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TD Economics

Data Release: Retail sales pull back in May

- Retail sales fell 0.3% m/m in May according to the advance Census Bureau report. This fell shy of consensus expectations for a flat reading.
- Sales at gasoline station sales fell 2.4%, largely reflecting lower prices. Sales at motor vehicle & parts dealers also fell 0.2%.
- Excluding autos and gas, sales were flat on the month, but this came atop an upwardly revised 0.5% gain in April (previously reported at 0.3%). By category, the sharpest drop came in electronics (-2.8%), following two months of decent gains.
- The 'control group' (excluding gas, autos, building materials, and food services) was also flat on the month. But again, the weak print comes atop a decent upward revision to 0.6% (from 0.2%).
- Once again, non-store retailers showed consistent gains (+0.8%). The category is up 12.4% year-on-year and continues to take market share from traditional bricks and mortar retailers.

Key Implications

- This was a soft report, but the weakness in May was made up for by the size of the upward revision to sales in March and April. Moreover, as confirmed in today's CPI report, some of the weakness is on the price side. In real terms, personal consumption expenditures are still in good stead, expected to advance by around 3% in the second quarter.
- With the shift in buying patterns away from malls and toward online retailers, the advance retail sales measure has become a less reliable leading indicator. The recent pattern on spending data has been for upward revisions on subsequent estimates. This may be expected to continue going forward.
- Later this afternoon the Fed will likely announce another 25 basis point increase in the fed funds rate, bringing the rate to a range of 1%-1.25%. If anything is going to delay the pace of future rate hikes it is a continuation of weak nominal spending data. Stay tuned.

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