U.S. Data Review

- Retail sales: firm performance amid elevated gasoline prices, although strength expected to ease into Q3

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Retail Sales

- Following a downward-revised advance of 0.4 percent in the prior month, retail sales rose 0.9 percent in May (notably firmer than the median expectation of +0.6 percent from the Bloomberg economist survey), with 11 of the 13 categories registering increases. On a year-over-year basis, headline activity rose 6.9 percent – up 2.1 percentage point from April and the fastest pace observed since January 2023. Moreover, transactions excluding motor vehicles and parts dealers firmed 0.8 percent, the fourth consecutive advance at 0.7 percent or higher (+7.5 percent year-over-year, up from +6.4 percent in the prior month). Concurrently, transactions in the retail control group, which correlate with goods outlays in the GDP accounts, posted a faster-than-expected increase of 0.7 percent in May (+6.3 percent year-over-year versus +5.6 percent in April). The latest performance suggests that households have thus far remained resilient in Q2 in the face of another bout of price pressure – although activity may fade in coming months as households spend down tax refunds that were boosted this year by the 2025 One Big Beautiful Bill Act.

- Similar to recent reports, the increase in the headline was driven in part by a 3.4 percent jump in sales at gasoline stations – reflective of the oil shock stemming from the Iran conflict. Relatedly, the gasoline component of the CPI rose 7.0 percent in May (published June 10). Thus, adjusting the increase in sales by said price index suggests that real activity actually declined (i.e., the rise in sales reflected higher prices rather than a gain in real activity).

Retail Sales -- Monthly Percent Change

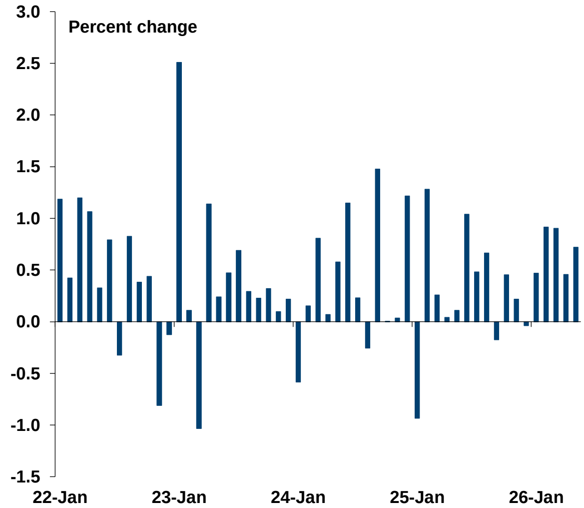
	Jan-26	Feb-26	Mar-26	Apr-26	May-26
Total	0.0	0.9	1.7	0.4	0.9
Ex.-Autos	0.1	0.9	2.0	0.7	0.8
Ex.-Autos, Ex.-Gas	0.4	0.8	0.8	0.5	0.5
Retail Control*	0.5	0.9	0.9	0.5	0.7
Autos	-0.7	1.0	0.6	-0.9	1.2
Gasoline	-2.2	1.7	14.2	2.4	3.4
Clothing	-0.4	2.6	0.2	-0.6	0.3
General Merchandise	0.5	0.1	1.6	-0.1	0.4
Nonstore**	1.8	1.8	0.8	1.1	1.5

** Retail sales excluding those from food services and drinking places; motor vehicle dealers; gasoline stations; and building materials, garden equipment, and supply dealers.*

*** Primarily online and catalog sales; also includes sales by fuel-oil dealers.*

Source: U.S. Census Bureau via Haver Analytics

Retail Sales: Control Group



Source: U.S. Census Bureau via Haver Analytics

- Excluding the automobile and gas categories from total sales, activity increased 0.5 percent in May (0.2 percentage point higher than expected; +5.6 percent year-over-year, up from +5.0 percent in the prior month). Performances across categories varied to a degree, but in the aggregate were still indicative of solid household spending. Examining the internals of the report, transactions at miscellaneous and nonstore retailers stood out with advances of 2.3 and 1.5 percent, respectively (+9.1 and +12.2 percent year-over-year), with firm activity in the former category possibly hinting at bargain hunting by consumers and that in the latter suggesting increased utilization of online retailers to avoid unnecessary driving amid elevated gasoline price. Those concerns noted, spending at brick-and-mortar outlets and eateries were a bit mixed. On the point, sales and furniture and home furnishing stores rose 1.0 percent (-1.2 percent year-over-year). On the soft side, activity at electronics and appliances stores eased 0.5 percent (+6.9 percent year-over-year) while that at food services and drinking places (i.e., restaurants and bars) dipped 0.1 percent (+2.7 percent year-over-year). Moreover, with respect to the latter category, an increase of 0.3 percent (not seasonally adjusted) in the food away from home component of the CPI suggests a sharper decline in real activity in the only services-related area included in the Census Bureau report (and also a discretionary area of spending for many households).

- Taking the latest results into consideration, we now expect growth in real consumer spending in Q2 to be in the vicinity of two percent (annual rate) – which would be consistent with GDP growth somewhere in the 2.2-to-2.4 percent range. All told, while higher prices played a role in the headline beating the consensus projection, the latest performance still points to active household spending the second quarter. That said, we remain cautious in extrapolating the momentum over the months ahead on account of ongoing risks facing households (e.g., fading boost from income tax refunds, depressed sentiment, wage growth being outpaced by inflation, etc.).