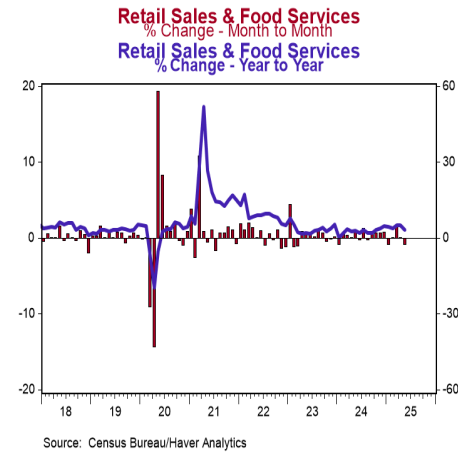


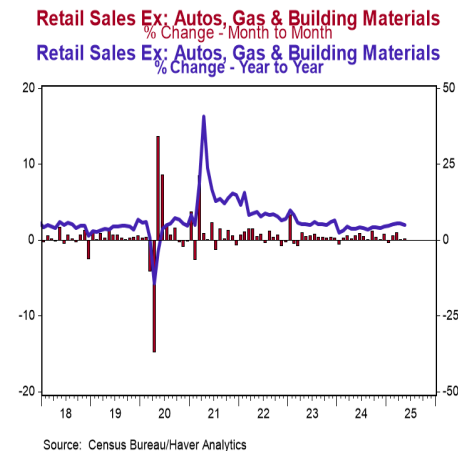
May Retail Sales

Nate Gerze, CFA – Economic Analyst
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist

- Retail sales declined 0.9% in May (-1.2% including revisions to prior months), lagging the consensus expected -0.6%. Retail sales are up 3.3% versus a year ago.
- Sales excluding autos declined 0.3% in May (-0.5% including revisions to prior months), versus the consensus expected +0.2%. These sales are up 3.5% in the past year.
- The largest declines in May were for autos, building materials, and gas stations. The largest increase was at nonstore retailers (internet and mail-order).
- Sales excluding autos, building materials, and gas rose 0.1% in May. If unchanged in June, these sales will be up at a 1.0% annual rate in Q2 versus the Q1 average.



Implications: Retail sales came in below consensus expectations in May, posting the largest monthly decline since March 2023, while last month's reading was revised down as well. Part of recent weakness is payback for tariff front-running earlier this year. For example, autos sales posted the largest decline of any category in May (-3.5%), but is still up 2.5% from a year ago. The next biggest decliners were sales for building materials (-2.7%) and gas stations (-2.0%), both of which can be volatile month to month. Strip out these three categories and you get "core" sales, which ticked up 0.1% in May. These sales are up 5.0% in the past year but have been slowing in 2025: up at a 3.3% annualized rate through May (which includes the bump from tariff front-running). This underscores the deeper issue at hand for the economy: monetary policy tight enough to bring inflation down is also tight enough to bring growth down. One category we will be watching closely for this is at restaurants & bars – the only glimpse we get at services (which make up the bulk of consumer spending) in the retail sales report. That category fell 0.9% in May, the largest decline since early 2023, although it is still up at a 10.1% annualized rate in the last 3 months, suggesting that consumers have shifted some of their spending to services while the dust settles around tariffs. Looking at the big picture, retail sales are up 3.3% on a year-to-year basis and sit just below all-time highs. However, "real" inflation-adjusted retail sales are up 0.9% in the past year and are still down from the peak in early 2021. This highlights the ugly ramifications of inflation: consumers are paying higher prices today but taking home fewer goods than they were four years ago. Going forward, we expect retail sales to remain choppy as consumers respond to the global trade reordering currently underway. In other recent news, the Empire State Index, which measures manufacturing sentiment in the New York region, declined to -16.0 in June from -9.2 in May. On the trade front, import prices were unchanged in May while export prices declined 0.9%. In the past year, import prices are up 0.2% while export prices are up 1.7%.



| Retail Sales <i>All Data Seasonally Adjusted</i> | May-25 | Apr-25 | Mar-25 | 3-mo % Ch. <i>Annualized</i> | 6-mo % Ch. <i>annualized</i> | Yr to Yr <i>% Change</i> |
|--|---------------|---------------|---------------|--|--|------------------------------------|
| Retail Sales and Food Services | -0.9% | -0.1% | 1.5% | 2.1% | 0.9% | 3.3% |
| Ex Autos | -0.3% | 0.0% | 0.6% | 1.6% | 2.5% | 3.5% |
| Ex Autos and Building Materials | -0.1% | 0.0% | 0.6% | 2.0% | 3.4% | 3.8% |
| Ex Autos, Building Materials and Gasoline | 0.1% | 0.1% | 0.9% | 4.6% | 4.4% | 5.0% |
| Autos | -3.5% | -0.6% | 5.3% | 4.3% | -5.4% | 2.5% |
| Building Materials | -2.7% | 0.3% | 2.0% | -1.8% | -7.7% | -1.1% |
| Gasoline | -2.0% | -0.7% | -2.8% | -19.9% | -6.2% | -6.9% |

Source: U.S. Census Bureau