Economic Indicator — May 15, 2025

Retail Sales as Trade War Bellwether

Summary

Consumer goods spending has taken on new-found significance amid a trade war. We unpack how the fingerprints of tariffs are all over the April retail sales report and what to watch for clues about whether the deescalation with China came quickly enough to blunt the economic fallout.

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U.S. Retail Sales: April 2025

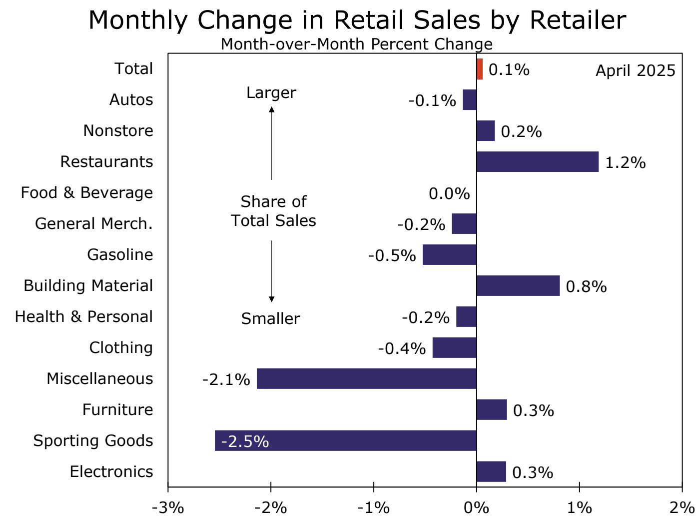
	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
Retail Sales (MoM)	0.4	-0.1	1.2	-0.2	0.8	0.6	0.6	0.8	-0.9	0.0	1.7	**0.1**
Retail Sales, Ex. Autos (MoM)	0.1	0.7	0.5	-0.2	0.9	0.3	0.0	0.7	-0.3	0.4	0.8	**0.1**
Control Group Sales (MoM)	0.4	1.1	0.5	-0.2	1.2	0.3	-0.1	1.0	-0.4	0.8	0.4	**-0.2**
Real Retail Sales (MoM)	0.7	0.2	1.4	-0.1	0.8	0.7	0.4	0.3	-1.3	-0.1	2.1	**0.1**
Retail Sales (YoY)	2.6	2.0	3.0	1.9	2.0	3.1	3.9	4.6	4.6	3.9	5.2	**5.2**
Retail Sales, Ex. Autos (YoY)	2.9	3.4	3.4	2.2	2.5	3.0	3.1	3.7	4.4	4.3	4.4	**4.2**
Control Group Sales (YoY)	3.3	4.0	3.8	3.3	4.3	4.2	4.1	4.9	5.0	5.7	5.3	**5.0**
Real Retail Sales (YoY)	2.5	2.4	3.3	3.0	3.4	4.3	4.3	4.3	3.8	3.3	5.2	**5.3**

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

You Get More Mileage from a Cheap Pair of Sneakers

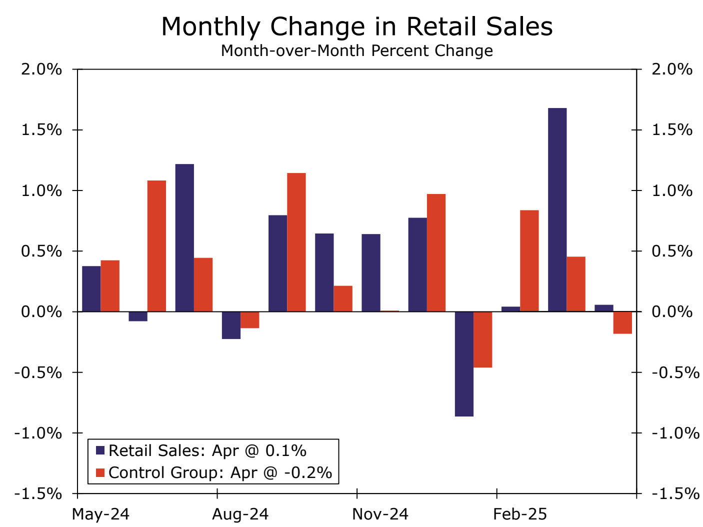
Retail sales rose 0.1% in April. That was a bit better than expected, and it comes on the heels of a sharp upward revision to March sales numbers. One thing that did not go exactly according to script was that auto & parts dealers saw a decline in sales in April. Yet, this still reflects tariff worries boosting sales as the 0.1% pullback comes after a 5.5% surge in March. Another area that might have seen a tariff-related demand surge last month is the store category that sells building materials & garden supplies. Those stores saw a 2.9% increase in March but just a 0.8% pick-up in April. The lack of 'payback' in sales suggests some tariff pull-forward could have remained in April.



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

Because it largely represents goods spending, which comprises less than a third of overall personal consumption in the United States, the retail sales report is not typically an A-lister among economic indicators…until now. For the next few months at least, the retail sales report is set to be center stage as we seek to measure the impact of tariffs. While import duties can introduce pass-through effect to the service sector, it is goods that are apt to be the most impacted. We may eventually see these impacts manifested through product scarcity or higher prices, but the first action will simply be evident in the sales activity.

A key question after this week's 90-day reprieve from a full-blown trade war with China is whether the sharp lowering in the tariff rate for one of America's largest trading partners comes quickly enough to blunt the worst of the economic fallout. Our position has long been that the effective tariff rate ultimately would settle at 15%. The recent détente with China puts the effective tariff rate now at about 14%, if only temporarily. Until such time as we have specifics regarding the contours of a bilateral U.S.-China trade deal, this step down is in line with our target. With every additional deal that is struck, the effective tariff rate could come down further. If tariffs indeed introduced the "stagflationary shock" we have warned about, then an unwinding of those tariffs surely has scope to boost growth and lower inflation, if not in an absolute sense, at least relative to expectations that priced in tariff-induced shocks.



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

Having said that, the 30% tariff rate that remains in place with imports from China is still a serious disruption to anyone involved in the goods trade and a major escalation relative to April 1 levels. While goods spending comprises less than a third of overall personal consumption, it does represent nearly *all* the receipts that are tallied for the retail sales report (bar tabs & restaurant checks being the obvious exceptions). On that basis, the retail sales figures in the coming months take on additional importance as they serve as a harbinger of the impact of tariffs on the broader economy.

Control group sales, which exclude autos, gas, food services and building materials, fell 0.2% (versus an upwardly revised 0.5% gain in March). Consumers may have continued to front-run goods purchases after the April 2 tariff announcement, with electronics and furniture sales rising over the month. The 0.2% rise in non-store retailers may reflect an effort to get purchases in ahead of price-hikes as well, but elsewhere declines were large enough to drive the overall control group measure negative.

Some consumers may indeed be squeezing in a purchase in an attempt to save money before prices go up due to tariffs, but in a cycle defined by the staying power of the consumer, how do we tell which purchases are tariff related and which are just emblematic of a still-resilient consumer?

Amid many recent anecdotal reports of a pullback in discretionary spending, one category not captured in the retail sales report is on accommodation and air travel. Many U.S. carriers have withdrawn full year financial guidance for 2025 citing uncertainty and consumer pullback. While it is only a measure of price, earlier this week, the CPI report revealed that airline fares fell in April for the third month in a row, a classic tell of waning demand. Taken in context with the trend decline lower for consumer confidence, we find sufficient evidence that discretionary outlays are beginning to be curtailed. Along similar lines, today's report showed sporting goods & hobby stores posted the largest 2.5% drop in April, that said it is the second-smallest category of sales.

While the April data were ultimately a bit of a mixed bag with some potential signs of a pull-forward in demand, payback from a strong March and consumer fatigue, it's too early yet to call it on the consumer. Households feel worse off, but they remain in good financial shape at the macro level, which will mitigate the initial blow from uncertainty.

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