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### April Retail Sales: Soft Start To Q2; Upward Revisions To Q1

- Retail sales were flat in April after having risen 1.1 percent in March (originally reported up 0.9 percent).
- Retail sales excluding autos rose by 0.1 percent after having risen 0.7 percent in March (initially reported up 0.4 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) were unchanged in April.

Total retail sales were unchanged in April with ex-auto sales up 0.1 percent and control retail sales unchanged. Prior estimates for March were revised higher for total, ex-auto, and control retail sales, putting a slightly higher base in place for Q2. The data released today incorporate the annual benchmark revisions to the retail sales series which run all the way back to 2003 without materially changing the trajectory of retail sales over this span. As for the April data, the headline figures won't inspire a lot of confidence, but keep in mind an early Easter this year pulled associated spending into March, helping boost that month higher. As such, it makes more sense to look at the March/April averages, at least for categories such as apparel and general merchandise stores, to get a better sense of the underlying trends. And, as will usually turn out to be the case, retail sales are not as good as they looked in March but better than they looked in April.

There were factors other than Easter contributing to the swings seen in March and April. One such factor is motor vehicle sales which offers yet another chance to pin one on the weather. Go back to February when harsh winter weather across much of the Midwest and Northeast took a severe toll on motor vehicle sales over the latter part of the month. There was payback in March, when unit motor vehicle sales jumped to over 17 million units on an annualized basis which resulted in a 3.0 percent increase in sales revenue for dealers. As expected, unit motor vehicle sales fell back to a more normal pace in April with a sales rate of 16.5 million units, but this led to a decline in sales revenue reported in the retail sales data. Again, though, if one takes the average rate of motor vehicle sales over the past few months, they will find sales running at a 16.6 million unit rate, easily ahead of last year's pace.

Retail gasoline sales also acted as a drag on the April headline number, with sales down 0.7 percent – retail pump prices were up 0.3 percent in April relative to March on a monthly average basis. Prices have risen further in May, in keeping with typical seasonal patterns, but even so

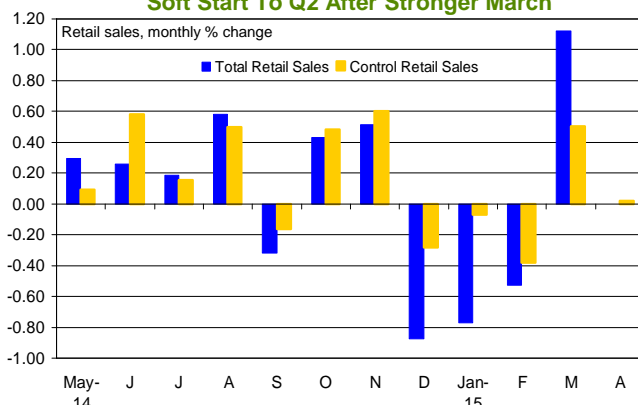
are down better than 25 percent year-on-year. As noted above, sales at general merchandise stores and apparel stores were much softer in April than was the case in March. Led by a 2.2 percent decline in department store sales (which were up 2.7 percent in March), general merchandise stores logged a 0.5 percent decline in sales in April after a 1.4 percent advance in March. Apparel store sales rose 0.2 percent in April, a far cry from the 0.9 percent gain in March though, again, this was expected.

Sales at grocery stores fell 0.3 percent in April after a 0.4 percent decline in March. These figures more likely reflect price effects as prices for food consumed at home have been falling in recent months and grocery store sales have declined in each month to date in 2015. Consumers aren't pulling back on dining out, however, as restaurant sales were up 0.7 percent in April after rising 0.8 percent in March – a sharp upward revision to the prior estimate. Sales at nonstore retailers, which includes but is not limited to online sales, were up 0.8 percent. The April estimate for online sales is not yet available (this comes with a one-month lag) but online sales rose 0.6 percent after an upwardly revised 1.2 percent increase in February.

The April retail sales data were in line with our expectations but suggest only a mild acceleration in growth in consumer spending in Q2. That said, consumers are building savings and remain disciplined in the use of revolving credit to facilitate current spending, both of which are more positive than many seem to interpret them as being. As labor market conditions continue to tighten and growth in aggregate labor earnings accelerates further and continues to easily outpace inflation, the fundamentals in the household sector continue to improve. Also, keep in mind spending on services, not captured in the retail sales data but which accounts for roughly two-thirds of all consumer spending, is growing at a steady clip. All in all, consumers are better positioned to spend than implied by April's headline retail sales number, even if they are not in a rush to actually do so.



#### Soft Start To Q2 After Stronger March



#### Households Not In A Rush To Spend

