March Retail Sales: Transitory, Structural Factors Drive Sales Lower

- Retail sales fell by 0.4 percent in March after a 1.0 percent increase in February (initially reported as a 1.1 percent increase).
- Retail sales excluding autos fell by 0.4 percent after rising by 1.0 percent in February (matching the initial estimate).
- Core retail sales (excluding vehicles, gasoline and building materials) fell by 0.1 percent.

Total retail sales fell by a larger than anticipated 0.4 percent in March, with ex-auto sales also down by 0.4 percent and core retail sales slipping by 0.1 percent. In addition, prior estimates for sales in January and February were revised lower. March's retail sales data are consistent with the softer tone of other economic data for the month of March, though this is to some extent a function of the surprising strength of much of the February data, with the "truth" lying somewhere in between.

Harsh winter weather during part of the month is one factor behind the weak retail sales data. Sales at building material stores were up by just 0.1 percent, matching the small gain seen in apparel store sales. Both segments of retail would have been geared up for spring, not winter, in March, and it is worth noting that these two segments more than accounted for the 24,000 job decline in retail payrolls during the month.

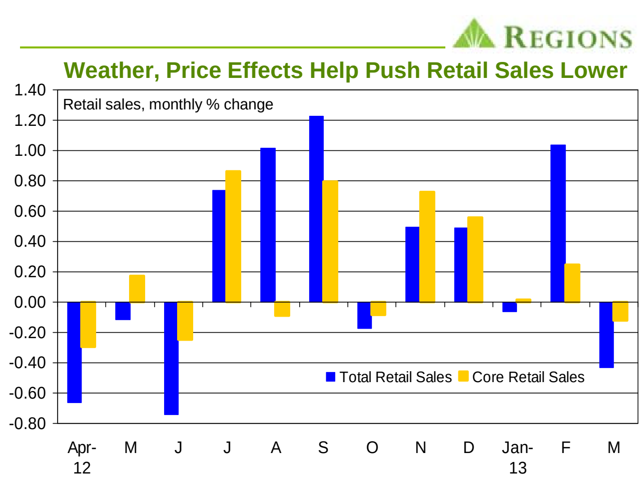
Another factor that held down overall retail sales was the behavior of gasoline prices which rose modestly during March but to a far smaller extent than typically seen during the month, as retail pump prices rose by better than 10 percent in February. This inter-month shift confounded the seasonal adjustment factors and led to the reported 2.2 percent decline in gasoline sales during March. Unit vehicle sales fell by 0.7 percent during March, which translated into a 0.5 percent decline in the dollar volume of sales at motor vehicle dealers.

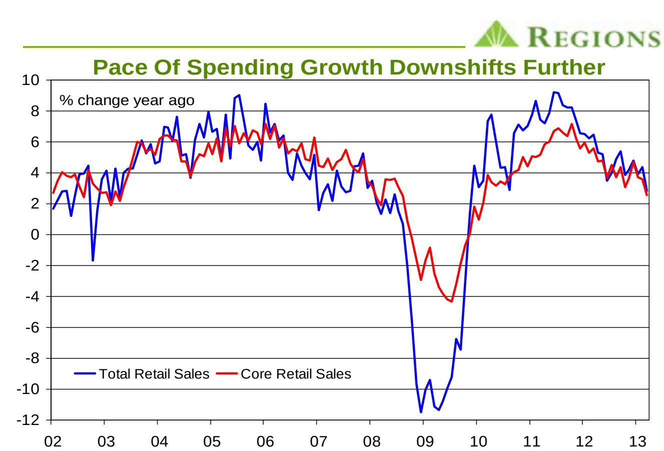
Restaurant sales rose by 0.7 percent in March, but this does not make up for the 0.5 percent declines seen in both January and February. Sales at nonstore retailers rose by 0.3 percent, considerably below the gains seen over the prior four months. Furniture store sales rose by 0.8 percent but this comes on the heels of a 1.8 percent decline in February. Sales at electronics stores, grocery stores, and department stores fell in March.

While transitory factors such as weather, gasoline prices, and the reversal of some of the strength seen in February help account for the disappointing March retail sales data, it would be incorrect to attribute the results to these factors alone. Though perhaps harder to quantify, there are more fundamental factors at play as well, including the reaction to higher payroll taxes and the threat of furloughs of government workers over coming months.

For instance, we have noted that the impact of the increase in payroll tax rates that took effect January 1st would be seen gradually over the course of several months. Consumers dipped into savings early in the year to help finance their spending but this was at best a short-term mechanism, and the March retail sales data suggest that it is now the spending side of the ledger feeling the effects of these higher taxes. This tells us that discretionary consumer spending could remain weak over coming months. To the extent we do see furloughs (i.e., unpaid leave) of government workers over coming months, this will also be seen in weaker discretionary spending than would have otherwise been the case. It could be that, in anticipation of this hit to earnings, government workers began to adjust their spending accordingly in March.

The retail sales data exhibit a pattern consistent with much of the other high frequency economic data – a surprisingly strong February followed by distinct softening in March. As such, it is perhaps more useful to look at Q1 as a whole, and on this basis real consumer spending is still on course to grow at an annualized rate of around 3 percent. We do not expect this pace to be sustained during Q2 even though we do not think the trajectory of Q2 spending heading into the quarter is as weak as implied by the March retail sales data. One of the big lifts to consumer spending during Q1 was spending on household services, which we do not expect to see replicated during Q2, part of the reason we expect growth in real consumer spending to slow to around 1.7 percent. Over coming months we will see more fully the extent to which higher taxes and the sequestration related furloughs are holding down growth in consumer spending, with the support provided by improving labor market conditions taking on added significance.





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