



Economics Group

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Retail Sales Soften a Touch in April

Retail sales rose just 0.1 percent in April, but the underlying momentum in spending remains solid. A key core measure of retail sales rose 0.4 percent in May, and the prior month's gain was revised slightly higher.

Retail Sales Continue to Post Modest Gains

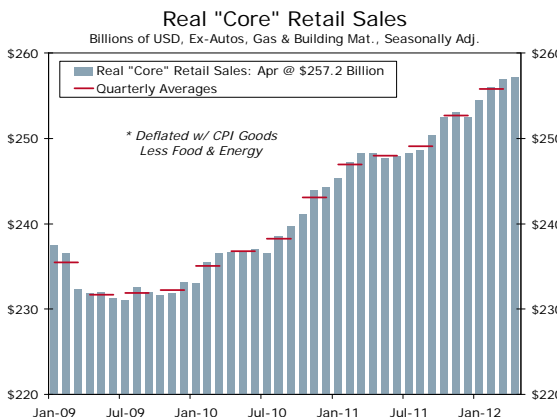
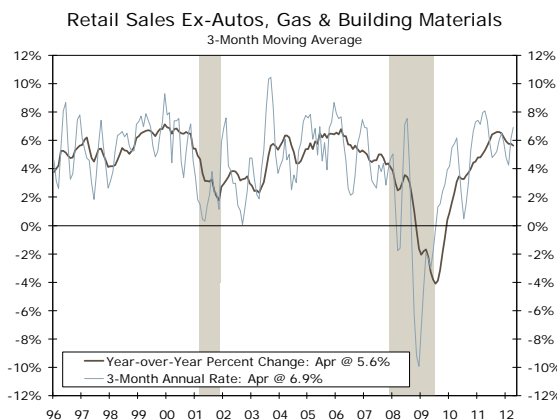
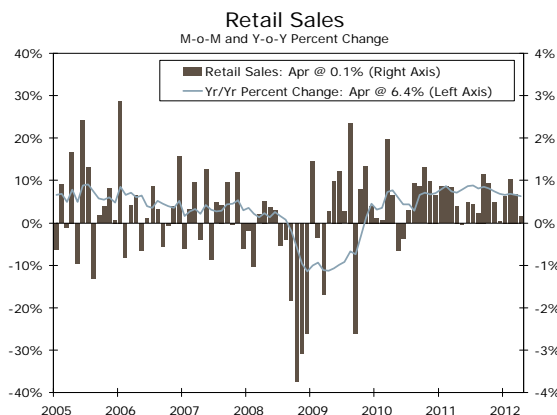
Retail sales rose 0.1 percent in April, following a 0.7 percent rise in March. Sales excluding the volatile motor vehicle dealers segment also rose just 0.1 percent, following a 0.8 percent gain in the previous month. Despite the slowdown in the headline number, retail sales continue to rise at a relatively solid pace. April's sales were distorted by a number of special factors. Warmer-than-usual winter weather pulled some sales forward into the winter months, while the early timing of Easter likely jostled around sales in a number of key retail segments. Even more important, however, is that gasoline prices fell 2.6 percent in April, which pulled sales at gasoline stations down 0.3 percent. Retail sales excluding motor vehicles, gasoline stations and building materials stores rose 0.4 percent in April, following an upwardly revised 0.5 percent gain the prior month.

Spending Was Likely Pulled Forward by Mild Winter Weather

One refrain we have heard over and over again this year is how unseasonably mild winter weather pulled economic activity forward into the first quarter. This morning's retail sales figures tend to support that notion. Sales at department stores fell 1.4 percent in April, following a 0.3 percent rise in March. Sales at clothing shops fell 0.7 percent in April, following a 0.1 percent drop in March; by contrast, sales at department stores rose 0.5 percent in February, and sales at clothing shops surged 2.5 percent that same month. Apparently, the arrival of spring-like weather during what is normally the dead of winter encouraged folks to purchase spring clothing earlier this year, pulling some of the typical spring bounce in clothing sales into February.

Spending at home improvement centers also suffered a huge payback from the stronger sales gains enjoyed earlier this year. Spending at building materials dealers, which includes home improvement stores and garden centers, fell 1.8 percent in April, following a 2.7 percent jump in March. Spending at motor vehicle dealers was also likely affected by the same dynamic, with sales surging 1.3 percent in February and then rising a more modest 0.2 percent in March and 0.5 percent in April.

With the consumer price index reported today, we were able to deflate retail sales excluding motor vehicles, gasoline stations and building materials dealers. This core subset of retail sales provides a fairly reliable estimate of the goods portion of consumer spending in the quarterly GDP data. The latest numbers suggest that first-quarter goods purchases grew a little stronger than first reported. Moreover, the solid 0.4 percent rise in April, suggests that goods spending will make a solid, although smaller, contribution to second-quarter growth, particularly now that gasoline prices are falling and freeing up more income to spend on other items.



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