rise, perhaps significantly, in the months ahead while at the same time sales will fall off sharply from the elevated levels seen in March and April. Unadjusted gasoline station sales were up 1.8 percent in April, but punitive seasonal adjustment yielded a decline of 0.5 percent in the seasonally adjusted data. Unadjusted restaurant sales fell by 2.6 percent, which was turned into a 1.2 percent increase in the seasonally adjusted data. Again, these instances serve to reinforce our point about the lack of clear-cut evidence, in either direction, in the April retail sales data.



Retail Sales By Category
monthly percentage change



Unadjusted Sales Outperform "Typical" April

