

Consumers stronger than they appear

Shoppers shrugged off several issues causing 'Mapril' retail sales to be solid.

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BOTTOM LINE

Nominal retail sales declined by a surprisingly weak 0.2% in April, well below consensus expectations for a 0.2% month-over-month (m/m) increase. Meanwhile, so-called control results (which exclude autos, gas, food-service and building materials, and feed directly into the GDP report) were only breakeven, much weaker than the expected 0.3% m/m gain.

While these results are disappointing on the surface, we need to provide some context. First, already strong March results were revised higher, as their 1.7% nominal m/m increase was their strongest since September 2017. Next, combined March and April nominal retail sales results ("Mapril") rose a solid 3.4% year-over year (y/y), although that still trailed last year's very strong 4.9% Mapril gain. Finally, Mapril 2019 rose sequentially by 1.7%, compared with collectively depressed results from December, January and February. That tells us the consumer has shrugged off the fourth quarter's negative wealth effect, the federal government shutdown and the brutal winter

weather, all of which contributed to the weakest Christmas spending in more than a decade and February's terrible labor market and retail sales figures.

On the positive side of the ledger, the labor market hasn't been this strong in half a century, key confidence metrics are rebounding from their winter slump and the personal savings rate remained at a healthy 6.5% in March, although it was down from an elevated 7.7% in December. These should help to spark solid Back-to-School (BTS) and Christmas spending later this year.

But consumers likely are concerned in the near term about the volatile ongoing trade dispute with China and the increase in gasoline prices. So far this year, gas prices have risen 30% to \$2.90 per gallon, which could crimp GDP by perhaps three-tenths of a point annually. That could slow spending in May and June, before BTS kicks into gear during the second half of July.

Why is Mapril a two-month retail sales season? Due to the lunar and religious calendars, Passover and Easter change from year-to-year. Spring break, school holidays and family vacations typically revolve around this changing calendar during March and April, so we analyze the combined retail-sales results of both months to get a more accurate reading on the shopping season as a whole. This year, Easter Sunday fell on April 21, compared with April 1 last year, while the first night of Passover was April 19 this year, versus March 30 last year.

Solid showing in 2019 The Commerce Department reported average total retail and food-service sales of \$513.8 billion for the 2-month holiday period 2019. That's a solid 3.4% y/y rise compared with a powerful 4.9% rise in 2018, the best Mapril in six years (since 2012's robust 5.6% gain).

Labor market strength The unemployment rate (U-3) plunged to 3.6% in April, a 49-year low (3.5% in December 1969). Initial weekly unemployment claims, a critically important leading employment indicator, also hit a 49-year cycle low (matching September 1969) of 193,000 in the April survey week. And February's 3.4% y/y wage

growth is a 10-year high. If consumers are working and wage gains are flowing, then consumer spending should continue to improve.

Confidence metrics rebound After achieving multi-decade cycle highs last year, confidence plummeted over the winter months, as businesses and consumers fretted about the risk of recession. But as those fears have recently faded, business and consumer confidence has rebounded sharply, which should help to fuel continued solid spending trends over the course of this year.

- Michigan Consumer Sentiment Index rose to an 18-year high of 101.4 in March 2018, before plunging to 91.2 in January 2019. But today, the preliminary May reading leapt to a new cycle high of 102.4.
- Leading Economic Indicator (LEI) rose in September 2018 to an all-time 58-year cycle high of 111.5. But the index went sideways the next five months, slipping to a bottom of 111.4 in January 2019. The April index then reversed, rising to a new cycle high of 112.1
- The National Federation of Independent Business (NFIB) small-business optimism index rose to a 44-year high of 108.8 in August 2018, but fell sharply to 101.2 in January 2019. It has since risen to 103.5 in April 2019.
- Conference Board Consumer Confidence soared to an 18-year high of 137.9 in October 2018, before falling to a trough of 121.7 in January 2019. It has since rebounded to 129.2 in April 2019.

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The Conference Board's Composite Index of Leading Economic Indicators is used to predict the direction of the economy's movements in the months to come.

The Consumer Confidence Index is based on a survey by the Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future.

Gross Domestic Product (GDP) is a broad measure of the economy that measures the retail value of goods and services produced in a country.

The National Federation of Independent Business (NFIB) conducts surveys monthly to gauge how small businesses feel about the economy, their situation and their plans.

The University of Michigan Consumer Sentiment Index is a measure of consumer confidence based on a monthly telephone survey by the University of Michigan that gathers information on consumer expectations regarding the overall economy.

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