TD Economics

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Data Release: Retail sales rebound in April, strengthening case for June hike

- Retail sales increased 0.4% in April according to the advance Census Bureau report. While this was slightly shy of expectations for a 0.6% rise, upward revisions to March sales – which are now reported to have grown by 0.1% instead of a 0.2% decline – more than made up for the miss.

- Sales at motor vehicle & parts dealers (+0.7%) helped the headline, while gasoline station sales rose by a more muted 0.2%. Excluding autos and gas, retail sales were up 0.3% on the month, or slightly slower than the previous months' upwardly revised gain of 0.4% (previously reported as 0.1%).

- Excluding gas, autos, building materials (+1.2%), and food services (+0.4%), the so-called 'control group' used in calculating GDP was up just 0.2% on the month. This was half the expected pace but comes atop of upward revision to 0.7% gain in the previous month. Gains in the control group were broad, with electronics (+1.3%), health and personal care (+0.8%) and sporting goods (+0.6%) showing strong gains together with the persistently outperforming e-commerce (+1.4%) . These were somewhat offset by 0.5% declines in the furniture, clothing, and general merchandise stores.

Key Implications

- This was a healthy report all things considered. Despite the headline print falling shy of expectations, revisions to previous month's sales more than made up for miss. Together with the relatively muted price changes, the number suggests a fairly strong consumption profile at the start of the second quarter, with PCE likely to advance by nearly 3.5% during Q2.

- Another encouraging element was the breadth of the gains themselves, with particular strength in building materials and discretionary spending categories. The former suggests that the healing housing market is spurring increasing renovation activity, which is a positive for residential investment. The latter indicates that consumers are spending on wants in addition to needs, and hints at the notion that strong job growth and rising wages are boosting confidence – something that we expect will continue supporting consumption.

- The report is likely to further assuage fears that the weakness in the first quarter will spill over into the rest of the year. As such, it will likely strengthen the case for the Fed to raise rates next month despite the weaker-than-expected April CPI print released this morning. All in all, we expect the Fed will move in June, with another hike still likely during the second half of the year.

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