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US Retail sales falter as consumers become more cautious

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Retail Sales (monthly % chg, unless otherwise noted)	Mar 2023	Feb 2023	Jan 2023	Dec 2022	Nov 2022	Mar YoY SA
Retail & food service	-1.0%	-0.2%	3.1%	-0.8%	-1.1%	2.9%
• Ex-autos	-0.8%	0.0%	2.3%	-0.6%	-0.8%	3.6%
Control Group[1]	-0.3%	0.5%	2.4%	-0.3%	-0.5%	5.5%
Motor vehicles, parts	-1.6%	-1.3%	6.8%	-1.8%	-2.2%	0.1%
Furniture	-1.2%	-2.7%	5.4%	-2.0%	-1.1%	-2.4%
Electronics	-2.1%	-1.5%	5.9%	-0.3%	-5.9%	-10.3%
Building materials	-2.1%	0.1%	-0.2%	1.0%	-3.3%	-3.5%
Food, beverages	-0.1%	0.8%	-0.3%	-0.5%	0.5%	5.0%
Health, personal care	0.3%	1.1%	3.2%	-1.5%	0.3%	7.1%
Gasoline stations	-5.5%	0.0%	-1.6%	-5.2%	-1.4%	-14.2%
Clothing	-1.7%	-2.0%	2.8%	-0.4%	-0.2%	-1.8%
Sporting goods	0.2%	-0.7%	0.5%	0.2%	0.1%	3.0%
General merchandise	-3.0%	0.9%	3.7%	0.5%	-0.2%	2.4%
• Department stores	-2.5%	-3.7%	17.9%	-6.3%	-3.2%	-1.2%
Miscellaneous	0.2%	-2.1%	5.5%	1.5%	-4.8%	1.9%
Non-store retailers	1.9%	1.3%	2.7%	-0.4%	-0.9%	12.3%
Eating, drinking	0.1%	-1.6%	5.2%	0.8%	-0.2%	13.0%

Source: Haver Analytics.

- US retail sales fell sharply in March as consumers became more cautious, adding to other recent data releases that have signaled a deterioration in activity. Total retail sales fell by 1.0%, worse than the 0.5% drop expected by the consensus, as autos, building materials, and gasoline sales decreased, and the decline was magnified by the drop in gasoline prices, which left more money for spending in other categories. Things weren't as bad in other categories, as the control group (ex. autos, building materials, gasoline, and restaurants) fell by a 0.3%, better than the 0.5% decline expected by the consensus. With restaurant spending roughly flat on the month, this suggests that consumers are starting to curtail spending in discretionary categories as excess savings have dwindled, a step towards draining the excesses that remain in goods sectors. The Fed is looking for definitive signs of a cooling in activity and this print is a step in the right direction, but with sales volumes in the control group still 5.8% above their pre-pandemic trend level, this won't prevent a 25bp hike at the May FOMC.

[1] This calculation removes food services, gas, building materials & autos from total retail & food service sales.

- Control group categories were a mixed bag, with sales at most brick-and-mortar retailers dropping, but an advance in online shopping providing an offset. Spending in many discretionary categories fell including clothing, electronics, furniture, and department stores, but online shopping posted a solid advance. The drop in overall control group sales should work to bring the inventory-to-sales ratio for retailers into more balanced territory, after falling at the start of the year.
- The larger drop in total retail sales was compounded by lower prices in some categories including gasoline and used cars, although the retail sales data doesn't provide the split between new and used car sales in seasonally-adjusted terms. Inventories are still strained in the auto sector, and it's likely that pent-up demand will boost car sales as more supply becomes available along with supply chain improvement. Building material sales also dropped off, and the retrenchment in furniture and electronics/appliances likely reflects past weakness in home sales.
- Restaurant sales were roughly unchanged in March, while grocery store sales decreased modestly. That likely reflects the higher pace of inflation at restaurants (+0.8% m/m in March) relative to grocery stores (-0.3% m/m), as higher labor costs feature more prominently into restaurant food prices.
- Even though many discretionary areas pulled back in March, strong gains earlier in the year left control group and total sales up by 9.5% and 7.0% annualized, respectively, in the first quarter, suggesting a solid contribution to GDP from goods consumption. Solid payrolls gains have supported incomes, although hiring is now on a slower trajectory, and tax credits and state tax cuts also helped to offset the drawdown in pandemic-accumulated excess savings, but these factors will fade ahead.

Implications & actions

Re: Economic forecast — This data adds to signs of a deterioration in activity that will likely intensify in the second quarter, but the progress in cooling activity won't be enough to prevent a final 25bp Fed hike in May.

Re: Markets — Bond yields rose following the data, but that also reflected a hawkish speech from Fed Governor Waller and upside surprises in bank earnings numbers.

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