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Data Watch

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MARCH RETAIL SALES

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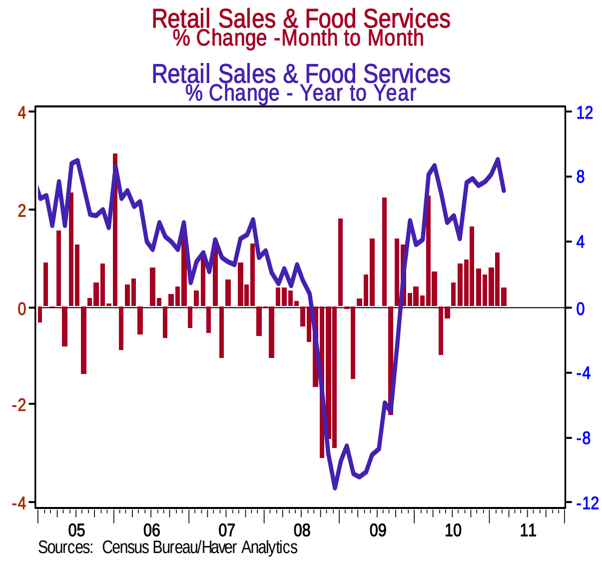
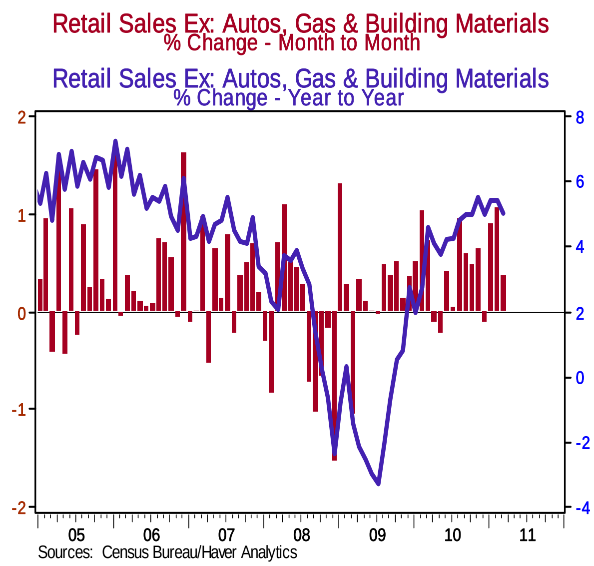
- Retail sales increased 0.4% in March and 0.8% excluding autos, both in-line with consensus expectations.
- Including upward revisions to January/February, overall sales were up 0.6% while sales ex-autos surged 1.6%. Retail sales are up 7.1% versus a year ago; sales ex-autos are up 6.5%.
- The increase in retail sales for March was led by gas stations, building materials, furniture/electronics, and bars/restaurants. The weakest category of sales was autos.
- Sales excluding autos, building materials, and gas increased 0.4% in March and were up 1.1% including revisions for January/February. These sales are up 5.1% versus last year and were up at a 7.7% annual rate in Q1 versus the Q4 average. This calculation is important for estimating GDP.

Implications: Retail sales are on a roll. Despite the latest Easter since 1943 – which should shift some sales into April this year – retail sales increased for the ninth straight month in March and are up 7.1% versus a year ago. Remarkably, the increase happened even as auto sales, which had gone up for eight straight months, finally took a breather. Sales outside the auto sector were revised up substantially in prior months, as well. For example, "core" sales (which exclude autos, building materials, and gas) were up a solid 0.4% in March and including revisions, these "core" sales were up 1.1%. This *excludes* gains caused by rising gas prices. For all of Q1, "core" sales were up at a 7.7% annual rate, the fastest pace for any quarter in five years. Consumer spending is rising for two main reasons. First, private-sector earnings are growing due to more jobs, more wages per hour, and more hours per worker. Second, due largely to debt reductions, consumers' financial obligations (debt service plus other recurring payments like rent, car leases, homeowners' insurance, and property taxes) are now the smallest share of disposable income since 1995. Despite a strong consumer, we expect GDP to fall below 2% annualized growth in Q1 as weakness in trade, construction and government offset strong consumption. Of course, behind these factors are loose monetary policy and relatively low tax rates. All this adds up to further gains in retail sales in the months ahead.





Retail Sales *All Data Seasonally Adjusted*	Mar-11	Feb-11	Jan-11	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Retail Sales and Food Services	**0.4%**	1.1%	0.8%	9.4%	11.1%	7.1%
Ex Autos	**0.8%**	1.1%	0.9%	12.0%	10.1%	6.5%
Ex Autos and Building Materials	**0.7%**	1.2%	1.0%	12.5%	9.9%	6.5%
Ex Autos, Building Materials and Gasoline	**0.4%**	1.1%	0.9%	9.7%	6.8%	5.1%
Autos	**-1.7%**	1.0%	0.2%	-2.0%	15.8%	10.0%
Building Materials	**2.2%**	-0.8%	-1.3%	0.2%	7.7%	5.0%
Gasoline	**2.6%**	2.4%	2.1%	32.5%	32.8%	16.7%

Source: Bureau of Census