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Economics Group

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Retail Sales Beat Expectations in March

Retail sales increased 0.8 percent in March, a more than doubling of the 0.3 percent gain expected by the consensus. A 3.0 percent surge in sales at building materials and garden supply centers fueled the gain.

Consumers' Death Was Exaggerated, Auto Sales Do Not Drop

After a run of broadly disappointing economic indicators in recent weeks, today's better-than-expected retail sales report offers a more positive assessment on consumer spending.

Sales of motor vehicles and parts had jumped 1.3 percent in February, so there was some expectation going into this morning's report that the March reading of auto sales would reflect at least a modest give-back. This view was bolstered by separate reports of slower sales between automakers and dealerships in March. As we have pointed out previously, these series do not always move in lock-step, and this month was a good example of how they can move in different directions. Indeed, March auto sales posted a 0.9 percent monthly gain. The increased activity here on dealer lots in March likely reflects the warmer weather, but it also alleviates the burgeoning concern that dealers were unnecessarily building inventories in recent months.

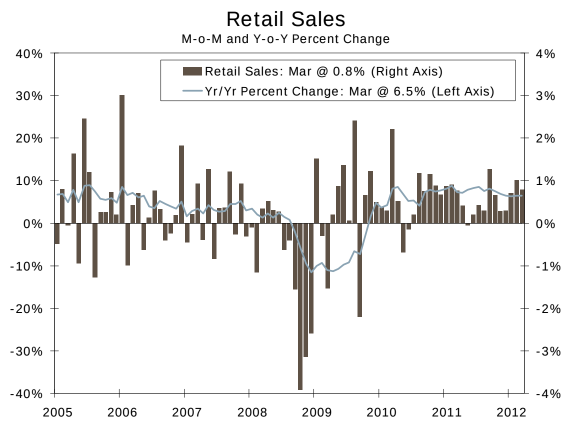
Building Material Sales Reflecting Homebuilding Recovery?

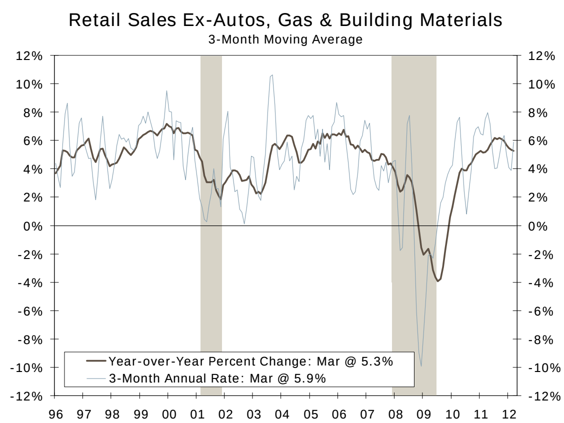
The largest sequential gain this month came from a jump in sales at building material, garden equipment and supply dealers. There have been some signs of life in homebuilding and residential construction activity in recent months. While starts have been choppy, building permits rose to a multiyear high in February, and spending on improvements as a share of overall residential construction activity remains historically high. While we are glad to see signs of stabilization in homebuilding, the 3.0 percent gain in today's report more likely reflects the unseasonably warm weather witnessed throughout most of the contiguous United States this March. The weather on Saturday and Sunday can make or break the sales numbers at many big box stores with large outdoor garden centers.

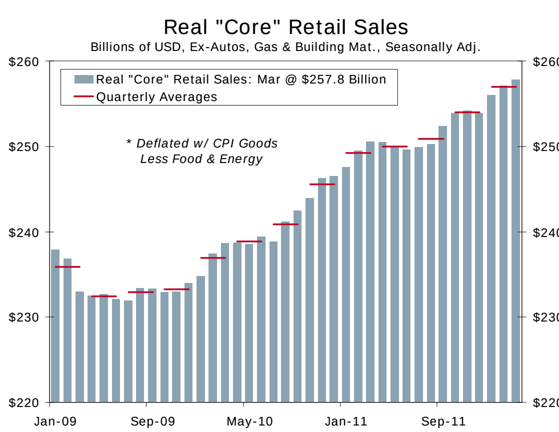
Core Retail Sales

Elsewhere gains were broadly based; in fact, just two categories (health/personal care and miscellaneous) reported falling sales during the month. Every other category was positive. There has been a lot of hand-wringing in recent weeks that the increased price of gasoline would stymie gains in consumer spending. Gasoline stations did report a 1.1 percent gain in the month, but that did not crowd out spending in other areas.

Excluding the effect of sales of motor vehicles and parts, as well as building materials and sales at gasoline stations, "core" retail sales jumped 0.7 percent in the month, and are presently growing at a 5.9 percent annualized rate. We price adjust this series with the goods component of the CPI to try to gauge quarterly consumer spending on goods. While service spending is still unknown, first quarter consumer spending on goods is shaping up to be stronger than most analysts expected.







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