WELLS FARGO

Economic Indicator — April 15, 2024

In Like a Lion, Out Like a Lion for March Retail Sales

Summary

March retail sales handily exceeded expectations with various measures of core spending rising the most in a year or more despite sharp upward revisions. This is not the sort of spending associated with falling prices and brings upside risk to our 2.3% forecast for Q1 consumer spending.

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U.S. Retail Sales: March 2024

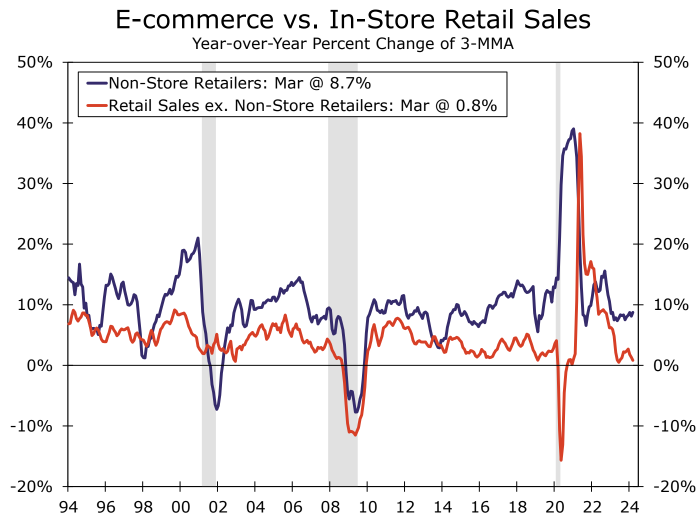
	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Retail Sales (MoM)	0.4	0.7	0.2	0.6	0.7	0.8	-0.3	0.0	0.1	-0.9	0.9	**0.7**
Retail Sales, Ex. Autos (MoM)	0.4	0.4	0.1	0.8	0.8	0.8	-0.1	-0.1	0.1	-0.6	0.6	**1.1**
Control Group Sales (MoM)	0.7	0.5	0.3	0.9	0.1	0.6	0.0	0.2	0.3	-0.1	0.3	**1.1**
Real Retail Sales (MoM)	-0.1	0.8	0.1	0.7	0.0	0.7	0.1	0.4	0.1	-0.6	0.5	**0.6**
Retail Sales (YoY)	1.3	2.1	1.5	2.8	2.8	4.0	2.2	3.6	5.0	0.2	2.1	**4.0**
Retail Sales, Ex. Autos (YoY)	1.6	1.4	0.5	1.7	2.4	3.4	2.0	3.1	4.0	0.8	2.0	**4.3**
Control Group Sales (YoY)	3.6	3.9	3.4	4.4	3.6	3.8	3.1	4.3	4.9	2.5	2.6	**5.1**
Real Retail Sales (YoY)	-0.8	1.3	2.5	3.2	1.7	2.5	1.8	3.6	4.2	0.1	1.8	**3.4**

Notes: MoM = Month-over-Month Percent Change
YoY = Year-over-Year Percent Change

Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Economics

Surge in Ecommerce and an Early Easter

Retail sales handily exceeded expectations, rising 0.7% in March, and excluding autos, sales rose 1.1%, the biggest monthly pop in over a year. The better-than-expected gains are even more remarkable given the sharp upward revisions to the February data. The initial 0.3% gain in retail sales ex-autos was doubled to 0.6% in the March release.

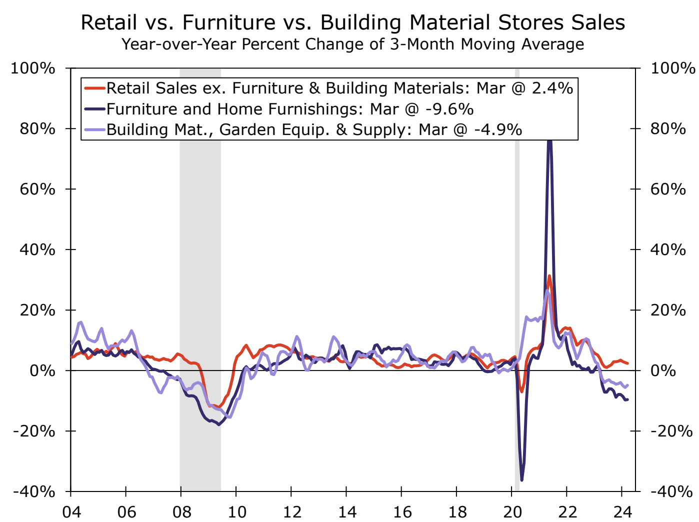


Source: U.S. Department of Commerce and Wells Fargo Economics

There were a few factors that could be lifting the sales figures starting with the timing of Easter. The earlier than usual timing of the holiday may have pulled some spending into March that in other years might have occurred in April. To the extent that this was at play we could anticipate some payback in April.

Another boost came from ecommerce. The 2.7% jump in online retail was the biggest gain for any category in March and also the largest sequential increase in 27 months (chart). Amazon hosted a “Big Spring Sale” March 20-25. It is not uncommon for other retailers to run competing promotions concurrent with Amazon's and that too may have been a factor underpinning the non-store category in March.

Sales growth was mixed elsewhere. Grocery stores (+0.5%) and restaurants (+0.4%) saw similar gains in sales last month, but over the past year, restaurants continue to outpace grocery sales by a wide margin exhibiting the only slow normalization in behavior.



Source: U.S. Department of Commerce and Wells Fargo Economics

Higher prices also boosted sales estimates. Gasoline sales saw a 2.1% pop in sales, but with the retail sales data reported nominally, or not adjusted for inflation, higher prices at the pump lifted these nominal sales figures last month. Previously released data on vehicle sales foreshadowed the 0.7% pullback in sales of motor vehicles and parts in March, and even as households face the highest financing rates in decades, vehicle sales remain decent—auto sales were up 2.8% at a year-ago rate in March.

The same can't be said for housing-related demand. Sales at furniture and building material & supply stores remain weak. While that's in part due to demand being pulled forward during the pandemic and less remodeling activity taking place today, it's also indicative of the higher-rate environment. On a year-ago basis, furniture sales were down for 16 of the past 18 straight months, while building material sales have slid for a full year. As seen in the nearby chart, that stands in contrast to other retail. Even as higher rates may be deterring sales of goods that require financing, consumers continue to spend.

To that end, broader control group sales (sales excluding restaurants, autos, gasoline and building materials) leaped 1.1% in March, which came on top of upward revisions to past month's data as well. Control group sales feed into the Bureau of Economic Analysis' calculation of real goods spending in GDP accounting, and today's data present some decent upside risk to our estimate for broader real personal consumption expenditures to advance at a 2.3% annualized rate in Q1. Our calculation of inflation-adjusted control group sales rose at an annualized rate of 3.0% in Q1.

In a recent special, we detailed how upward revisions to Federal Reserve data showed short-term liquidity was more evenly spread across the wealth spectrum than previously thought, which could support spending through increased purchasing power and/or a wealth-effect motivating households to keep spending. This morning's consumption data continue to tell us not to underestimate this consumer. That's good for growth, but could be a problem for the Fed trying to cool inflation.

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