

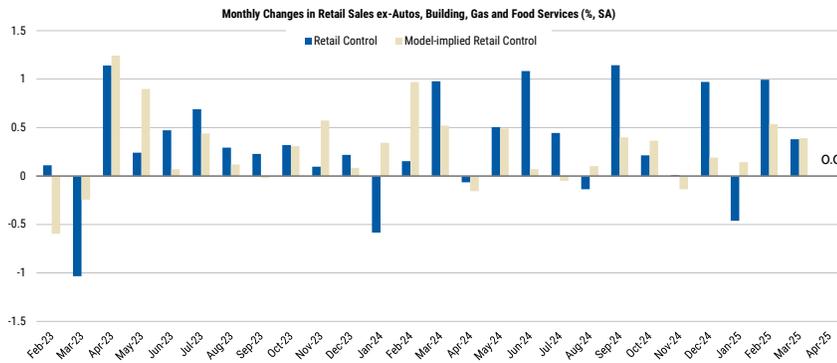
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US Economics | North America

US Retail Sales Tracker: Falling Flat

We forecast headline retail sales and control group sales stalled in April. Our forecasts are consistent with real consumption at 1½ to 1¾% growth (a.r.) in 2Q.

Exhibit 1: Monthly changes in Retail Control sales



Source: Census Bureau, Morgan Stanley Research

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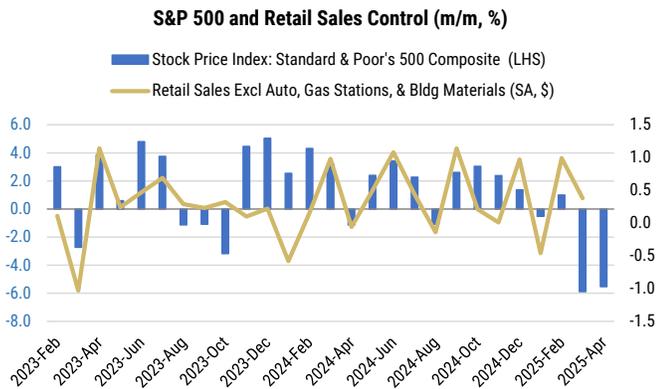
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Falling Flat

We forecast no change in retail sales in April, with both headline and control sales flat on a monthly basis. Among the determinants of our forecast, the proxy for labor market income grew, but the monthly pace was slower in April (+0.2% m/m) than in February and March (which averaged 0.5%). Control group sales were also strong in both February and March, and we expect a slowdown from the earlier pace.

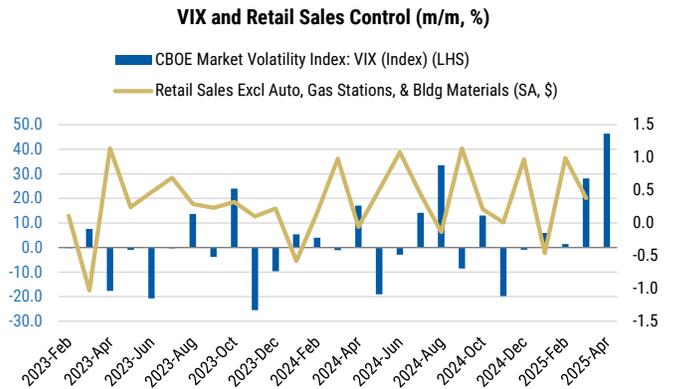
Consumers may still be front-loading their purchases and the overall transactions data has remained solid. So we do not expect a reversal of the past few months, but we do expect sales did not rise further. The monthly April data also saw large downward moves in the S&P 500 and increases in stock market volatility. This could weigh on spending in April: the correlation between changes in the S&P 500 levels as well as VIX with retail sales control group is about 0.3 (2023-2025), more than twice the correlations seen during the 2017-19 tariff increases. Seasonal factors were a small positive factor in our retail control forecast.

Exhibit 2: Changes in S&P 500 and retail sales control group show a positive correlation over 2023-25



Source: S&P, Census, Morgan Stanley Research

Exhibit 3: Changes in VIX and retail sales control group show a negative correlation over 2023-25



Source: CBOE, Census, Morgan Stanley Research

In autos, we expect sales fell 1.0% in April, though this only reverses part of the large pickup in March. We expect another strong month of restaurant sales, +1.0% m/m. We expect building material sales were flat in April after the 3.3% m/m increase in March.

Data in line with our forecasts would be consistent with flat real consumer spending in April. However, the strong finish to 1Q spending boosts 2Q real spending considerably: if February and March are unrevised and April through June are flat on a monthly basis, real consumption would rise at a 2% q/q annual rate in 2Q. We expect softer than that as higher prices erode purchasing power in May and June: real consumer spending rising at a 1 ½% to 1 ¾% pace in 2Q.

Exhibit 4: Retail Sales Dashboard

	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	
										MS	Consensus
Retail & food services	1.2	-0.2	0.8	0.6	0.6	0.8	-0.9	0.0	1.5	0.0	0.0
ex autos	0.5	-0.2	0.9	0.3	0.0	0.7	-0.3	0.4	0.6	0.2	0.3
Control-group	0.4	-0.1	1.1	0.2	0.0	1.0	-0.5	1.0	0.4	0.0	0.2
Autos	4.2	-0.4	0.2	2.0	3.4	1.0	-3.3	-1.5	5.3	-1.0	
Gasoline	0.9	-1.3	-1.3	-0.1	0.1	2.0	1.1	-0.5	-2.4	0.2	
Building Materials	1.1	-0.1	1.0	0.7	-0.4	-1.5	-1.8	-0.5	3.3	0.0	
Restaurants	0.4	0.4	1.1	0.7	0.3	0.0	0.2	-1.0	1.9	1.0	

Source: Census Bureau, Morgan Stanley Research forecasts

"Control" Retail Sales & GDP Tracking

Control-group retail sales, which is retail sales excluding food services, autos, gas, and building materials, includes all of the retail sales components that feed through into the spending estimates for goods consumption in GDP. Also, food services affects our services consumption tracking. Revisions to retail sales data also feed through into our current-quarter tracking of consumption.

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