ECONOMIC UPDATE

REGIONS

June 11, 2015

May Retail Sales: Will The Real U.S. Consumer Please Stand Up . . .

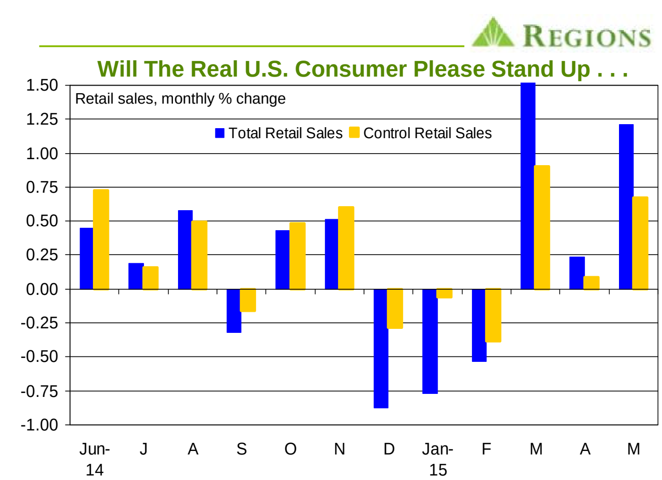
- Retail sales rose by 1.2 percent in May after having risen by 0.2 percent in April (originally reported unchanged).
- Retail sales excluding autos rose by 1.0 percent after having risen 0.1 percent in April (matching the initial estimate).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.7 percent in May.

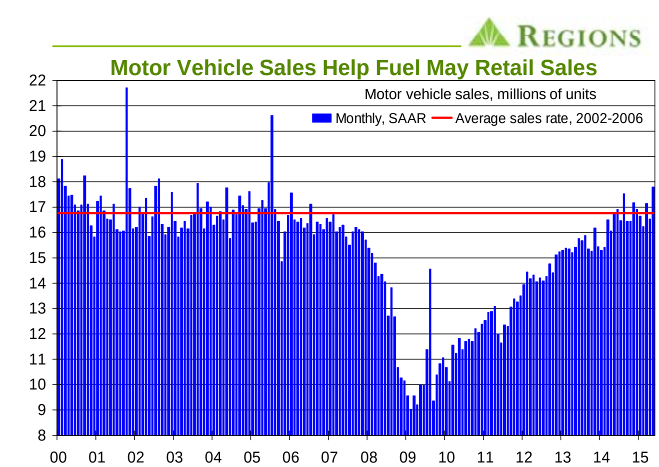
For those who had been fretting about the ability and/or willingness of U.S. consumers to spend, the May retail sales report will come as a relief. Not only did total retail sales rise by 1.2 percent in May, but prior estimates for March and April were revised higher. While a surge in motor vehicle sales obviously supported May's increase in total retail sales, ex-auto sales were up 1.0 percent, and control retail sales (a direct input into the consumer spending number in the GDP data) were up 0.7 percent in May. Earlier estimates showed control retail sales rising 0.5 percent in March then being flat in April; today's report now shows control retail sales rose 0.9 percent in March and 0.1 percent in April. The upward revision to the March number means Q1 real GDP will be revised higher, while the April and May control retail sales numbers put Q2 growth in consumer spending on a firmer path than many analysts, us included, had built into their forecasts. Still, we will point out that, as with many of the other top-tier data series, the path of retail sales has taken many twists and turns over recent months, as is easily seen in the first chart below. As always, we are more focused on the underlying trend, and that trend shows improving growth in consumer spending, even if not to the extent suggested by today's report.

As noted above unit motor vehicle sales surged to an annualized rate of 17.8 million units in May (as reported by AutoData), the fastest monthly sales rate in a decade, which translated into a 2.1 percent in sales revenue at motor vehicle dealers. In all honesty, this looks to be a little light to us and we would not be surprised to see this number revised higher in coming months – prior estimates for March and April were revised notably higher in today's report. That said, by no means do we think May's sales rate is sustainable as May sales reflected some payback from sales disruptions over prior months and a favorable calendar that brought a relatively early Memorial Day holiday. As such, look for motor vehicles will be considerably lower in June but, in the spirit of our pointing to the underlying trend, we nonetheless expect sales to approach 17 million units for 2015 as a whole. Another support for total retail sales in May was an almost 10 percent increase in retail gasoline prices, with sales at gasoline stations rising 3.7 percent. Sales at building materials stores were up 2.1 percent in May but, again, this comes after an atypically weak April print.

Each of the categories noted in the above paragraph will act as a drag, potentially a sizeable drag, on June retail sales. Large swings in these categories, however, are not at all unusual, which is why the focus on the retail sales report should be on control retail sales, which strip out these three items as well as restaurant sales. So, to us, the real story in the May retail sales report is the solid gain in control sales in May along with the upward revisions to March and April. In May, each of the broad categories that go into control sales saw increases in sales, led by furniture, apparel, and general merchandise stores. Additionally, sales at nonstore retailers (which includes but is not limited to online sales) were up 1.4 percent in May with a significant upward revision to earlier estimates for March. On top of strong sales of new and used vehicles, sales at auto parts dealers were up 1.7 percent in May, though this simply extends a curious streak in which often outsized declines in one month are followed by often outsized increases in the next. Grocery store sales were up 0.3 percent in May after having fallen by the same magnitude in April, and we suspect price effects are contributing to what have been uneven month-to-month sales numbers.

One could be excused for taking a glance at the first chart below and wondering what to make of it all. Clearly, consumer spending was not as weak as implied by the December-February prints on total retail sales, and neither do we think it as strong as implied by the March and May prints. The reality lies somewhere in between, and our take all along has been continued improvement in the labor market is fueling better growth in personal income which in turn will support some acceleration in the pace of growth in consumer spending. We expect this to remain the case over coming months despite what will likely remain considerable month-to-month volatility in the headline numbers.





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