Retail sales: April 2024

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Prudent consumers rein in spending

- The weaker-than-expected retail sales report for April indicates that US consumers are acting with more prudence as labor market conditions soften and prices remain persistently high. The latest data signals that overall consumer spending likely started Q2 on a softer note.
- Nominal sales were flat on the month as weaker spending online and lower sales of vehicles, sporting equipment and furniture were offset by robust purchases at clothing and electronics stores and stronger gasoline stations' sales amid higher prices at the pump. When adjusting for inflation, the volume of sales fell 0.3% given the moderate increase in consumer prices reported for April.
- "Control" retail sales, which feed into the GDP calculation, surprised on the downside with a 0.3% decline, which came on the back of the strongest monthly gain since April 2023. The February advance was slightly revised and lowered from a 1.1% reading to a 1.0% advance.
- Overall, the April sales data and downward revisions to the prior months' figures point to softer spending momentum at the start of the second quarter. But given the robust carryover from Q1 for consumption growth, we still see consumer spending on track for solid growth of around 2.7% annualized in Q2.
- Looking ahead, positive labor market gains should prevent a consumer retrenchment, but we continue to expect some moderation in consumer spending this year as cost fatigue and softer labor market conditions curb income growth and constrain households' spending power. We project that consumer spending will grow around 2.5% this year reflecting strong momentum at the start of the year, following a 2.2% advance in 2023.

Results were mixed across retailers in April. As anticipated, purchases of motor vehicles fell 0.8%. While unit sales of new vehicles rose in April, which supported sales volumes of auto dealers, the boost was offset by lower prices — the April Consumer Price Index (CPI) showed declines in prices of both new and used vehicles of 0.5% and 1.4%, respectively. Consumers also spent less on recreational and sporting goods (-0.9%), health and personal care items (-0.6%), and furniture (-0.5%).

Consumers pared back their shopping online as non-store sales fell 1.2%. The decline likely reflects some payback as it comes on the heels of a strong performance in March when online sales saw their strongest gain since January 2022. E-commerce remains the largest area of retail sales growth; online sales are up 7.5% from a year ago and 80% compared to pre-pandemic levels.

On the upside, consumers spent more on clothing (-1.6%) and electronics (-1.2%) last month and at gasoline stations, which saw another robust sales increase of 3.1% reflecting higher gas prices. Encouragingly, spending at restaurants and bars rose 0.2%, indicating services spending likely held up at the start of Q2 as consumers are still favoring spending on experiences.

Control retail sales — a key gauge of broader consumer spending trends that strips out the volatile components — fell 0.3% following a strong 1% increase in March. Adjusted for inflation, core sales fell 0.6% after a 0.6% increase in March. Taken together, the latest data points to softer spending momentum at the start of the second quarter though the robust carryover from Q1 keeps consumer spending on track for solid growth of around 2.7% in Q2.

With employment and household income growth gradually softening, prices remaining elevated, and interest rates likely to ease only gradually, we expect households will exercise more scrutiny with their outlays. We foresee consumer spending growth of 2.5% in 2024, supported by solid early-year momentum, following a 2.2% advance in 2023. We expect real GDP growth will drift below trend growth in H2 2024, with real GDP likely to grow 2.5% on average in 2024.

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