ECONOMIC UPDATE

REGIONS

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May Retail Sales: Soft Headline, Unfavorable Revisions, And Harsh Seasonal Adjustment

- Retail sales rose by 0.1 percent in May after falling 0.2 percent in April (originally reported unchanged)
- Retail sales excluding autos fell by 0.1 percent in May after falling 0.1 percent in April (originally reported up 0.2 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.4 percent in May

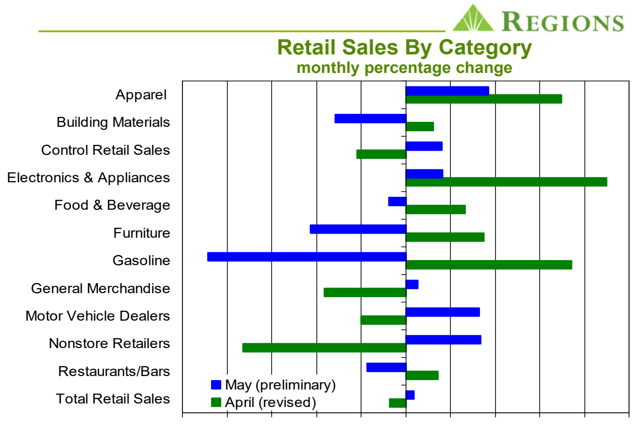
Total retail sales were up by 0.1 percent in May, matching our below-consensus forecast, with ex-auto sales falling by 0.1 percent and control retail sales rising by 0.4 percent, splitting the difference between our forecast (0.3 percent) and the consensus forecast (0.5 percent). At the same time, the initial estimates of April retail sales, soft to start with, were treated rather rudely by revisions, with both total and ex-auto sales now reported to have declined and control retail sales now reported to have fallen by 0.5 percent rather than by 0.3 percent as initially reported. The downward revision to April control retail sales, a direct input into the GDP data on consumer spending on goods, puts Q1 growth in real consumer spending on a weaker trajectory than we had anticipated, and in so doing poses downside risk to our forecast on Q2 real GDP growth.

In this space last month, we noted that the retail sales report in any given month could be counted on 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 May retail sales did not disappoint. Still, we think it worth making a few points about the May data which, in our view, are not nearly as soft as many are making out to be the case. First, as we noted in this week's *Economic Preview*, we expected the May increase in not seasonally adjusted control retail sales to be larger than is typical for the month, but we also expected that increase to be watered down by punitive seasonal adjustment. We were right on both counts, though the 6.9 percent increase in unadjusted control retail sales fell a bit short of our forecast of a 7.3 percent increase. Still, the increase in unadjusted control sales was indeed larger than the typical May increase. But, the seasonal factors used to adjust this May's sales were more punitive than those used last May. For instance, had last May's seasonal factors been applied to this May's unadjusted sales, that would have left total retail sales up by 0.8 percent and control retail sales up by 1.0 percent. So, much of the reaction you'll see and hear to the May retail sales report isn't reaction to a change in the actual amount of consumer spending but rather reaction to a change in seasonal adjustment factors, though those doing the reacting will not likely be aware of this. This simply goes to our oft-made point about the importance of understanding why the numbers are what they are as opposed to just knowing what the numbers are. Then again, if that lack of awareness contributed to this nugget of insight – "stretched consumers forced to hunt for bargains online" – then maybe it's not such a bad thing after all.

It is also worth noting that price effects weighed on May retail sales, as retail sales are reported on a nominal basis, i.e., they are not adjusted for price changes. Recall that prices for core (ex-food, ex-energy) consumer goods excluding used motor vehicles fell further in May, with notable weakness amongst prices for appliances and furniture, while at the same time retail gasoline prices were down 3.6 percent on a seasonally adjusted basis. Sales at gasoline stations were down by 2.2 percent in May while sales at furniture stores were down 1.1 percent and sales at electronics and appliance stores were down 0.4 percent. By all means, it's fair to ask why prices for consumer goods are falling, and softer demand is almost surely one factor, but so too is a strong U.S. dollar that is weighing on prices for imported consumer goods. Either way, lower goods prices have been and remain a weight on retail sales. Adjusted for price changes, control retail sales are up 3.9 percent year-on-year as of May which, while slower than in prior months, is nonetheless faster than the average pace of growth seen over the five years prior to the pandemic.

Sales at nonstore retailers rose by 0.8 percent in May, matching the gain seen at motor vehicle dealers, while sales at auto parts stores were up by 1.2 percent and apparel store sales were up by 0.9 percent. In contrast, grocery store sales were down 0.4 percent and restaurant sales fell by 0.4 percent, though we will note that unadjusted restaurant sales rose by 4.9 percent, which goes back to our point about less favorable seasonal adjustment this May than last.

We are by no means downplaying or dismissing the financial stress being felt by lower/middle income households. In the aggregate, however, what we are seeing is slowing growth in consumer spending, which is rather at odds with narratives of consumer spending on the verge of collapse.



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