TD Economics

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Data Release: March retail sales post largest monthly gain since September 2012

- U.S. retail sales came in well above expectations in March, rising by 1.1% m/m. Revisions to the month prior helped brighten the picture further, as sales were revised up to 0.7% from the initial estimate of 0.3%.
- Core retail sales, excluding autos and gasoline also posted a consensus surpassing gain on the month, rising by 1.0% m/m. Revisions to February's release were revised up to 0.4% from 0.3%.
- The details of the report were also very constructive, with gains coming in all major sub-categories with the exception of electronics (-1.6% m/m), gasoline station sales (-1.3% m/m) and miscellaneous (-1.3% m/m). The strongest gains came from motor vehicles & parts (+3.1% m/m), building materials (+1.8% m/m), general merchandise (+1.9% m/m) and non-store retailers (+1.7% m/m).

Key Implications

- After having been hindered in recent months by unseasonably cold weather, retail sales bounced back with authority in March, posting the largest monthly gain since September 2012. The fact that core retail sales – a measure that strips out volatile items such as autos and gasoline – also posted a very solid gain in March, helps to corroborate the story that the recent slowdown in spending activity was in fact weather related and not the result of an economy losing momentum.

- Aside from warmer weather, March auto sales were likely also boosted by the fact that most major automakers increased purchasing incentives – ranging anywhere from lower financing rates to deeper vehicle discounts – by as much as 8% relative to this time last year. With purchasing incentives currently at their highest level since 2010 and a lot pent-up demand still in the market, we expect auto sales to remain strong over the two years, averaging 16.2 and 16.8 (annualized) units in 2014 and 2015, respectively.

- While overall economic growth will see a marked deceleration in the first quarter of 2014 – falling to 1% (annualized) – we expect to see a relatively strong bounce back in the second quarter of this year as the U.S. economy shakes off the winter blues – with growth likely pushing toward 4%. With the labor market continuing to heal, the housing recovery well underway, and household finances currently in the best shape that they have been for years, consumer spending should guide the ship from here on out.

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