ECONOMIC UPDATE

REGIONS

June 15, 2022

May Retail Sales: Shaping Up To Be A Tough Summer For Retailers . . .

- Retail sales fell by 0.3 percent in May after rising 0.7 percent in April (initially reported up 0.9 percent)
- Retail sales excluding autos rose by 0.5 percent in May after rising 0.4 percent in April (initially reported up 0.6 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) were unchanged in May

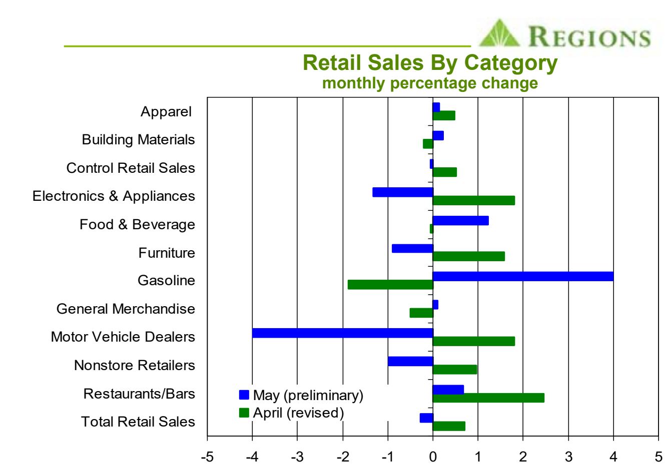
Total retail sales fell by 0.3 percent in May, shy of the 0.4 percent decline our forecast anticipated and further away from the consensus forecast of a 0.1 percent increase. Ex-auto retail sales were up 0.7 percent in May while control retail sales, a direct input into the GDP data on consumer spending, were unchanged. At the same time, the initial estimate of April retail sales was revised down, with total sales now reported to have risen by 0.7 percent sales and control retail sales now reported to have risen by 0.5 percent rather than by 1.0 percent as first reported. Between this and the miss on May control sales, Q2 growth in consumer spending on goods is tracking below our forecast. This does not, however, necessarily mean the same holds for total consumer spending. The retail sales data do not capture spending on services, which accounts for roughly two-thirds of all consumer spending, and all indications are that growth in services spending remains robust. While growth in services spending will let up at some point, it will nonetheless be a meaningful support for Q2 growth in total consumer spending. That of course will be of no consolation to those retailers caught out by the shift in consumer spending patterns that is contributing to unwanted inventory builds that will lead to potentially significant discounting that will push margins lower.

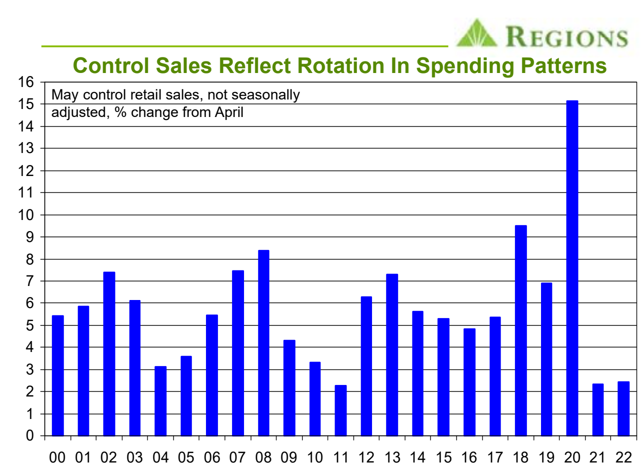
A sharp decline in unit motor vehicle sales in May more than offset higher vehicle prices, thus pushing revenue at motor vehicle dealers down by 4.0 percent, a bit shy of the 4.1 percent decline we were looking for but nonetheless a powerful drag on top-line retail sales, as the gap between total and ex-auto sales reflects. Conversely, higher prices contributed to a 4.0 percent increase in gasoline station sales. Stripping out the two tails, however, leaves retail sales excluding motor vehicles and gasoline up by just 0.1 percent, reflecting a mixed bag for pricing – recall that retail sales are not adjusted for price changes. One vivid illustration of this is the 1.2 percent increase in grocery store sales, which fell short of the 1.4 percent increase in prices of food consumed at home in May. Keep in mind that warehouse/club stores, which roll into the broad general merchandise stores category, are capturing a growing portion of consumer spending on food and gasoline as food and gasoline prices continue to rise.

Our view is that the sharp decline in unit motor vehicle sales in May was more of a supply story, or, a lack of supply story, as motor vehicle inventories continue to bump along near all-time lows despite recent increases in production. That is not, however, the case in other categories of consumer durable goods. Sales at electronics/appliance stores fell by 1.3 percent in May, while furniture store sales fell by 0.9 percent. It helps to recall, however, that price effects work both ways; May saw declines in prices in some segments of the broad home furnishings category, and prices for appliances and electronics fell. These declines, however, reflect diminishing demand, which in turn reflects demand for big-ticket items having largely been sated while a slowing housing market is acting as another channel through which demand is falling. Another thing that stands out in the May data is the 1.0 percent decline in sales by nonstore retailers, giving back the increase seen in April. Online sales account for roughly ninety percent of sales in this broad category, and online sales have been very uneven over recent months. This reflects two things – consumers returning to physical stores as pandemic-related concerns abate, and diminished spending on goods. But, as online sales lose some of their steam, that also impacts jobs in warehousing/distribution.

The one glimpse of services spending offered in the retail sales data is sales at restaurants and bars, which were up by 0.7 percent in May. This increase, however, is to some extent a reflection of higher prices, and follows significantly larger increases over the prior several months. We will, however, note that this category has seen large upward revisions to the initial estimates of sales over recent months. These revisions are more in line with the strength being logged in other forms of services spending, so we'll see how the initial estimate of May sales holds up.

It's shaping up to be a tough summer for retailers. Between higher prices for necessities and the rotation in spending patterns, rising inventories of discretionary goods will lead to discounting and margin compression. That, however, will say more about the state of retailers than it will about the state of consumers, of which services spending will be a better guide.





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