Retail sales: May 2024

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Tepid retail sales point to soft spending momentum

- Retail sales fell short of expectations in May and posted a tepid 0.1% gain, as households continue to exercise caution and are spending more wisely amid elevated prices, higher borrowing costs, dwindling savings and signs that financial stress is rising for some households. Adjusted for inflation, retail sales volumes also rose 0.1% as consumer prices were unchanged last month.
- Control retail sales — a key gauge of broader consumer spending trends that strips out the volatile components — posted a stronger 0.4% increase, but the advance was offset by downward revisions to April sales, which are now estimated to have declined 0.5%, instead of a 0.3% contraction previously reported.
- Overall, the May sales data and downward revisions to the prior months' figures point to soft momentum in goods consumption growth and overall spending as the second quarter progressed. We expect consumer spending in Q2 to grow around 1.8% annualized, slightly below the pace of growth seen in Q1. However, it is worth noting that if it were not for the robust carryover from Q1, consumer spending growth would be tracking at 0.3% annualized in Q2.
- Looking ahead, positive labor market gains should continue to carry the consumer forward and prevent a spending retrenchment. But we continue to expect softer consumer spending trends, as cost fatigue and cooling labor market conditions curb income growth and lead households to exercise more spending restraint. We project that consumer spending will grow around 2.2% this year and 1.8% in 2025.

Weaker purchases of gasoline (-2.2%) were a significant drag on top-line retail sales, reflecting a sharp decline in retail gasoline prices last month. Consumers also pared back their purchases of furniture (-1.1%), building materials (-0.8%) and food (-0.2%). A decline in food services sales (-0.4%) points to soft services spending in May — the data will be released as part of the personal income and outlays report later this month.

In contrast, spending on hobbies and sporting goods (+2.8%) saw the strongest increase since February 2022 and receipts at auto dealerships (+0.8%) rebounded in May, in line with the modest increase in unit auto sales reported earlier this month. Sales of clothing (+0.9%), electronics (+0.4%) and online (+0.8%) also rose modestly.

Looking at the broader trend, consumption remains on a decelerating path. Momentum in retail sales has slowed from 5.5% year over year (y/y) in December 2023 to only 2.3% y/y in May, and in inflation-adjusted terms, retail sales are 1% lower relative to last year.

Control retail sales — a key gauge of broader consumer spending trends that strips out the volatile components — rose 0.4% while the prior month's contraction was revised from -0.3% to -0.5%. Adjusted for inflation, core sales also rose 0.4% after a 0.9% contraction in April. Taken together, the latest data points to weak spending momentum as the second quarter progresses, though the robust carryover from Q1 keeps consumer spending on track for moderate growth of around 1.8% in Q2.

While consumers are still spending, they are exercising more discretion as lingering inflation and the Federal Reserve's tightening cycle take their toll. With employment and household disposable income growth expected to moderate further in the second half of the year, the slowdown in consumer spending will continue. We anticipate consumer spending will advance 2.2% in 2024 and 1.8% in 2025.

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