

Economic Indicator — April 15, 2021

March Retail Sales: In Like a Lion...Out Like a Pride of Lions

Summary

Retail sales shot up 9.8% in March, handily exceeding consensus expectations in what will go down as the second best month on record for retailers, exceeded only by the reopening last May. Control group sales rose 6.9% and point to a robust pace of goods spending in the first quarter.

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U.S. Retail Sales: March 2021												
	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
Retail Sales (MoM)	-14.8	18.3	8.6	1.1	1.4	1.7	-0.1	-1.3	-1.3	7.7	-2.7	9.8
Retail Sales (YoY)	-19.9	-5.6	2.2	2.7	3.6	6.1	5.4	3.8	2.3	9.6	6.7	27.7
Retail Sales (% Change from Jan-20)	-21.9	-7.7	0.2	1.3	2.8	4.5	4.4	3.1	1.8	9.6	6.6	17.1
Retail Sales, Ex. Autos (MoM)	-15.3	12.3	8.4	1.6	1.5	1.4	-0.2	-1.2	-2.1	8.4	-2.5	8.4
Retail Sales, Ex. Autos (YoY)	-16.6	-6.7	0.8	1.7	3.2	4.8	4.2	3.3	0.5	8.3	5.8	19.4
Control Group Sales (MoM)	-12.6	10.0	6.1	1.3	1.0	1.2	-0.2	-1.0	-2.9	8.8	-3.4	6.8
Control Group Sales (YoY)	-7.2	1.4	6.9	7.7	8.7	10.4	9.7	9.1	5.6	14.3	10.3	13.8

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

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

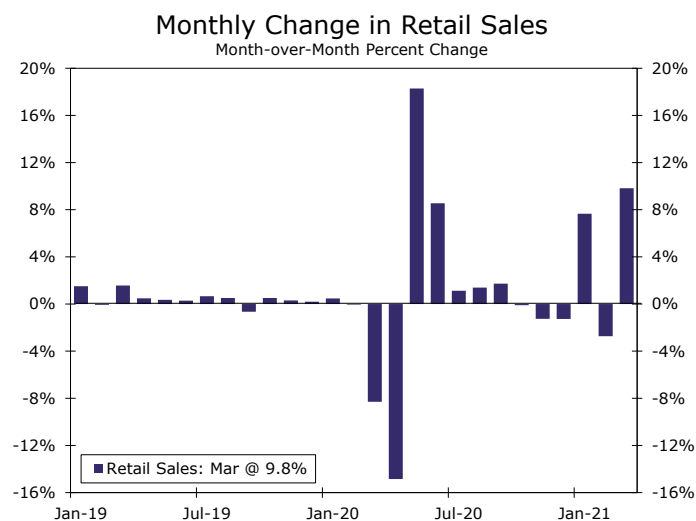
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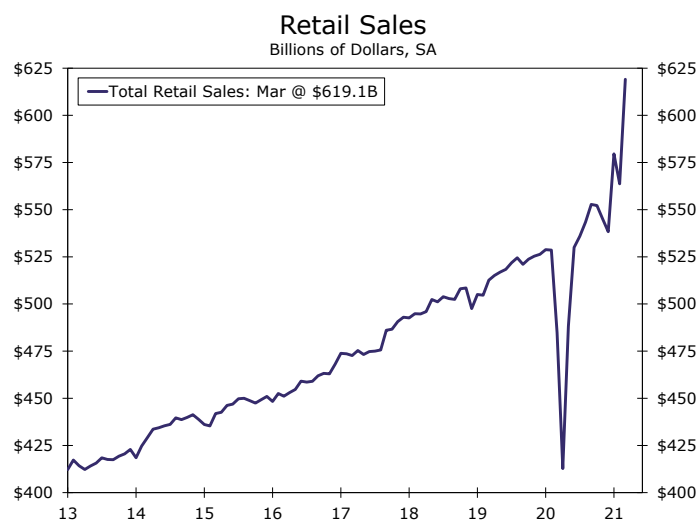
Good Day Sunshine: Better Weather and Better Days for Retailers

March started out with retailers still under pressure from February's deep freeze which put a chill on spending activity; but consumers hit stores in March with a pocketful of money and eager to make up for lost time.

The 9.8% increase in overall retail sales during the month is exceeded only by the surge tied to the reopening of the economy in May 2020 after the lockdowns (see [chart](#)). Said differently, the three largest monthly percentage gains on record for retail sales have occurred in the past 10 months. Don't call it base effects either—the level of retail sales is a stunning 17% higher than it was before the pandemic hit (see [chart](#)). In data going back to the 1990s, retail sales have never exceeded 12% on year-over-year basis. With consumers still sitting on a pile of accumulated savings combined with the expected reopening of the service economy this summer, our forecast looks for a consumer spending boom this year that will rival any in living memory for most Americans.



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



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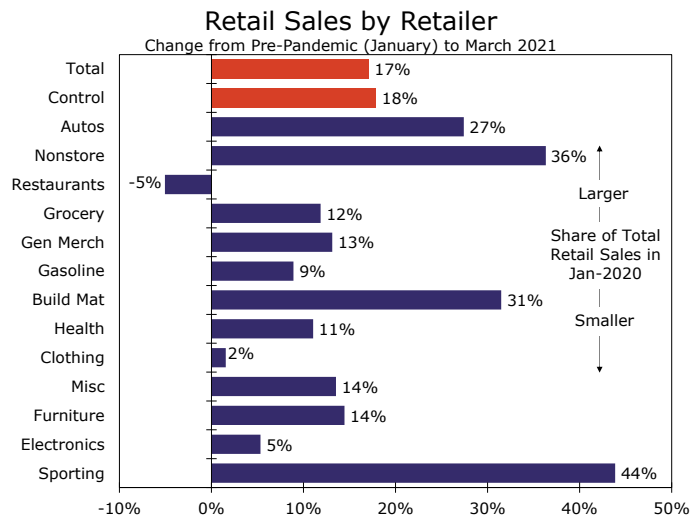
Broad Advance Across Retailers

Everybody wins when consumers are flush with stimulus checks. Without exception, every store type posted better sales in March with the top-spot going to sporting goods stores right in time for the resumption of outdoor sports. As the [chart below](#) shows, sporting goods stores have been the top-winner during the pandemic, with sales 44% above where they were at the peak of retail sales prior to the COVID outbreak.

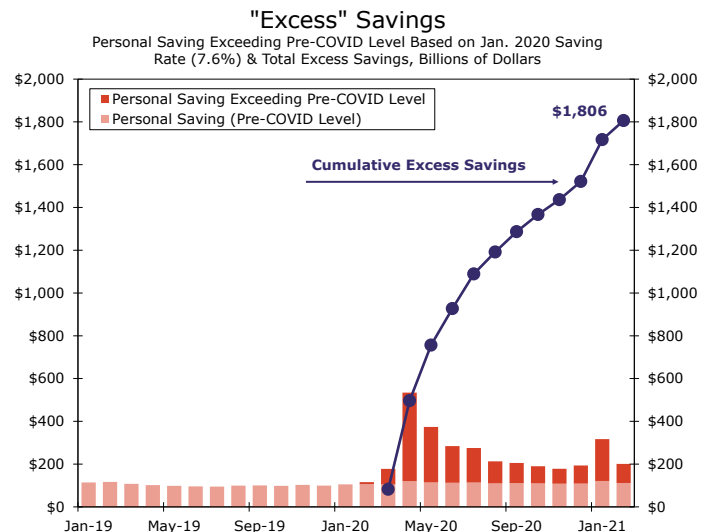
It was a good month at last for the clothing stores and apparel retailers that were able to survive what has been a terribly difficult year, as these clothing stores saw sales shoot up 18.3% from February.

As the weather in March improved from the freezing weather in February, dining igloos and yurts gave way to patios and socially distanced sidewalk tables. The increased traffic at bars and restaurants is showing up in the data as well with this category boasting a 13.4% increase in March. The long-awaited rebound is good for the hospitality sector, but grocery stores had to settle for a comparatively scant monthly increase of 0.5%. That could be a pre-cursor of a theme this year in which the high times for grocery stores gradually winds down as people go out to eat again. Restaurants are the only store type still underwater from where they were before the pandemic; although one more good month will put them in the black.

Other notable mentions include motor vehicles and parts which posted a 15.1% increase in March. We are not rushing to judgement on autos because the story here is complicated by supply chain disruptions and availability of vehicles. Building materials and garden stores more than bounced back after a soft February with a 12.1% pickup in March.



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



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

Stimulus Money Is Burning a Hole in Consumer Pockets...for Now

March sales were undoubtedly boosted by the latest round of economic impact payments (direct checks) designated to households under the American Rescue Plan. By our estimates, nearly 80% of the latest round of direct checks were sent to households by the end of March, but payments did not start going out till the second half of the month. This suggests that if sales are not due for payback in April, we may see some in May.

Some households are set to get another influx of cash from the American Rescue Plan's temporary expansion of the Child Tax Credit. Cash should start flowing to households sometime in the second half of this year. But overall stimulus is fading, and there is a risk the consumer recovery could stall or at least slow.

We are of the view that the ample amount of personal savings households have built up over the past year (see [chart](#)) should prevent goods spending from fading too quickly after surging during the pandemic. That said, it is services spending that we expect to pick up and drive the overall recovery in consumption this year. As the public health situation continues to rapidly improve, warmer weather sweeps the nation and consumers regain confidence to participate in in-person activities, the service sector should reopen.

Overall, this report presents upside to our first quarter forecast for PCE to grow at an annualized rate of 7.2%.

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