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May Retail Sales: More Than Higher Prices Behind May Spending Growth

- › Retail sales rose by 0.9 percent in May after rising 0.4 percent in April (originally reported up 0.5 percent)
- › Retail sales excluding autos rose by 0.8 percent in May after rising 0.7 percent in April (originally reported up 0.7 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.7 percent in May

Total retail sales rose by 0.9 percent in May, with ex-auto sales up 0.8 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, up by 0.7 percent. In each instance, the increase in May sales topped our above-consensus forecast. While the increase in May sales topped our above-consensus forecast. While the prior estimate of April retail sales was revised slightly lower, that was offset by an equal but opposite (i.e., upward) revision to the prior estimate of March sales. As anticipated, the combination of higher prices and a seasonal increase in demand meant that gasoline station sales, up by 3.4 percent in May, made a powerful contribution to top-line retail sales. As such, the tendency may be to simply brush the May data off as reflecting higher prices that are leaving consumers with little room for discretionary spending. The results of the data, however, suggest something different. The obvious pushback is the increase in control retail sales, from which gasoline sales are excluded, particularly as May's 0.7 increase follows the 0.5 percent increase logged in April. This leaves annualized growth in nominal control sales tracking at better than seven percent for Q2, a gain that will easily survive the adjustment for higher prices, leaving Q2 growth in real spending on goods tracking faster than we've anticipated. More broadly, however, we're not surprised that spending growth has held up as it has; we've been pointing to supports for consumer spending which, while having been pared down, are still in place. Our concern has always been how much longer those supports would remain were the conflict with Iran to drag on, but our concerns have been somewhat allayed by gasoline prices having fallen sharply over recent weeks, pre-dating the announcement of a deal between the U.S. and Iran. To be sure, this still leaves gasoline prices higher than they were at the start of the conflict, but falling prices are nonetheless providing relief, particularly to the lower-to-middle income households feeling the greatest pinch from elevated prices. That labor market conditions have improved somewhat over the past few months is also supportive of household finances. Though downside risks clearly remain, overall financial conditions in the household sector remain supportive of consumer spending.

On a not seasonally adjusted basis, control group sales rose by 5.3 percent in May, a tick better than the 5.2 percent increase our forecast anticipated.

This is right in line with the typical May increase in not seasonally adjusted sales, which is what we think to be more relevant given that seasonal adjustment was a bit more forgiving this May than was the case last May. Moreover, real control group sales were up just over one percent in May, reflecting the sizable increase in nominal sales combined with core goods prices being better behaved than we had anticipated. On a year-on-year basis, real control group sales were up 4.6 percent in May, the largest such increase in a year. This goes to our point that there was more than higher prices behind May's spending growth.

On a seasonally adjusted basis, sales rose in eleven of the thirteen broad categories for which data are reported. As noted above, gasoline station sales were up by 3.4 percent in May, while sales by nonstore retailers, a category overwhelmingly dominated by online sales, rose by 1.5 percent. This was a larger increase than our forecast anticipated, which accounts for our miss on our forecast of control group sales, of which just over thirty percent consist of online sales. Sales revenue at motor vehicle dealers rose by 1.3 percent, also stronger than our forecast anticipated and seemingly at odds with the CPI data on vehicle prices. Furniture store sales were up by 1.0 percent in May, also seemingly at odds with the CPI data showing ongoing weakness in furniture store prices, but it is worth noting that May's increase in sales comes on the heels of a 1.5 percent decline in April. Grocery store sales were flat in May, at least in part reflecting a much more restrained pace of price increases compared to April. It is also worth noting that at least some portion of what traditionally would have been food purchases made at grocery stores has shifted to warehouse/club stores, a shift that has been more pronounced as grocery store prices have risen.

To the downside, restaurant sales are reported to have fallen by 0.1 in May following an upwardly revised increase of 0.9 percent in April. We will, however, note that on a not seasonally adjusted basis, restaurant sales were up 6.7 percent in May, larger than the typical May increase. To the extent that discretionary spending slowed in response to higher gasoline prices, this is one prime candidate, but the flip side of that is the recent declines in gasoline prices should support restaurant spending.

