



## Economics Group

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### Consumer Spending Slips in May

**Retail sales fell 0.2 percent in May, reflecting weaker motor vehicle sales. Excluding autos, retail sales rose 0.3 percent, slightly better than consensus. The numbers point to modest gains in Q2 personal consumption.**

#### Sales Fall Less Than Many Feared, but Trouble Still Lurks

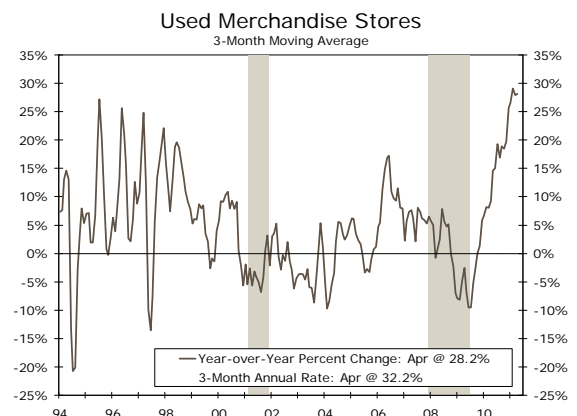
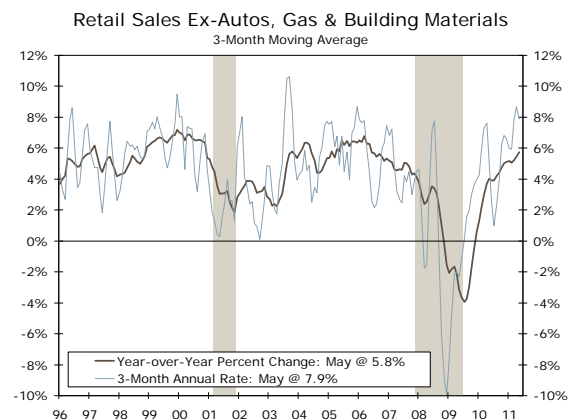
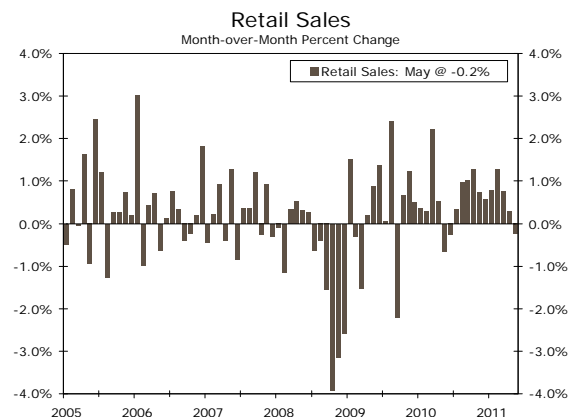
Retail sales fell 0.2 percent, a smaller decline than the 0.5 percent drop the consensus was expecting. Revisions to the previous month's data were mixed. The overall sales numbers were revised down slightly, but the core numbers, which exclude motor vehicles, gasoline and building materials, were revised up slightly. On balance, the report suggests consumers have been able to weather the storm, both literally, with the deluge of storms in April and May, and figuratively, from the sharp run-up in gasoline prices earlier this spring. Core retail sales in April and May are currently running at a 5.0 percent annual rate above their first quarter average, which should ensure decent growth in real personal consumption outlays in Q2.

One of the reasons the modest drop in retail sales was greeted with such a sense of relief is that earlier reports on motor vehicle sales and chain store sales suggested that the news would be even worse. While May's headline and core retail sales data were better than expected, the details of report are a little less comforting. Sales at motor vehicle dealers were off sharply, plunging 3.2 percent in May, confirming earlier reports on unit sales. Spending at department stores was also weak, falling 0.7 percent, again consistent with the earlier chain store figures. In addition, spending remained weak at furniture and electronics stores, falling 0.7 percent and 1.3 percent, respectively. The weakness in spending for big-ticket items is a clear warning that household budgets are being stretched and consumers are cutting back on major discretionary purchases.

There were also some positives in May. Spending at building materials and home improvement centers rose 1.2 percent in the month, likely reflecting the arrival of better weather and possibly some sales for repairs and renovations following the rash of violent storms this spring.

Spending was also up sharply at miscellaneous store retailers, climbing 2.1 percent in May following a 2.0 percent gain in April. This category includes florists, office supply and gift shops and thrift stores. Sales in this category are up 8.4 percent over the past year, which is larger than any other category other than gasoline stations and non-store retailers. Within this group, sales at thrift shops and other merchants selling used merchandise are up a whopping 27.4 percent. Sales at non-store retailers, mostly online purchases, rose 1.2 percent in May and 15.9 percent over the past year. Combined, sales at miscellaneous shops and nonstore retailers accounted for 58.3 percent of the rise in retail sales, excluding autos, during May.

Consumers' renewed emphasis on thrift is yet another warning sign about how far household budgets are being stretched. Lower energy prices should provide some near-term relief, but a sustainable pickup in spending will not likely occur until job growth picks up and the unemployment rate falls.



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