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What the Stall in April Retail Sales Says About the Consumer

Economist(s)

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Summary

There are plenty of reasons to be skeptical about the sustainability of consumer spending, but today's soft print for retail sales says more about one-off factors than it does a meaningful downshift in spending activity.

U.S. Retail Sales: April 2024

	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
Retail Sales (MoM)	0.2	0.1	0.5	0.7	0.8	-0.2	0.1	0.4	-1.1	0.7	0.6	**0.0**
Retail Sales, Ex. Autos (MoM)	0.1	0.1	0.8	0.8	0.8	0.0	0.0	0.3	-0.8	0.3	0.9	**0.2**
Control Group Sales (MoM)	0.1	0.4	0.8	0.2	0.7	0.2	0.2	0.6	-0.4	0.0	1.0	**-0.3**
Real Retail Sales (MoM)	0.3	0.1	0.7	0.0	0.7	0.2	0.5	0.4	-0.8	0.3	0.5	**-0.2**
Retail Sales (YoY)	2.2	1.6	2.9	3.0	4.2	2.7	4.0	5.5	0.3	2.1	3.8	**3.0**
Retail Sales, Ex. Autos (YoY)	1.5	0.7	1.9	2.7	3.7	2.6	3.6	4.6	0.9	2.0	4.0	**3.6**
Control Group Sales (YoY)	4.1	3.8	4.7	4.1	4.2	4.0	4.9	5.6	2.5	2.6	4.7	**3.5**
Real Retail Sales (YoY)	1.4	2.6	3.3	1.9	2.7	2.2	4.1	4.7	0.2	1.8	3.2	**2.7**

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

Higher Rates Finally Slowing Consumer Spending?

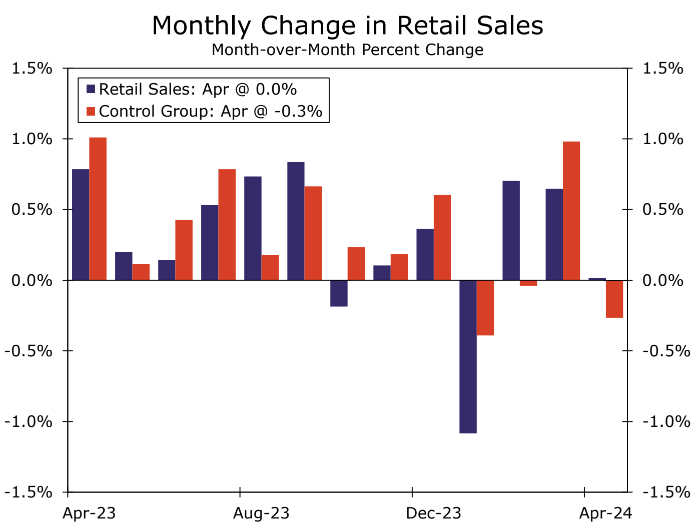
One theme of this Fed tightening cycle, now entering its third year, is how consumers have been undaunted by higher borrowing costs. Yet, the fact that retail sales stalled in April is not necessarily a sign the consumer is spent; but for once at least it does not show continued evidence of an unstoppable consumer.

Not only did the unchanged headline number come in short of expectations, but the control group aggregation of sales categories gave back 0.3% of last month's 1.0% gain (chart).

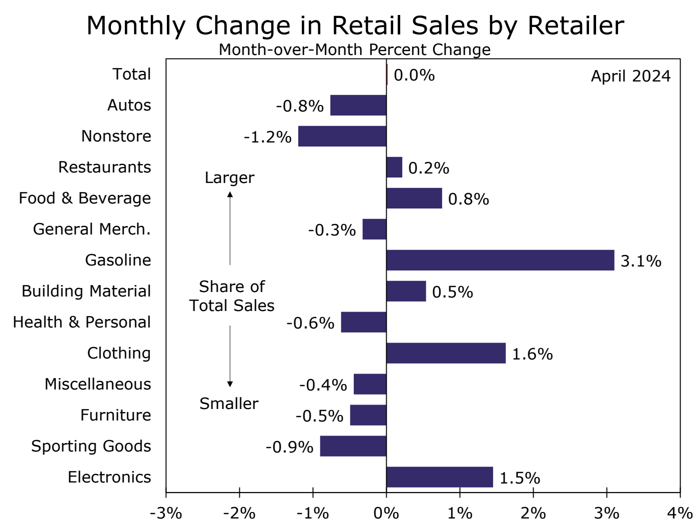
There are reasons to be skeptical of the sustainability of consumer spending beyond today's retail sales report, such as the depletion of pandemic-era savings and the unsustainability of ever-more consumer credit growth to sustain spending. In short, we see reasons for the consumer to eventually take a breather, but we are not convinced that this soft print is evidence of that exhaustion.

There are more than a few special factors to consider that make today's report less compelling as evidence of a major consumer pivot. For starters, the timing of Easter was earlier than usual, a dynamic that flatters March data and potentially weighs on April, the month that usually includes that spring holiday and the associated surge in consumer outlays that goes with it.

Another dynamic is online spending reflected in the non-store retailer category. Once a tiny component, consumers now spend more online than they do anywhere else, except when they purchase an automobile. The top-dog in this space, Amazon, hosted its Spring Sales Event in the final week of March. It is not uncommon for other online sellers to offer concurrent discounts. The upshot is many households pulled forward demand, buying a bunch of stuff online in March, so no surprise to see that category down 1.2% in April (chart).



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



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

Do Struggling Consumers Keep Going Out to Eat?

Ultimately, taking some moxie out of U.S. consumer spending has proved to be a difficult task for policymakers at the Federal Reserve. Yet, as many Fed speakers have referenced, the real problem encountered in the recently disrupted trend lower in prices is in the service sector. The fact of the matter is retail sales generally serves as a better gauge for what consumers are spending on goods. So even to the extent there is some weakness here, it is not exactly the place policymakers need to see the consumer cutback.

There is an exception to this goods-oriented spending in the retail sales report and that is the money people spend going out to bars and restaurants. While the 0.2% monthly gain for this category is modest, it adds to a trend toward experience-oriented spending which is better reflected in the stout 5.5% increase reported over the past year. That makes it the third-fastest growing category of annual retail spending, hardly the prerequisite for softer price growth in the service sector. Even so, there is some evidence of a consumer who is growing more choosy, with grocery sales outpacing restaurants for the past five months.

The underlying sales categories tell us a bit more about today's consumer environment. The largest sales gain came from gasoline, where sales rose north of 3%. With consumer motor fuel prices up 2.7% during the month (and retail sales data reported nominally, or not adjusted for inflation), much of this gain can be attributed to higher prices. Households saw some relief in terms of grocery prices, which fell slightly last month, so the 0.8% gain was not driven by inflation. While households are broadly undaunted by higher rates, there continues to be some persistent weakness in areas that typically require financing such as furniture and sporting goods store sales.

While consumer inflation is softening, recent progress has been slower going than that experienced in the second half of last year. It also compounds for households, and even as price growth is slowing, it can simply just feel like everything costs more, because it does. This is challenging for consumers where prices of key items like groceries and gasoline have outpaced broader inflation and average wages. This is one of the reasons we believe we're seeing persistently low confidence/sentiment readings and the emergence of a more choosy consumer who is spending less on discretionary items today in order to prioritize non-discretionary purchases.

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