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## March Retail Sales: Strong Supports In Place For Spending, But For How Long?

- › Retail sales rose by 1.7 percent in March after rising 0.7 percent in February (originally reported up 0.6 percent)
- › Retail sales excluding autos rose by 1.9 percent in March after rising 0.7 percent in February (originally reported up 0.5 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.6 percent in March

Total retail sales rose by 1.7 percent in March, just below the 1.8 percent increase we anticipated but topping the consensus forecast of a 1.4 percent increase. Ex-auto sales were up by 1.9 percent, matching our forecast and besting the consensus forecast of a 1.4 percent increase. It would be wrong to simply brush off the March retail sales report on the grounds that it reflects nothing more than higher gasoline prices. To be sure, retail gasoline prices jumped by more than twenty percent in March and the retail sales data show gasoline station sales rising by 15.5 percent in March. At the same time, however, control retail sales rose by 0.7 percent in March, better than the 0.6 percent increase we anticipated and easily ahead of the consensus forecast of a 0.2 percent increase. At the same time, prior estimates of retail sales in January and February were revised higher, with larger upward revisions to control group sales than to total retail sales. Keep in mind that control group sales are a direct input into the GDP data on consumer spending on goods, which accounts for roughly one-third of all consumer spending. This leaves Q1 growth in goods spending, and in turn total consumer spending, on a much firmer trajectory than had appeared to be the case. How long spending holds up, however, remains to be seen given that the longer energy prices remain elevated the higher the odds of that spilling over into prices for non-energy goods, which threatens to erode some of the supports for consumer spending now in place, particularly to the extent that tariff pass-through remains a source of upward pressure on goods prices.

To our earlier point, March's increase in total retail sales was broadly based across the main categories for which sales are reported, making the declines in sales amongst miscellaneous store retailers and auto parts dealers clear outliers. Furniture store sales rose by 2.2 percent, sales by nonstore retailers, the vast majority of which are online sales, rose by 1.0 percent, as did sales at general merchandise stores, while grocery store sales rose by 0.9 percent. Sales revenue amongst motor vehicle dealers rose by 0.6 percent in March. Given what are clear, and strong, seasonal patterns in retail sales, our assessments of the data in any given month are based far more on the not seasonally adjusted data than the headline prints. On a not seasonally adjusted basis, total retail sales rose by 16.0

percent in March, just shy of the 16.1 percent increase we expected, while the 13.0 percent increase in unadjusted control group sales matched our forecast, with the increases a bit larger than the typical March increases.

That, however, is at least in part a function of higher goods prices. The CPI measure of prices of core consumer goods (non-food, non-energy) excluding used motor vehicles has shown an increasingly rapid pace of price increases, with the 1.9 percent year-on-year increase in March the largest such increase since August 2023. As our chart below shows, while growth in nominal control sales remains robust, up 4.8 percent in March and running well ahead of the pre-pandemic trend pace, growth in real control sales was up 2.8 percent year-on-year in March and growth remains far below the pre-pandemic trend pace. Though the gap between growth in nominal and real control group sales is not at present nearly as large as was the case in the aftermath of the pandemic, keep in mind that prior to the pandemic the "norm" was slightly faster growth in real sales than in nominal sales, reflecting what was modest but persistent core goods price deflation. That is clearly no longer the case.

We noted that Easter falling so early in April this year likely supported March spending. More fundamentally, meaningfully larger income tax refunds than those seen last year have left many households with cash cushions, though nowhere near as large as those that resulted from the cash transfers to households in the wake of the pandemic. At the same time, despite a marked slowdown in trend job growth, aggregate labor earnings, the largest block of personal income, continue to grow at a rate faster than inflation, acting as a key support for spending. Household balance sheets remain notably strong, which is also acting as a support for spending, particularly discretionary services spending.

We harbor a more constructive take on the labor market than many others seem to, so we're not as concerned about the labor market remaining a support. Spending is nonetheless vulnerable to energy prices remaining elevated for an extended period, particularly if that were to bleed into core inflation, with a sharp drop in equity prices also posing a downside risk. For now, however, consumers have ample wherewithal to spend.

