Retail Sales for May 2016

Summary

Retail sales rose 0.3 percent in May. April sales were revised down to 0.3 percent from the original increase of 1.3 percent. Auto sales rose 3.2 percent continuing its upward trend. Core sales, excluding auto, gasoline, building materials and restaurants, rose 0.8 percent. Gasoline sales rose 2.2 percent reflecting higher prices. Clothing and general merchandise increased 0.2 percent.

Analysis

After a surge in April, some slowdown in retail sales was expected but the o.6 percent increase is much better than the 0.2 percent average over the past 12 months. Consumers are definitely feeling better about the economy and are in spending mood as evidenced by the sliding savings rate. They should be as jobs, wages and sentiment are all moving in the right direction and low interest rates, the historically high stock market, recovering housing, etc. have provided tail wind for consumers.

The healthy consumer spending, which accounts for almost 70 percent of the GDP, will support the expected rebound in GDP for the second quarter.

Auto sales continue to be a bright spot as dealers offered more attractive financing options. In addition, the average age of the cars on the road is over 10 years. However, there are concerns about a possible bubble here reminiscing the sub-prime mortgage debacle.

Not all retailers are sharing in the rise in sales. Online, thanks to Amazon, and catalogue sales have been powering ahead at the three times the rate of increase of brick-and-mortar stores.

Apparel retailers relying primarily on stores have been hard hit. Macy's, Kohl, Nordstrom, Gap etc. have reported poor sales. Young people are voting more dollars for electronic goods, eating out and experiences. The emphasis in fashion has diminished and clothes are becoming more and more commodities.

Even though consumers are in better mood to spend, they are not about to embark on a spending spree. Consumers' spending habits are slow to change. Recently there have been indications that employment gains have begun to slacken.

The Federal Reserve should be encouraged by this report which is the last major economic indicator before the June 15th announcement. However, the monetary authorities would want to make sure that the economy, both employment and retail sales, are on clear upward trends before pulling the trigger again.