Data Release: Retail sales fall short yet again

- Retail sales were flat (+0.0% M/M) in April, below the +0.2% M/M gain expected by the market. March's figure was upwardly-revised from 0.9% to 1.1%.

- Retail gasoline prices were relatively flat on the month, both on a seasonally-adjusted and non-seasonally adjusted basis, suggesting far less energy-related distortion than in recent months. Overall, sales at gasoline stations declined 0.7% on the month. Sales at motor vehicle and parts fell 0.4% M/M, following March's bumper gain of +2.9%.

- Excluding gasoline and autos, core sales rose by 0.2% M/M, falling well short of the consensus view for a gain of 0.6% M/M. On the flipside, March's tally was revised to +0.7% (from 0.5% originally).

- Sales were mixed across categories, with gains observed in 7 of 13 subcomponents. Non-store retailers (+0.8%), sporting and hobby stores (+0.8%), and food and drinking places (+0.7%) have all risen for three consecutive months. Joining them near the top this month were health and personal care stores (+0.8%).

- Besides for gasoline stations and autos & parts dealers, sales fell at furniture stores (-0.9%), general merchandise stores (-0.5%), and electronics and appliance stores (-0.4%). The fall in furniture sales follows strong growth in March, but was still disappointing given the pickup in home sales. This was the seventh consecutive monthly decline in sales at electronics stores, which partially reflects declining prices owing to the strong dollar.

Key Implications

- This was not the rebound in spending that was anticipated. The revisions to March suggest mild upside to first quarter real GDP growth, but not enough to push growth back into positive territory. The economy is still likely to register a contraction when the second estimate rolls in.

- For the second quarter, the positive revisions to March suggest a better handoff for spending. However, the poor showing in core sales suggests only very soft upward momentum. At this point, the anticipated bounce in economic activity in the second quarter looks to be particularly modest, likely short of 2.0% and well shy of initial expectations for 3.0% growth.

- Another poor showing in spending is not what the Fed wants to see right now for it to have the conviction to hike midyear. While we continue to anticipate a first rate hike in September, this requires an upturn in high frequency data and the window is narrowing.

- The fall in oil prices over the past year has led to a shift in retail spending. The share of retail spending at gasoline stations has fallen by almost 2.5 percentage points (pp) over the past year to 8.2%. The prime beneficiaries have been motor vehicles and parts (+0.7pp to 20.6% of all retail), which is still lower than the 22.1% share it averaged from 2000-2008, and restaurant and drinking places (+0.8pp to 11.7%), which is much higher than the 9.7% share it averaged from 2000-08. The move in favor of higher spending at restaurants and bars likely reflects a shift in consumer preferences due in part to shifting demographics. Given its proximity to services spending, it may also suggest a better overall consumer spending profile than is apparent in the retail sales report, which only captures about roughly 44% of total personal consumer expenditures.