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## TD Economics

### Data Release: March rebound in retail sales fails to materialize

- Retail sales fell by 0.3% m/m in March according to the advance Census Bureau report. This was far worse than expected, with consensus forecast eyeing a 0.1% rise. But, the miss comes atop of upwardly revised February figures which have now reportedly flat (prev. -0.1% m/m) as well as a slight bump up in January.
- Most of the decline was related to a drop in auto sales. Sales at motor vehicle and parts dealers were down 2.1% as auto sales fell sharply on the month. Excluding autos sales were up 0.2% m/m on the month. Excluding food, autos, gasoline, and building materials, the so called 'control group' was up just 0.1% on the month, below the 0.4% expected, although previous months were also revised up slightly.
- Aside for the aforementioned decline in auto dealers, sales fell only in clothing (-0.9%), eating and drinking places (-0.8%) and non-store retailers (-0.1%).
- On the flip side, sales at building material stores (+1.4%), health and personal care stores (+1.0%) and gas stations (+0.9%) led the way.

### Key Implications

- While the much anticipated rebound in retail sales failed to materialize in March, the report was not really as bad as it looks on the surface. Aside for auto sales, the 0.2% gain is respectable. Excluding food services also, which had a terrific February, sales were actually up a robust 0.4% in March.
- In light of the upward revisions to the previous two months, today's report does not materially change our view of consumption and GDP growth in the first quarter. Current quarter tracking suggests consumption slowed from 2.4% in Q4 to just 1.5% during the first quarter on weakness in durable consumption. As such, GDP during the first quarter looks to have grown by a meagre 0.6% annualized. What's somewhat more worrying is the weak momentum leading into the second quarter, which could very well come in below 2% unless retail sales rebound strongly in April or services spending rises sharply.
- Still, we remain of the view that while consumers has been saving up some of the windfall from lower gasoline prices, they will open up their wallets in the coming months. Sentiment was dented in the first couple of months of the year with equity markets in bear territory through mid-February. But, with U.S. equities rebounding to the highest levels this year, job growth remaining robust, and nascent signs of wage pressures developing, we believe that consumer confidence will rise and support spending in spring and beyond.

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