Economics

Economic Indicator — May 14, 2021

After 2nd Largest Monthly Gain on Record, Retail Sales Flat in April

Summary

Retail sales were unchanged in April after upward revisions lifted March numbers to the 2nd highest monthly gain on record. Increased spending on autos and restaurants offset weakness in other areas.

U.S. Retail Sales: April 2021

	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
Retail Sales (MoM)	18.1	8.8	1.4	0.8	2.0	0.1	-1.4	-1.2	7.6	-2.9	10.7	**0.0**
Retail Sales (YoY)	-5.7	2.1	2.9	3.2	6.0	5.6	3.8	2.3	9.4	6.5	29.0	**51.2**
Retail Sales (% Change from Jan-20)	-8.1	0.0	1.4	2.2	4.3	4.4	3.0	1.7	9.4	6.3	17.6	**17.6**
Retail Sales, Ex. Autos (MoM)	12.2	8.6	2.0	0.9	1.6	0.1	-1.2	-2.1	8.3	-2.7	9.0	**-0.8**
Retail Sales, Ex. Autos (YoY)	-6.8	0.8	2.1	2.9	4.9	4.5	3.4	0.6	8.2	5.7	20.4	**40.6**
Control Group Sales (MoM)	9.8	6.0	1.8	0.1	1.6	0.2	-0.9	-2.9	8.5	-3.4	7.5	**-1.5**
Control Group Sales (YoY)	1.8	7.3	8.7	8.5	10.7	10.4	9.6	6.1	14.3	10.3	14.8	**28.8**

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

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

Economist(s)

Tim Quinlan
Senior Economist | Wells Fargo Securities, LLC
tim.quinlan@wellsfargo.com | 704-410-3283

Shannon Seery
Economist | Wells Fargo Securities, LLC
shannon.seery@wellsfargo.com | 704-410-1681

All estimates/forecasts are as of 5/14/2021 unless otherwise stated. 5/14/2021 10:10:12 EDT. Please see page 4 for rating definitions, important disclosures and required analyst certifications. Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

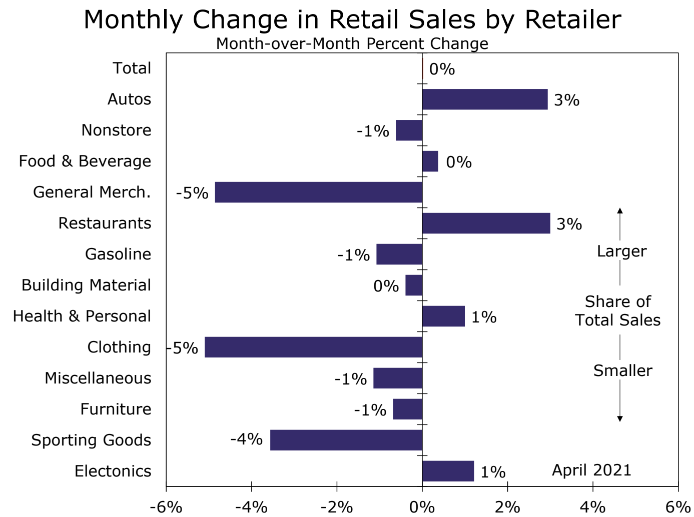
This report is available on Bloomberg WFRE

No Change After Record Surge

Retail sales were unchanged in April after stimulus checks in the prior month drove the second largest increase on record. Still, the outturn was short of the consensus expectation, which was anticipating a modest gain; although the upward revision to the March figures softens the blow considerably.

The on-again, off-again dynamic with spending and big cash windfalls has injected new volatility into retail sales figures. Consider for example, in the 10-year period ending December 2019, the average monthly change in retail sales was just 0.3% with a high of +2.2% and a low of -2.0%. Between last year's lockdowns and a reopening surge in goods spending, this year's stimulus checks and late winter storms, it's no wonder why retailers are struggling to manage inventory and anticipate demand.

Some of the areas tied to goods spending have seen sales bounce back more quickly throughout the past year, but some of these categories gave up ground in April. The biggest percentage decline was the 5.1% drop at clothing stores, followed by a 4.9% decline in the much larger category, general merchandise stores. Even online retailers who have generally fared well in this cycle saw a modest giveback of 0.6% on the month.



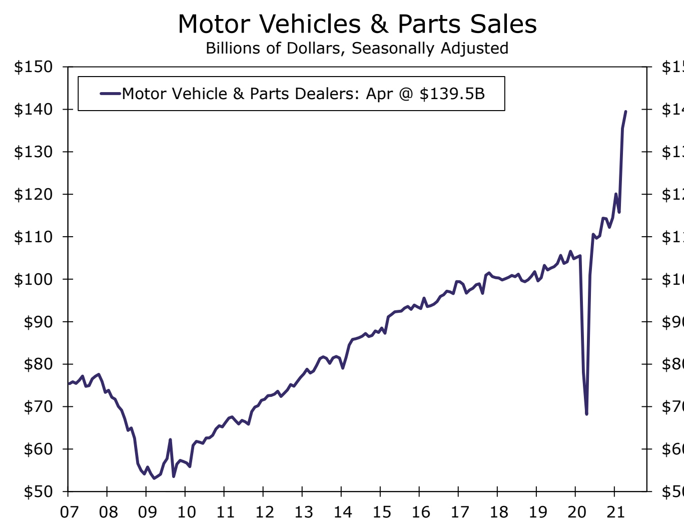
Source: U.S. Department of Commerce and Wells Fargo Securities

You're Motoring, What's Your Price for Flight?

Unlike last summer when most people were stuck at home, just about everybody is ready to get out and go some place this summer. There are signs everywhere you look and getting your hands on a vehicle is proving to be a tall order. Autos dealers saw a monthly increase of 3.1% in April, although with limited inventories on dealer lots, we expect to see this category lose ground in coming months.

Long lead times due to supply shortages, particularly in semiconductors, are slowing autos production and limiting inventory on dealer lots. The scarcity is driving some buyers into the pre-owned auto market, driving a spike in used car prices, a key factor in this week's jolting CPI report. Along the same theme, airfare costs are rising and the bargain-basement offers airlines offered months ago are quickly disappearing as demand rebounds.

The inventory to sales ratio for autos is the lowest it has been at any time since the "Keep America Rolling" auto incentive stimulus program put into place to help spur the economy in the wake of the 9/11 attacks almost 20 years ago.

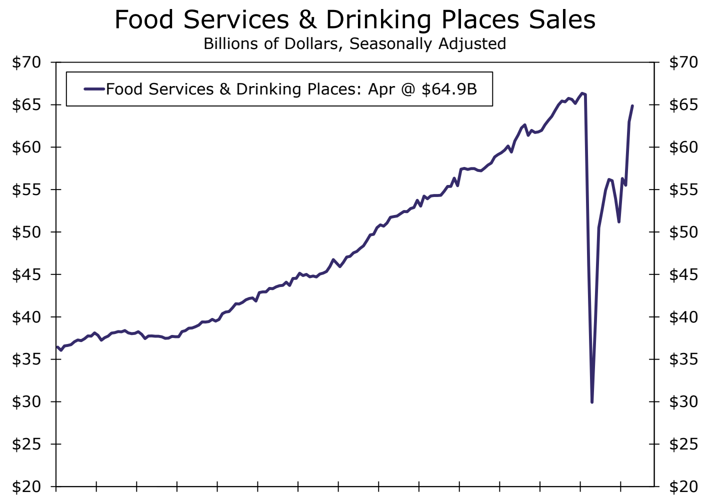


Source: U.S. Department of Commerce and Wells Fargo Securities

Services Surge Already Evident in Spending at Bars & Restaurants

Our consumer spending outlook is not influenced one way or another by today's report. In fact, a headline change in the other direction would not have rattled us either because nothing consumers might have done in April is all that material to the real driver of our forecast, which is the coming surge in consumer spending tied to the reopening of the service sector.

In fact, there is some early evidence of that in today's report, with the 3.0% increase in food services and drinking places. Get used to this theme of restaurants driving broader retail sales higher. With the CDC's recent announcement that vaccinated people no longer need to wear masks, it likely won't be long before states and municipalities roll back some of the restrictions that have limited the number of diners these businesses can serve. Overall restaurant spending is now just 2.2% below its pre-pandemic peak. For restaurants the challenge now shifts from finding customer to finding workers; the fact that even McDonald's is paying signing bonuses speaks to this challenge. Like almost everywhere else in today's economy, its more of a supply problem than a demand problem.



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

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

The 2021 Annual Economic Outlook: Aftershocks and Divergence in the Post-Pandemic Economy is available at wellsfargo.com/economicoutlook

Via The Bloomberg Professional Services at WFRE

And for those with permission at research.wellsfargosecurities.com

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	International Economist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	International Economist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economist	(704) 410-1681	shannon.seery@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Nicole Cervi	Economic Analyst	(704) 410-3059	nicole.cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	(704) 410-1437	sara.cotsakis@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes this report directly and through affiliates including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC to be reliable, but Wells Fargo Securities, LLC does not guarantee its accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or upon any opinions set forth herein. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial product or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2021 Wells Fargo Securities, LLC

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (“the Act”), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU (“MiFID2”). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EEA, this report is distributed by WFSIL or Wells Fargo Securities Europe S.A. (“WFSE”). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU (“MiFID2”). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE