ECONOMIC UPDATE
REGIONS
April 18, 2019

March Retail Sales: Consumers End Q1 With A Roar

- Retail sales rose by 1.6 percent in March after falling by 0.2 percent in February (initially reported down 0.2 percent)
- Retail sales excluding autos rose by 1.2 percent after falling by 0.2 percent in February (initially reported down 0.4 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 1.0 percent in March

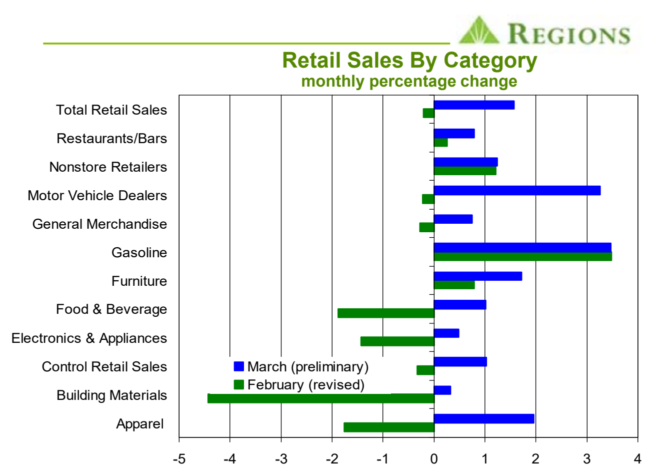
While the month of March may or may not come in like a lion and go out like a lamb, U.S. consumers ended Q1 with a roar, with the largest monthly increase in retail sales in over a year. Total retail sales rose by 1.6 percent in March, blowing by our above-consensus forecast of a 1.1 percent increase. Ex-auto sales were up by 1.2 percent and control retail sales, a direct input into the GDP data on consumer spending, were up by 1.0 percent, both also topping our above-consensus calls. That the initial estimate of March retail sales topped expectations doesn't alter our view of the relative worth of the initial estimate of retail sales in any given month, nor does the fact that revisions put total retail sales down 0.2 percent in February, matching the initial estimate. That the estimate of total sales in February did not change masks what were some sizeable revisions to the initial estimates of the individual categories, and there will no doubt be similar revisions to the initial estimates of March sales. That said, that control retail sales came in stronger than expected in March poses upside risk to our forecast of consumer spending in the Q1 GDP data and, with the level of control retail sales in March safely above the Q1 average, this puts a firmer base under current quarter spending growth than we had anticipated.

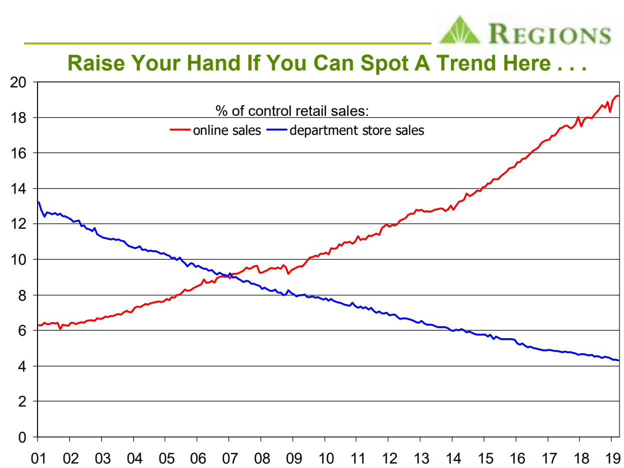
The 1.6 percent increase in total retail sales is the largest monthly increase since September 2017, and while motor vehicles and gasoline were prime drivers of March retail sales, sales rose in 12 of the 13 broad categories for which data are reported. Gasoline station sales rose by 3.5 percent in March, mainly reflecting higher retail pump prices, and what was originally reported as a 1.0 percent increase in gasoline station sales in February is now reported as a 3.5 percent increase. Sales revenue at motor vehicle dealers (which includes both dealers of both new and used vehicles) rose by 3.3 percent in March after having declined by 0.2 percent in February (originally reported as a 0.7 percent increase). Sales at apparel stores rose by 2.0 percent in March, countering a 1.8 percent decline in February (originally reported as a 0.4 percent decline). Sales at grocery store sales were up 1.2 percent in March, though we are now told grocery store sales fell by 2.0 percent in February, seemingly at odds with the strength of grocery store prices in the recent CPI data.

Our forecast anticipated rising sales at furniture stores in March, which reflected what has been firmer data on home sales and housing starts, but the reported 1.2 percent increase doubled our forecast, and it is also worth noting that prior estimates of furniture store sales in January and February were revised higher. Restaurant sales were up by 0.8 percent in March and prior estimates of sales in January and February were revised higher. This is not only consistent with steady growth in disposable income but also with the CPI data showing restaurants have exhibited increasing pricing power over the past several months.

Sales by nonstore retailers rose by 1.2 percent in March, with upward revisions to earlier estimates of sales in January and February. Online sales account for roughly 88 percent of sales in the nonstore retailer category, and as seen in our second chart below, online sales continue to capture a growing share of control retail sales. Though there is more to the demise of department store sales, as a share of control retail sales, than steadily rising online sales, this is certainly a key factor and one that will continue to pressure department stores, at least those who still haven't mastered the online universe.

Anyone who has been paying attention knows the retail sales data have been all over the map of late – from a big decline in December through a sizeable increase in March. Through all of the twists and turns, however, we have stressed that the drivers of consumer spending were much healthier than implied by some of the spending data. Moreover, the strong March data offer hope of progress in paring down elevated inventories (motor vehicle inventories remain problematic). We've noted that the labor market remains rock solid, thus putting a firm floor under growth in personal income and, in turn, consumer spending. This is a key reason we've maintained a constructive outlook on the broader economy despite some not-so-flattering data in recent months.





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