

Economic Indicator — June 18, 2024

## May Retail Sales Miss Suggests Consumer Momentum Fading

### Summary

The downside miss for May retail sales amid downward revisions to past data paint a picture of a softening consumer, but weakness appears overstated when considering lower inflation. We look for a gradual moderation in spending to take hold as the year progresses.

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U.S. Retail Sales: May 2024												
	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
<b>Retail Sales (MoM)</b>	-0.1	0.5	0.7	0.8	-0.2	0.1	0.4	-1.1	0.7	0.5	-0.2	<b>0.1</b>
<b>Retail Sales, Ex. Autos (MoM)</b>	-0.2	0.8	0.8	0.8	0.0	0.0	0.3	-0.8	0.3	0.6	-0.1	<b>-0.1</b>
<b>Control Group Sales (MoM)</b>	0.1	0.8	0.2	0.7	0.2	0.2	0.6	-0.4	0.0	0.8	-0.6	<b>0.4</b>
<b>Real Retail Sales (MoM)</b>	-0.2	0.7	0.0	0.7	0.2	0.5	0.4	-0.8	0.3	0.3	-0.4	<b>0.4</b>
<b>Retail Sales (YoY)</b>	1.6	2.9	3.0	4.2	2.7	4.0	5.5	0.3	2.1	3.6	2.7	<b>2.3</b>
<b>Retail Sales, Ex. Autos (YoY)</b>	0.7	1.9	2.7	3.7	2.6	3.6	4.6	0.9	2.0	3.7	3.0	<b>2.5</b>
<b>Control Group Sales (YoY)</b>	3.8	4.7	4.1	4.2	4.0	4.9	5.6	2.5	2.6	4.6	3.1	<b>3.1</b>
<b>Real Retail Sales (YoY)</b>	2.6	3.3	1.9	2.7	2.2	4.1	4.7	0.2	1.8	3.0	2.4	<b>2.2</b>

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

## Spending Skips a Beat

The May retail sales data are consistent with only a gradual moderation in consumer spending. Retail sales came in a touch soft, rising just 0.1% during the month, and there were also downward revisions to past months' data that leave the level of sales about 0.4% lower in April than previously reported (chart). Yet it's not unusual to see revisions to prior months' data, and part of the May weakness can be tied to declining goods prices, meaning "inflation-adjusted" sales were likely higher than the data suggest. Still, the weaker-than-expected outturn for May (we had forecast sales to rise 0.2%) combined with the downward revisions suggest a slightly weaker spending environment in the second quarter.

The sales details by retailer were also fairly mixed under the headline change. The largest gain came from sporting goods stores, where sales jumped 2.8% after two consecutive monthly declines. Auto sales provided a decent lift to headline sales as well rising 0.8%, and when we strip autos from the data, overall sales declined 0.1% last month. Weakness can be somewhat explained by softening goods prices in May, for example sales at gasoline stations slipped 2.2%, but that comes after a 3.6% drop in motor fuel prices suggesting inflation-adjusted sales were higher.

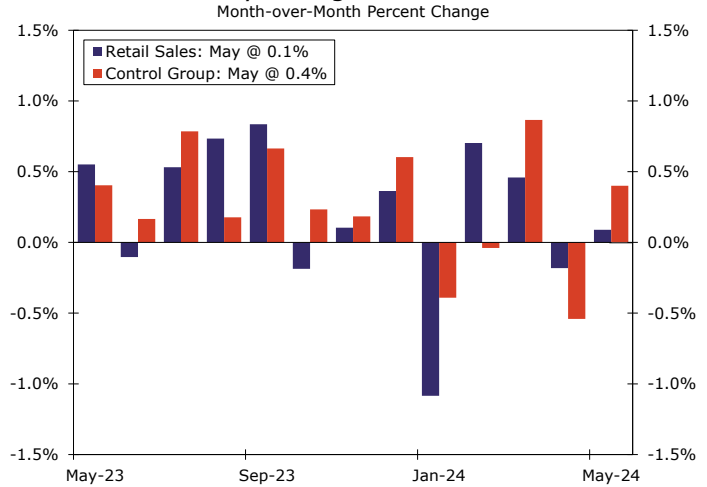
Perhaps most telling is the 0.4% drop in food services store sales, mostly restaurants. For the most part, the retail sales data covers goods consumption, providing only a partial picture of spending, and food services sales tend to be our best indication of the services-side of consumption. On a year-to-date basis through May, we estimate inflation-adjusted restaurant sales are now down 2.5%, a poor indication of the leisure-side of the economy.

Overall, the May retail sales data are consistent with a consumer that is only gradually losing its swagger. Broader control group sales, which excludes autos, gasoline, building material and food services store sales and feeds directly into the BEA's calculation of real goods spending in the national accounts, rose a stronger 0.4% in May. That still, however, suggests some slight-downside risk to our estimate for real personal consumption expenditures to advance close to a 2% annualized rate in Q2, when considering downward revisions to April.

We also continue to see reasons the consumer is set to take a breather ahead. The uptake in revolving credit has slowed recently, and we've seen a rise in delinquencies, suggesting households may be beginning to exhaust their borrowing capacity. Income growth has also eased amid a moderating labor market and survey data suggests households are growing more pessimistic on their financial situations—an increasing share expect income to rise more slowly than prices. We've seen growth in non-discretionary purchases begin to outpace discretionary, an indication of a more choosy consumer, which has been echoed by retailers' commentary in their latest earnings reports.

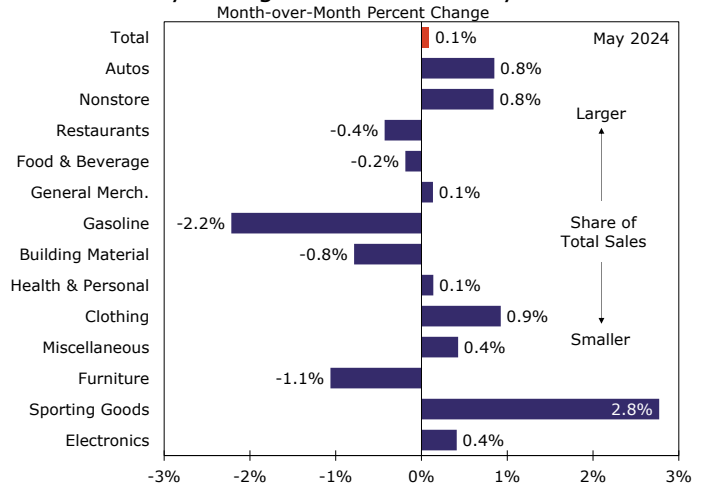
Ultimately we expect it will take a more pronounced moderation in the labor market to meaningfully slow the pace of consumption, leaving households with less means to dedicate to discretionary goods and services.

### Monthly Change in Retail Sales



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

### Monthly Change in Retail Sales by Retailer



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

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