

# Economics

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### US retail sales (May): A final effort to front-run tariffs

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Retail Sales (monthly % chg, unless otherwise noted)	May	Apr	Mar	Feb	Jan	May YoY SA
Retail & food service	-0.9%	-0.1%	1.5%	0.0%	-0.9%	3.3%
• Ex-autos	-0.3%	0.0%	0.6%	0.4%	-0.3%	3.5%
Control Group <sup>1</sup>	0.4%	-0.1%	0.5%	0.8%	-0.5%	5.0%
Motor vehicles, parts	-3.5%	-0.6%	5.3%	-1.4%	-3.3%	2.5%
Furniture	1.2%	0.7%	0.1%	0.6%	-1.4%	8.8%
Electronics	-0.6%	0.1%	1.4%	0.8%	-0.6%	-1.9%
Building materials	-2.7%	0.3%	2.0%	-0.2%	-1.8%	-1.1%
Food, beverages	-0.7%	0.0%	0.0%	0.2%	0.1%	2.2%
Health, personal care	-0.1%	-0.3%	1.1%	3.0%	-1.1%	7.7%
Gasoline stations	-2.0%	-0.7%	-2.8%	-0.7%	1.1%	-6.9%
Clothing	0.8%	0.0%	1.1%	-0.1%	-0.5%	3.7%
Sporting goods	1.3%	-3.0%	3.8%	-0.6%	-3.1%	1.8%
General merchandise	0.1%	-0.1%	0.0%	-0.3%	0.7%	2.2%
• Department stores	-0.4%	-1.1%	-0.3%	0.2%	0.1%	-2.8%
Miscellaneous	2.9%	-3.7%	1.3%	2.0%	0.6%	7.5%
Non-store retailers	0.9%	0.4%	0.5%	1.4%	-1.0%	8.3%
Eating, drinking	-0.9%	0.8%	2.5%	-0.5%	0.2%	5.3%

Source: Haver Analytics.

- US retail sales dropped off sharply in May, with the 0.9% headline decline three ticks weaker than the consensus expectation. The decrease was due largely to autos and gasoline sales, areas in which prices also fell on the month, which compounded drops in restaurant spending and building materials.
- Sales looked better elsewhere, as the control group of sales, which feeds more directly into non-auto goods consumption in GDP, posted a healthy 0.4% advance (vs. 0.3% consensus), bouncing back from a decline in April that was revised up by a tick to -0.1%. Given that core goods prices were flat in May, that will also look healthy in volume terms. However, it's likely that the strength in the control group reflects tariff front-running efforts by consumers as retailers were still clearing out pre-tariff inventories in May, and we look for consumption growth for Q2 overall to come in at a little below 2% annualized, before slowing in Q3.
- Looking within control group categories showed a mixed bag, with online shopping, furniture, sporting goods, clothing, and miscellaneous retailers driving the gains. Most of those categories are key tariff-sensitive areas, and with pre-tariff

<sup>1</sup> This calculation removes food services, gas, building materials & autos from total retail & food service sales.

inventories depleted, many major retailers having signalled passing on higher costs from tariffs towards the end of May, suggesting that the strength in the control group isn't likely to last.

## Implications & actions

**Re: Economic forecast** — Although the control group rebounded in May, we look for a deterioration ahead on the cooling in the labor market and the erosion in purchasing power that is imminent from tariff-induced price increases, along with the low level of the household saving rate. We therefore look for consumption to slow to a roughly 1% annualized pace in Q3.

**Re: Markets** — There wasn't a material market reaction, as the downside surprise on the headline was offset by the upside surprise to the control group and the positive revision to the prior month.

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