Datanote: US Retail Sales, April

In one line: A clear signal of weakening consumption

- April retail sales were unchanged, weaker than the consensus, 0.4%, and net revisions were -0.4%.
- Sales ex-autos rose by 0.2%, in line with the consensus. Net revisions were -0.5%.
- The retail control measure fell by 0.3%, also weaker than the consensus,

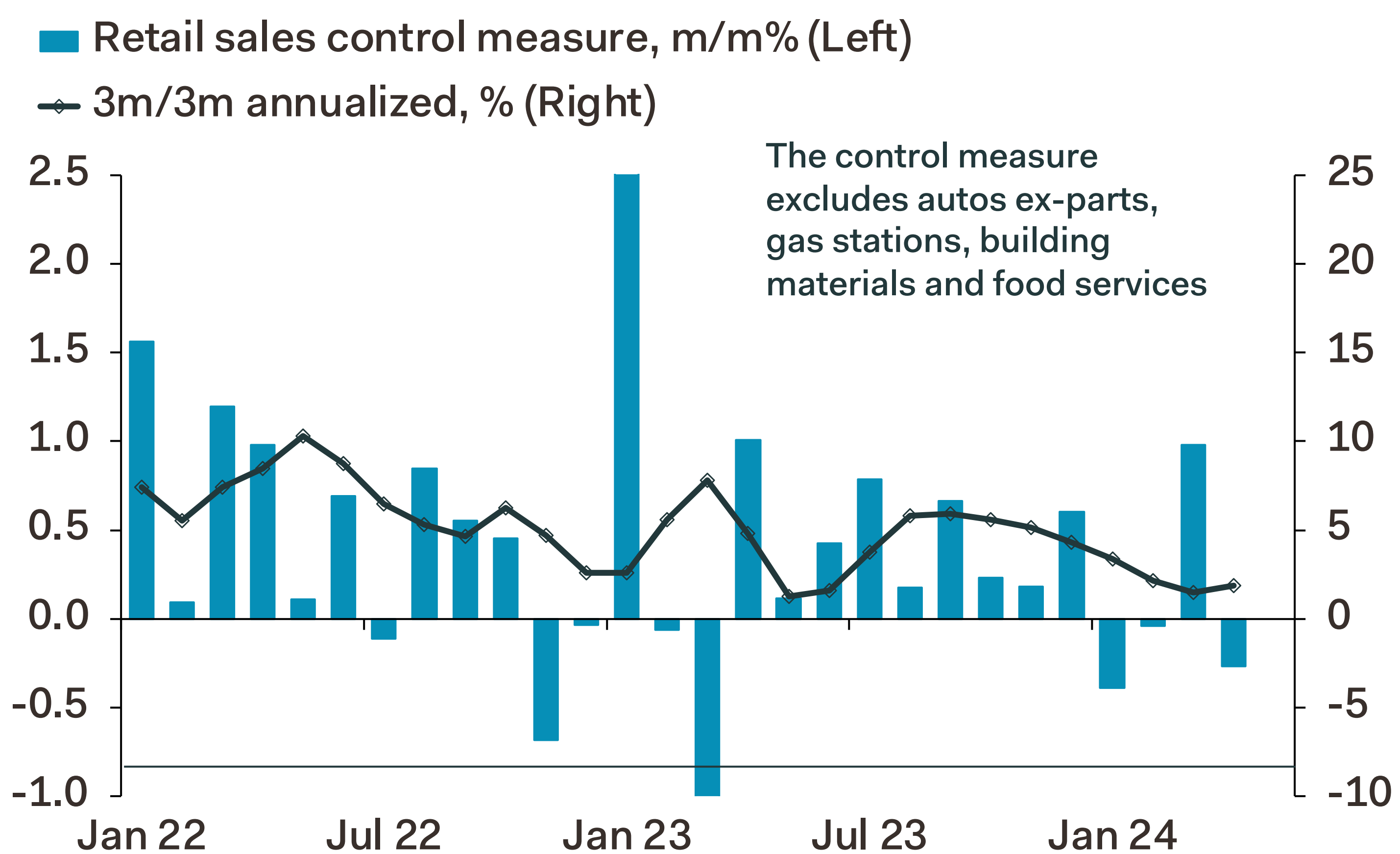
+0.1%. Net revisions were -0.3%.

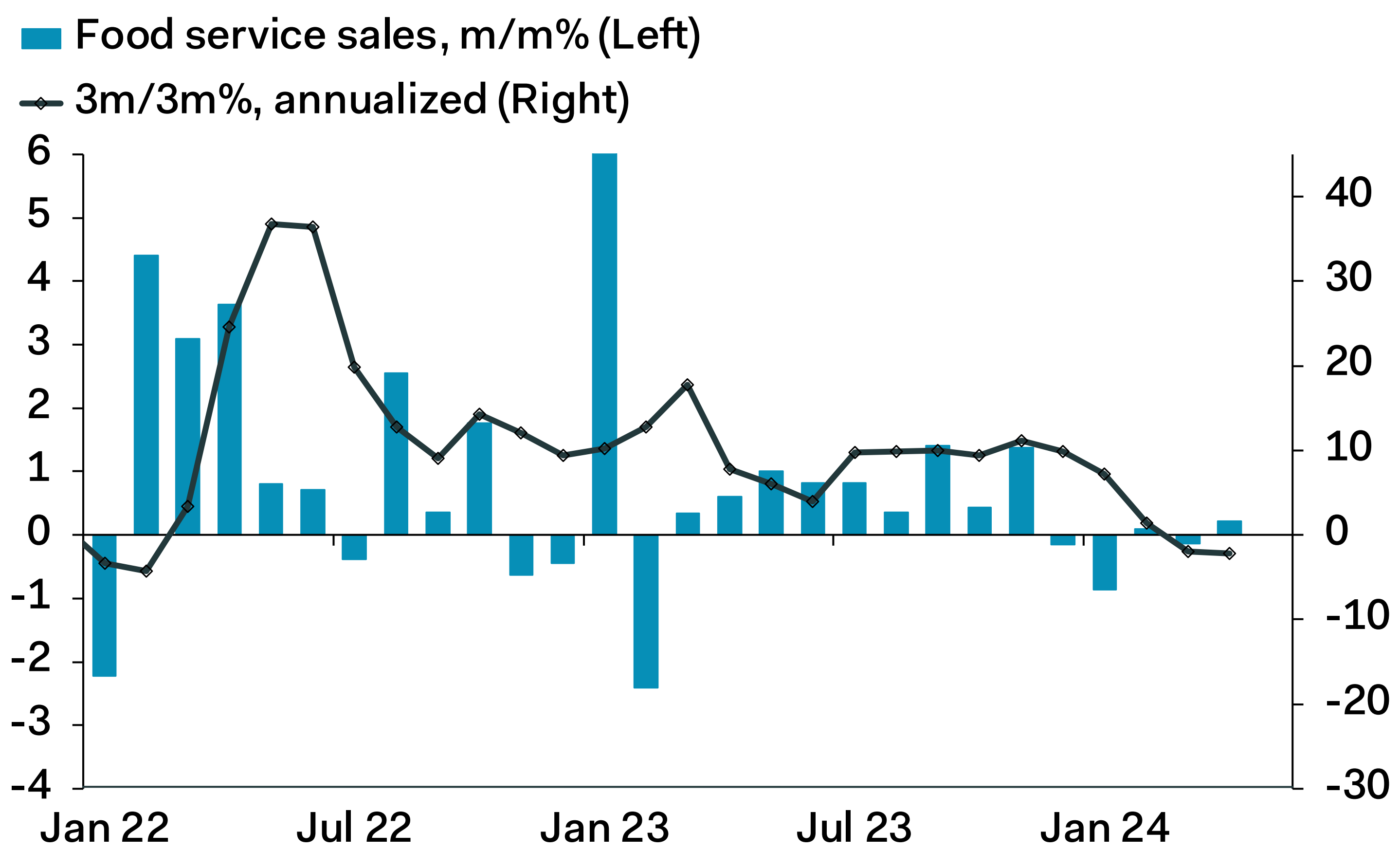
Below-consensus prints for April and substantial downward revisions to earlier months compared to the numbers published in the annual retail sales revisions report late last month undo some of the positive news in recent releases. Some of the weakness in April reflects a dip in auto sales, which is at odds with the increase reported in the unit sales data, but the real soft spot in this report is the 0.3% drop in control sales. This is due mainly to a partial unwinding of a suspiciously big surge in nonstore sales in March, and a small fall in general merchandise sales, reversing only around a quarter of their March jump. That is hardly a disaster and leaves the three-month-on-three-month annualized growth rate of control sales only a bit below 2%. But when combined with the 0.3 percentage points of net revisions to control sales from January through March, the case for a slowdown in consumption growth this year looks a bit stronger.

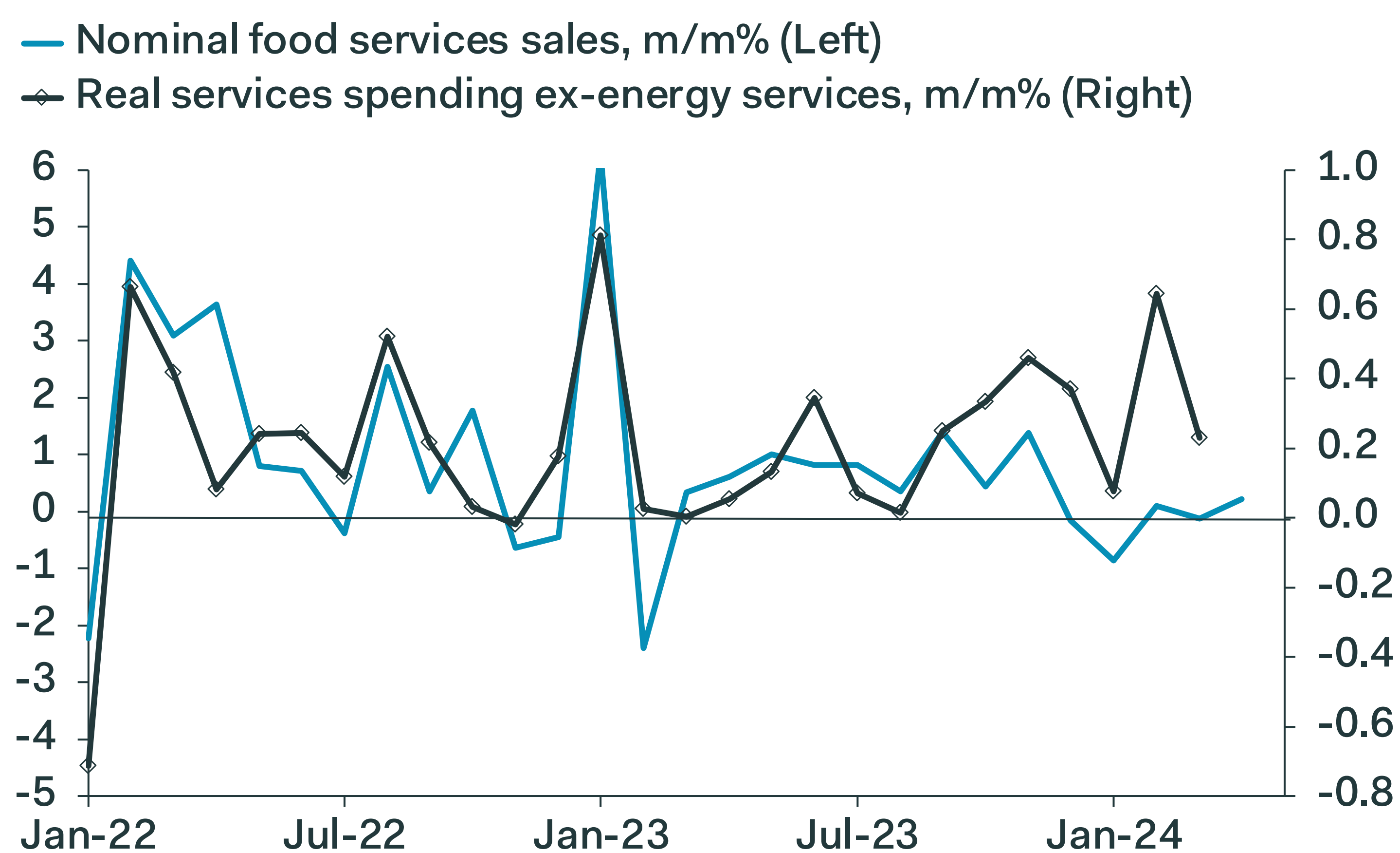
Elsewhere, the 3.1% increase in gas station sales was roughly as we expected given increases in retail gas prices; expect a partial reversal this month. Sales of building materials, garden equipment, and hardware also rose, by 0.5%, but the underlying trend remains soft, given the ongoing weakness in home sales. The meager 0.2% rise in food service sales, meanwhile, points to a softening of consumer spending on services, the real engine of consumption growth recently, since it was also accompanied by 1.0pp of downward revisions. That said, the relationship between food services sales and aggregate real consumers' services spending has been much weaker over the past couple of quarters than previously, as our third chart shows.

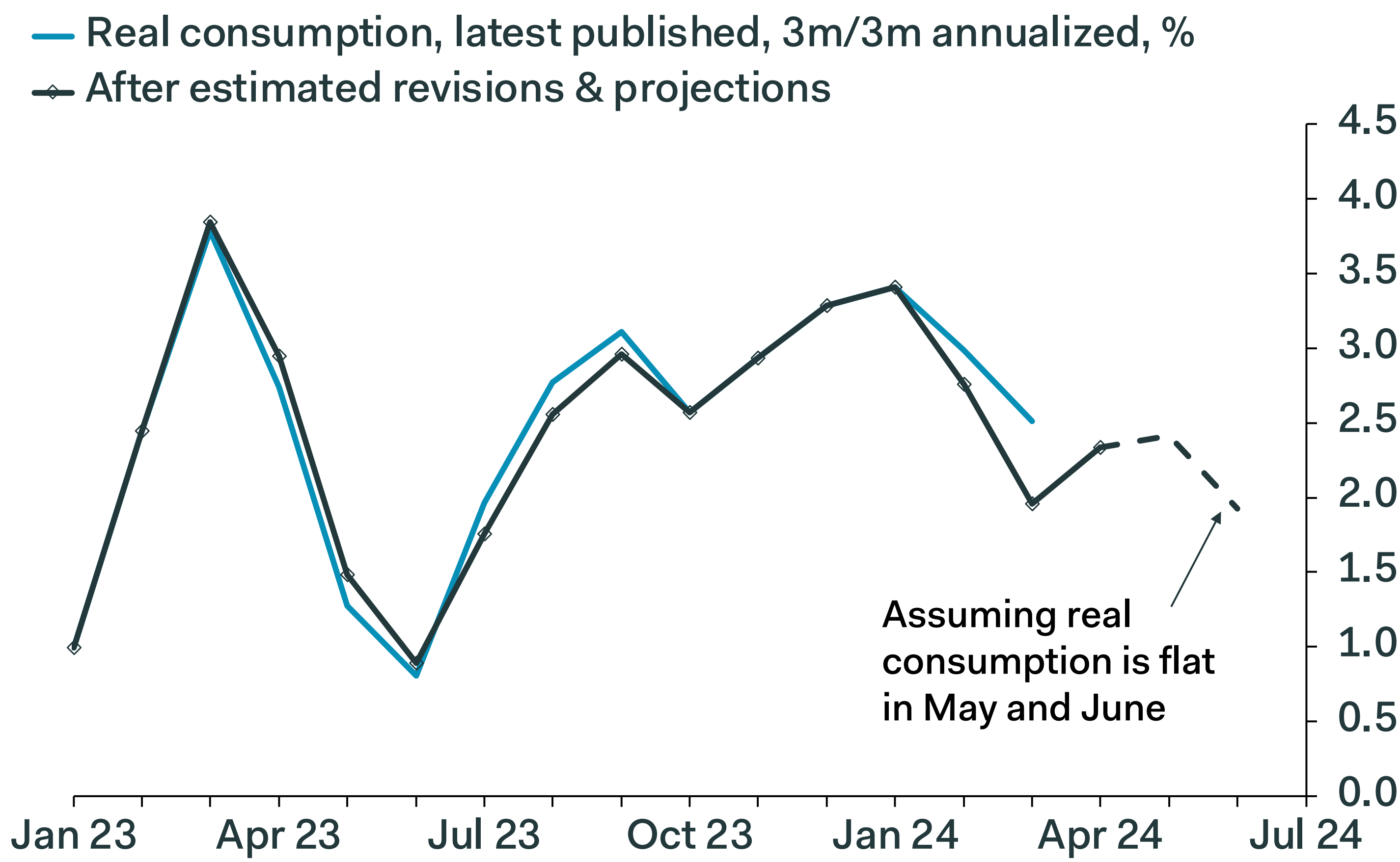
The auto, control, food services components of this report are all direct inputs into the real consumption data in the national accounts. Our mapping of the retail sales numbers onto the consumption data, when combined with several other inputs, points to a tepid 0.1% gain in real consumption in April, along with meaningful downward revisions in March and February. The increase in consumption in March, however, was still solid enough to set up a strong base for comparison. Even if real consumption is then flat in May and June, it would still rise by about 2% in Q2 overall.

Admittedly, this picture could change substantially at this early state in the flow of Q2 data. Moreover, the April retail sales report could—and probably will—be revised significantly. And the weaker relationship between food services sales and consumers' spending on services over the past couple of quarters means our mapping of retail sales onto real consumption is probably less accurate now than in the relatively recent past. Still, our big-picture view remains that the slowdown in consumption growth that began in Q1 has much further left to run, as the labor market weakens, real income growth slows sharply, and pandemic-era excess savings provide less of a cushion against the impact of higher rates.




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
Assuming real consumption is flat in May and June
Jan 23
Apr 23
Jul 23
Oct 23
Jan 24
Apr 24
Jul 24