PANTHEON MACROECONOMICS

Datanote: US Retail Sales, March

In one line: Consumption is still booming...for now

- March retail sales rose by 0.7%, above the consensus, 0.4%. Net revisions were +0.5%.
- Sales ex-autos jumped by 1.1%, well above the consensus, 0.5%. Net revisions were +0.5%.
- The retail control measure also lept by 1.1%, also well above the

consensus, 0.4%. Net revisions were also +0.5%.

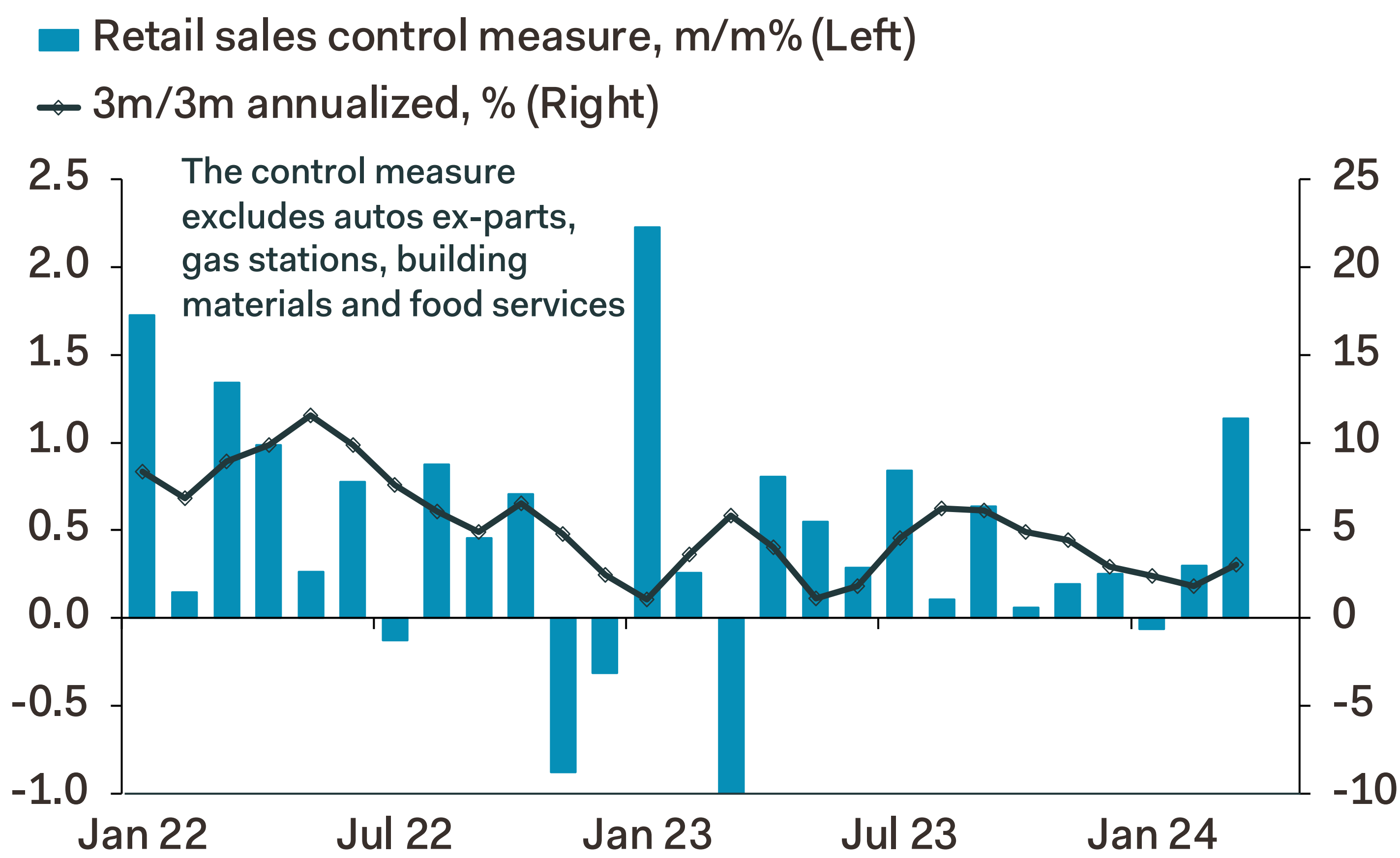
This is an unequivocally strong report, with both robust March numbers and hefty upward revisions to January and February, pointing to a stronger underlying trend in consumers' spending on goods than seemed likely before the report.

The solid control sales print was driven mainly by a 2.7% jump in nonstore sales, following a couple of subdued months, even after revision. But general merchandise sales were strong too, up 1.1%, and we see few signs of weakness among the other major categories. The early Easter might have boosted sales, but we can see no consistent pattern of stronger sales in years with March Easters. The 1.6% drop in clothing sales is perhaps due in part to unseasonably warm weather. Some housing-related components, meanwhile, such as furniture/electronics and appliances were soft last month, but that probably reflects the lagged impact of the plunge in home sales late last year. The 0.7% fall in car sales in March was roughly as expected given the decline in the BEA's unit sales numbers, but this hit was was more or less offset by a price-driven increase in gas station sales. At face value, the 0.4% rise in food services sales points to a slower trend in real consumers' spending on services. But, as our third chart shows, the once-strong relationship between the two series has broken down recently.

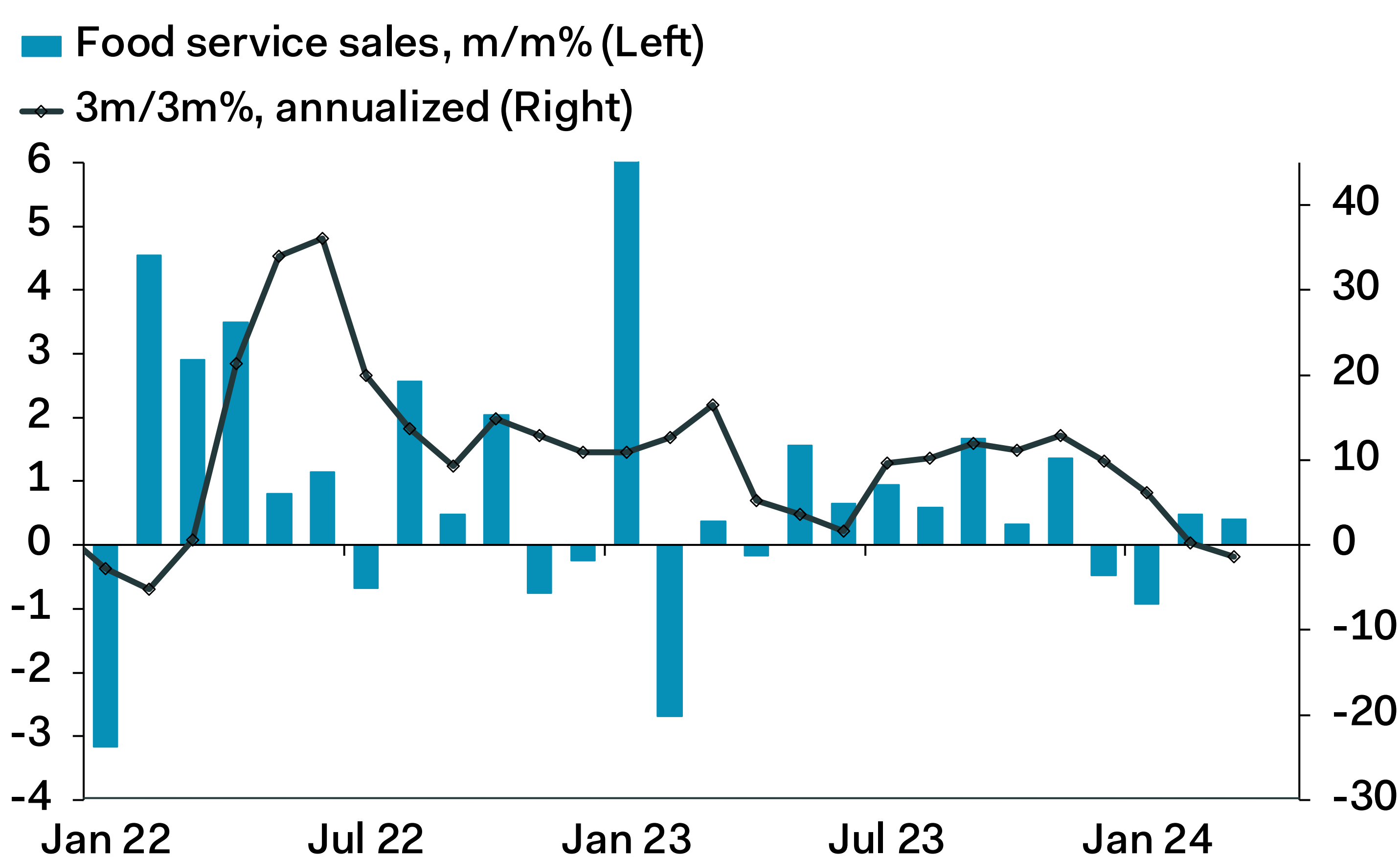
The retail sales components for used cars, control sales and food service sales all feed directly into the national accounts. Based on our—admittedly imprecise—mapping of these numbers onto the personal consumption data, we now think that real consumption grew by around 0.5% in March, and meaningful upward revisions to January and February's prints are likely too, largely due to stronger spending on core goods. Our best guess before this report was that quarterly consumption growth would be a little north of 2% in Q1, but a number above 3% now looks more likely, with perhaps no significant slowdown from Q4's 3.3% rate. That said, this forecast is probably even more provisional than usual, given that the strength of consumption of late has mostly been in core services, for which we have few reliable leading indicators and where some of the recent strength could be revised away.

It is hard to see how the strength in

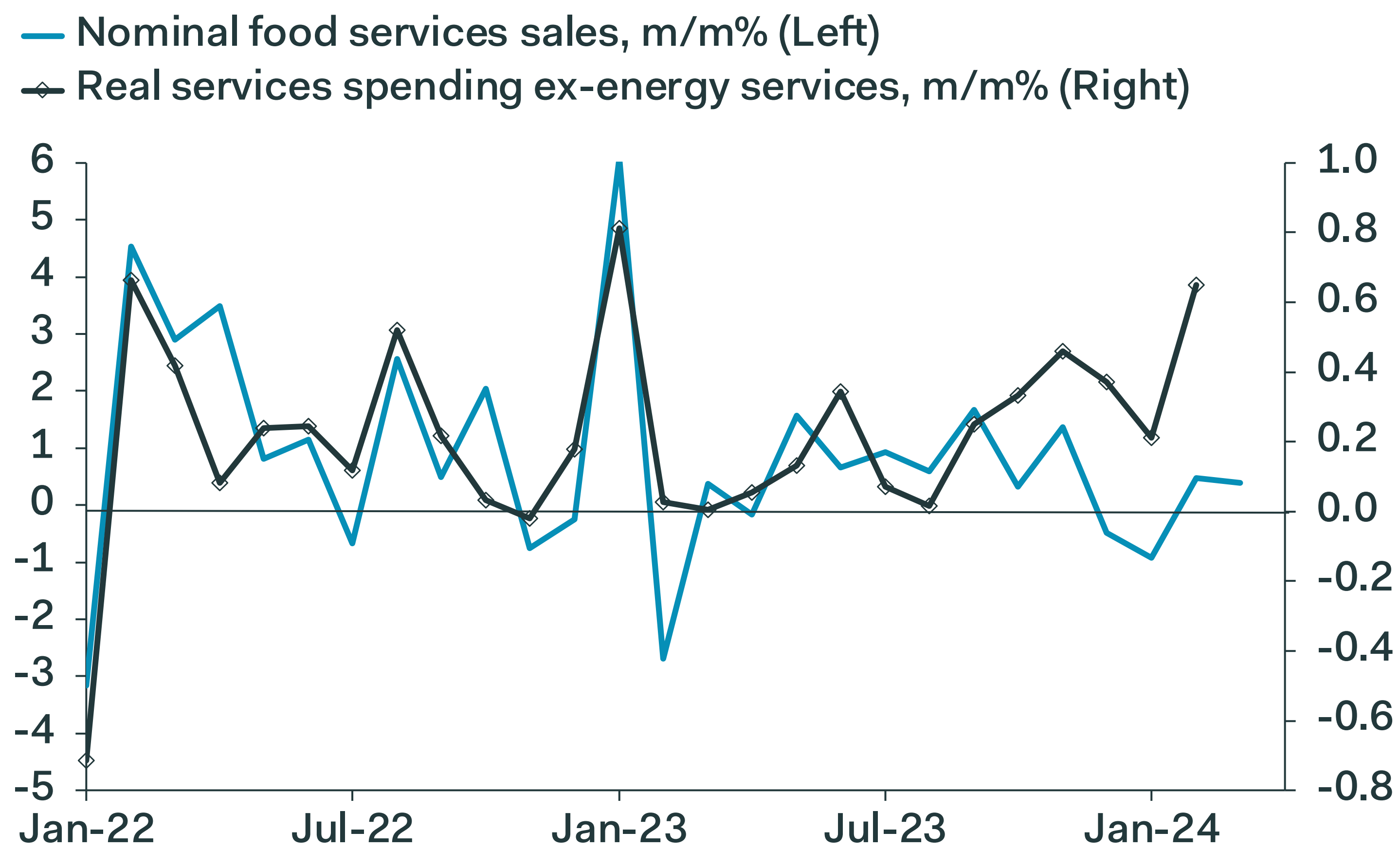
consumption can continue for much longer, now that real after-tax income growth has slowed markedly, the bulk of excess savings from earlier in the pandemic has been spent, and a raft of leading indicators point to a marked softening in the labor market. Right now, though, these data dent the chance of a June easing still further, though the upcoming inflation and employment data ultimately are more important.

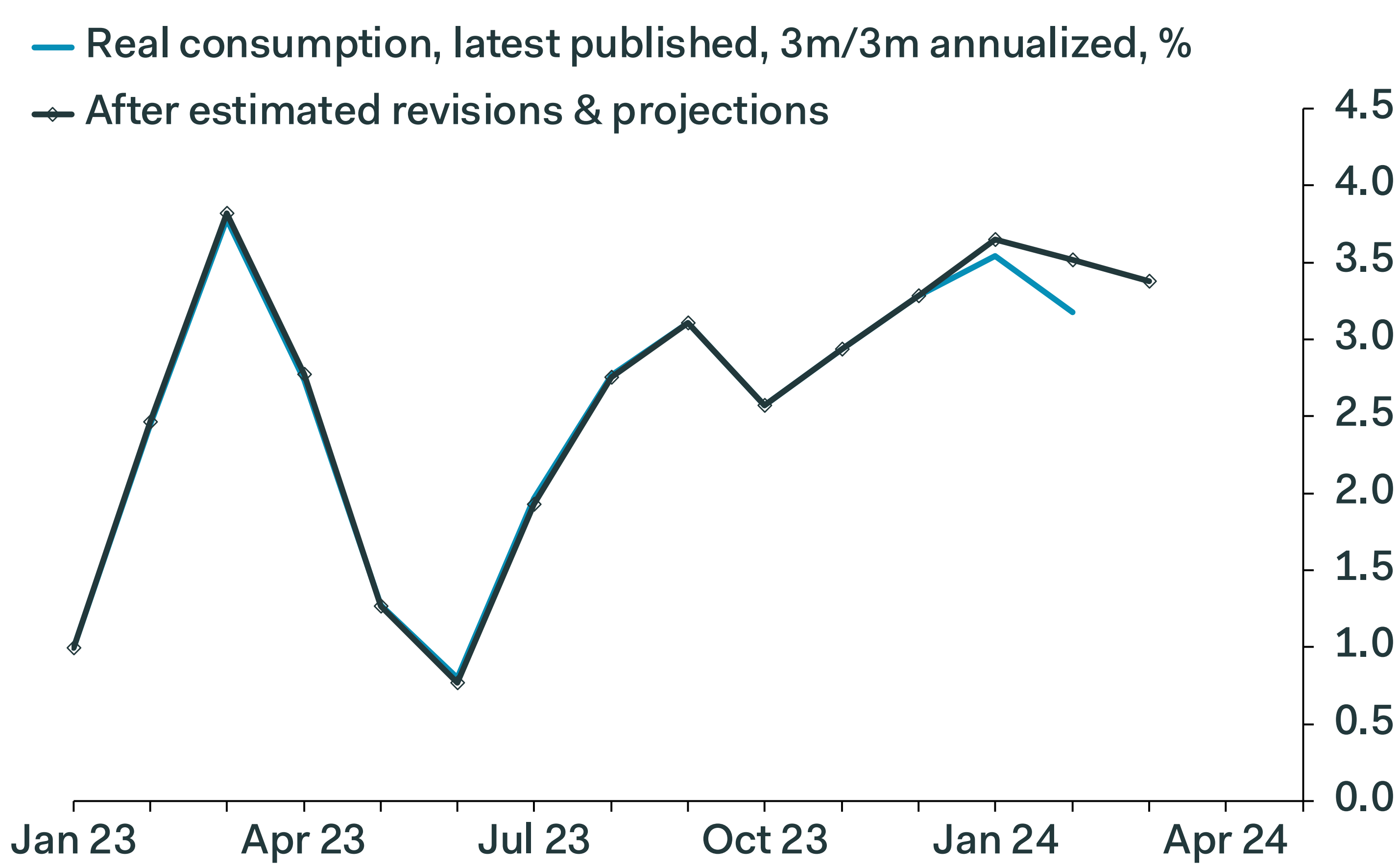


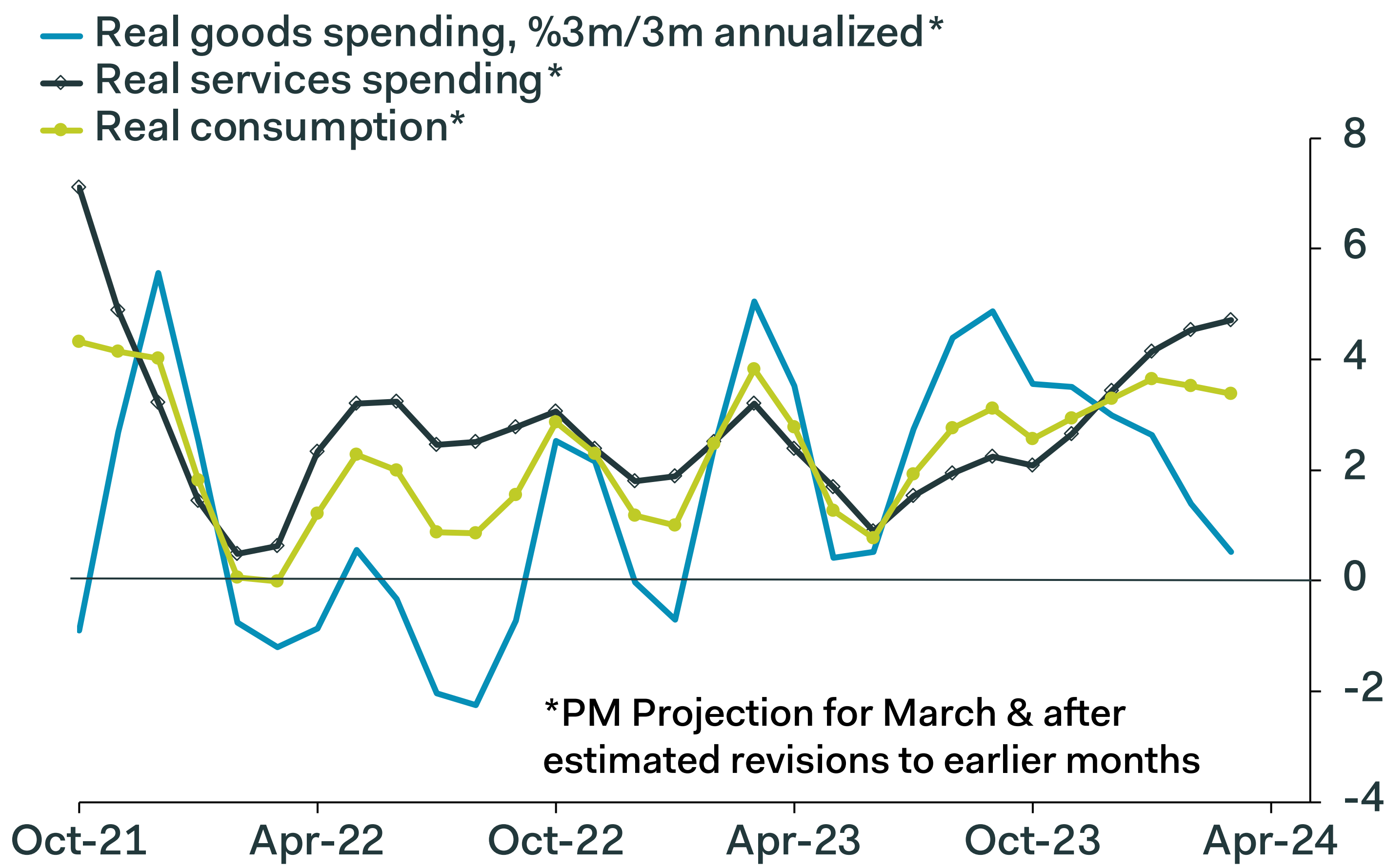
Retail sales control measure, m/m% (Left)
3m/3m annualized, % (Right)
The control measure excludes autos ex-parts, gas stations, building materials and food services
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
25
20
15
10
5
0
-5
-10
Jan 22
Jul 22
Jan 23
Jul 23
Jan 24



Food service sales, m/m% (Left)
3m/3m%, annualized (Right)
6
5
4
3
2
1
0
-1
-2
-3
-4
40
30
20
10
0
-10
-20
-30
Jan 22
Jul 22
Jan 23
Jul 23
Jan 24


Nominal food services sales, m/m% (Left)
Real services spending ex-energy services, m/m% (Right)
6
5
4
3
2
1
0
-1
-2
-3
-4
-5
1.0
0.8
0.6
0.4
0.2
0.0
-0.2
-0.4
-0.6
-0.8
Jan-22
Jul-22
Jan-23
Jul-23
Jan-24


Real consumption, latest published, 3m/3m annualized, %
After estimated revisions & projections
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
Jan 23
Apr 23
Jul 23
Oct 23
Jan 24
Apr 24


Real goods spending, %3m/3m annualized*
Real services spending*
Real consumption*
8
6
4
2
0
-2
-4
*PM Projection for March & after
estimated revisions to earlier months
Oct-21
Apr-22
Oct-22
Apr-23
Oct-23
Apr-24