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## May Retail Sales: A Little Context Goes A Long Way

- › Retail sales fell by 1.3 percent in May after rising 0.9 percent in April (initially reported as unchanged)
- › Retail sales excluding autos fell by 0.7 percent in May after being unchanged in April (initially reported down 0.8 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.7 percent in May

Total retail sales fell by 1.3 percent in May, a touch lighter than the 1.4 percent decline our forecast anticipated but worse than the consensus forecast of a 0.8 percent decline. Ex-auto retail sales fell by 0.7 percent, a bit more than our forecast of a 0.5 percent decline but considerably better than the consensus forecast of a 0.4 percent increase. Control retail sales, a direct input into the GDP data on consumer spending, fell by 0.7 percent in May, slightly worse than our forecast of a 0.6 percent decline. While the May numbers are on the soft side, they come in context of meaningful upward revisions to the initial estimates of April retail sales. As we noted in our weekly *Economic Preview*, there were a number of undercurrents in the May data, including higher prices, lean supplies of certain consumer goods, unfriendly seasonal adjustment factors in many categories, and an expected shift in consumer patterns as spending on services springs back to life, which at least partially comes at the expense of spending on goods. As such, it is hard to know what to make of the May retail sales data, particularly in light of the upward revisions to April and the fact that it won't be until June 25 that we get the BEA's initial estimate of May services spending. In general, however, the decline in retail sales in May is nothing to be alarmed over, which is simply a reflection of these decidedly still not normal times.

Recall that the retail sales data are reported in nominal terms, meaning they are not adjusted for price changes. Still, to get an idea of how higher prices impacted the May data, we deflated total retail sales by the May headline CPI, and deflated control retail sales by the May CPI sub-index of core goods prices (consumer goods excluding food and energy). Stripping out the effects of higher prices, total retail sales would have declined by 2.0 percent and control retail sales would have declined by 2.2 percent in May. While this may overstate the case, the point remains the same, and the retail sales data will continue to exhibit price effects over the next few months, if not longer. We have offered that consumers may at present be more tolerant of higher prices given the significant pool of excess saving in consumer accounts – our estimate puts excess savings at just over \$2.4 trillion as of the April personal income data. To the

extent that is the case, any such tolerance will fade as the level of excess saving fades and many households will turn more selective in how their budgets are allocated.

In May, sales fell in eight of the 13 broad categories for which data are reported, "led" by a 5.9 percent decline in sales at building materials stores. Sales revenue at motor vehicle dealers fell by 3.9 percent, which is a smaller decline than would be implied by unit sales having fallen by just over nine percent, but sharply higher vehicle prices cushioned the decline in dealer revenue. Sales at general merchandise stores fell by 3.3 percent in May, following a 2.2 percent decline in April. The declines in sales at electronics/appliance stores (down 3.4 percent), furniture stores (down 2.1 percent), and nonstore retailers (down 0.8 percent) in part reflect unfriendly seasonal adjustment factors. More generally, on a not seasonally adjusted basis, control retail sales rose by only 3.8 percent in May, with "only" used in the context of the average May increase of 5.9 percent over the 2000-2019 period, such that the seasonal adjustment factors were geared for a much larger increase this May than actually occurred. In the cases of electronics, appliances, and furniture, however, it could be that those pesky supply and demand factors are showing themselves in the retail sales data. Given how robust sales in these categories have been, it could be that there is simply less demand at present, at a time when supply constraints may also be weighing on sales.

As we have discussed at length over the past several months, there were distinct shifts in consumer spending patterns over the course of the pandemic, reflecting generous fiscal transfers and the degree to which the services sector was shut down. This led to a marked increase in spending on consumer goods, while consumer spending on discretionary services fell sharply. We have for some time been pointing to a reversal in this shift once greater numbers of people were vaccinated and the economy was more fully reopened. We think this shift will become more pronounced over the summer months. As such, the BEA's data on total consumer spending, including services, will be a more relevant indicator of spending patterns than the retail sales data will be.

